

## Pharmaceuticals

### M&As sweep the sector

#### Top picks

Sun Pharma  
Glenmark Pharma  
Divi's Labs

CY09 commenced with a big bang for the global pharma sector, which has witnessed the largest M&A deals (with combined value of ~US\$150bn) – While Pfizer and Merck & Co bought Wyeth and Schering-Plough respectively, Roche bought the remaining 44% stake in Genentech. Also, innovators too have begun to evince more interest in generics. All these imply increase in consolidation activity. Indian pharma companies are on a good wicket, given their competitive edge in generics and pharma outsourcing. While, growth may remain under pressure in the near term, medium-term prospects appear bright. The sector will benefit from rising rate of ANDA approvals, more visibility and launches of para IVs, strong growth in emerging branded generics markets and healthy growth in the domestic market. Q4FY09E PAT for the I-Sec pharma universe is likely to decline 22% YoY to Rs13.9bn. Based on our 'pick & choose' investment strategy, we reiterate Sun Pharmaceutical Industries (SPIL) and Glenmark as our top BUYs in the sector. Divi's Labs (Divi's) is our top BUY in the CRAMS space.

- ▶ **CY09 kickstarts with big-ticket M&As in global pharma market.** In January '09, Pfizer made a whopping US\$68bn bid to acquire Wyeth. Merck & Co followed suit by making a US\$41bn bid for acquiring Schering-Plough in March '09. Also, Roche announced buying the remaining 44% stake in Genentech (among the largest biotech companies globally) for US\$42bn. The first two aforementioned deals are conventional mergers aimed at arresting fall in revenue due to patent expiry for blockbuster drugs and extracting significant cost savings. Roche's acquisition is targeted at improving innovation and strengthening global leadership position in a rapidly growing and high-margin biologics market.
- ▶ **SPIL to remain highest PAT-generating company in sector.** I-Sec pharma universe is likely to post healthy topline growth of 12% YoY to Rs96.5bn. EBITDA margin would decline 4pps to 22.6%. However, aggregate PAT will decline 22% YoY to Rs13.9bn mainly due to: i) higher pricing pressure ii) rising interest cost & depreciation and iii) high base effect due to para IV and R&D income. Despite 48% YoY dip, SPIL would maintain the highest PAT in the sector, at Rs3.7bn. Dr. Reddy's Laboratories (DRL) will post the highest PAT growth of 98% YoY to Rs1.3bn, benefiting from authorised generics version of *Imitrex* and low base. Glenmark will fare the worst in the sector, with likely 58% drop (and 43%, ex-R&D income) to Rs891mn. Due to US FDA's ban on its 30 drugs, Ranbaxy's PAT would crash 49% YoY to Rs614mn.
- ▶ **Retain our time-tested 'pick & choose' strategy.** We reiterate our 'pick & choose' strategy with SPIL and Glenmark being the top two BUYs in the sector. Both are best in the business, with superior operating discipline and track record, leading to consistent, market-beating RoI – In the past five years, SPIL and Glenmark's stock rose 4x each versus 1.7x for Sensex. Divi's (we initiated coverage in November '08) is our top BUY in the CRAMS space.

## M&A sweeping global pharma market

### Pfizer, Merck & Co and Roche steal show

CY09 has begun with big-ticket M&As in the global pharma market. In January '09, Pfizer made a whopping US\$68bn bid to acquire Wyeth, followed by Merck & Co's US\$41bn bid for acquiring Schering-Plough in March '09. Roche paid US\$42bn to buy the remaining 44% stake in Genentech, which is among the largest biotech companies in the world.

**Table 1: Recent global M&As**

(US\$ bn)					
Time	Acquirer	Target	Deal value	Post-deal	
				Revenues	Cost savings
26-Jan-09	Pfizer	Wyeth	68.0	71	4
9-Mar-09	Merck	Schering-Plough	41.1	47	3.5
26-Mar-09	Roche	Genentech	42.1	~17	0.9

Source: Company data, I-Sec Research

### Pfizer-Wyeth

In January '09, the world's top drug maker, Pfizer Inc., announced acquisition of Wyeth for US\$68bn. The merger will make Pfizer the distant #1 pharma company in the world, with the highest ever single-company revenues of US\$71bn in '08. With this deal coming through, Pfizer will achieve most of its strategic goals, which are:

- become a leader in biologics
- enter the vaccines market
- strengthen leadership in emerging markets
- create new opportunities for established products
- establishes a lower and more flexible cost base
- fills the huge vacuum due to loss of exclusivity for *Lipitor* (sales of which stood at US\$12.4bn in CY08) from CY12
- Pfizer will be able to achieve almost the same revenues (~US\$70bn) and adjusted diluted EPS (\$2.42) in CY12 vis-à-vis CY08

### Merck & Co-Schering-Plough

In March '09, Merck & Co announced acquisition of Schering-Plough for US\$41bn. Note that the two companies have joint venture for cholesterol drugs (*Zetia* and *Vytorin*), which generated revenue of US\$4.6bn in CY08. The deal would help quicker decision-making and opportunity to leverage cholesterol franchise through future combinations with *Zetia*. Further, the deal gives Merck access to the complementary product basket of Schering-Plough, which has a longer patent life as well as strong presence in biological drugs. Besides, Schering-Plough has strong leadership position in animal health and consumer health businesses. The acquisition will shore up Merck & Co's research pipeline by doubling the total number phase III compounds to 18. It will also benefit from the worldwide reach of Schering-Plough, which generates ~70% of its sales outside the US, including over US\$2bn from emerging markets. Post merger, combined revenues would be ~US\$47bn as of CY08. The combined entity will save ~US\$5.95bn per annum, post '11.

## Roche-Genentech

In March '09, Roche Holding AG, the world's biggest maker of cancer drugs, won an eight-month battle to buy the remaining (44.2%) stake of Genentech Inc by raising its offer to US\$42bn. Roche aims to combine the 'best of both' via:

- enhancing and improving ability to innovate
- leveraging Genentech brand in the US
- improving operational efficiencies
- creating a formidable world player in biologics

The combined entity, which would have overall annual revenues of US\$47bn, is expected to post synergies worth US\$750-850mn annually.

## Innovators showing greater interest in generics

In '08, surprisingly, pharma innovator majors showed substantial interest in the generics business. Over the past few years, such companies have been facing issues as regards series of patent expiries for blockbuster drugs, slower new-product launches with blockbuster drugs becoming a rarity, rising costs (R&D and operations) and Governments becoming pro-generics. Daiichi Sankyo (DS), Japan's third-largest pharma major, bought 64% stake in Ranbaxy at EV of US\$8.5bn (EV/EBITDA of 39x and price-to-sales of 5x). To gain stronger foothold in the high-growth branded generics market of Central & East Europe (CEE), sanofi-aventis doubled its stake to ~100% in Zentiva, a Czech generics major, valuing it at US\$3bn. On the other hand, on July 23, '08, GSK plc entered into a historic collaboration with Aspen, a South African generics company. As per the terms of agreement, Aspen and its Indian JV partner, Strides Arcolabs, will develop, manufacture & supply selected branded products, while GSK will register, distribute & commercialise, likely in '10. GSK plc will make limited upfront milestone payments to Aspen, while bulk payments will be in the form of profit-sharing. This is a first-of-its-kind deal from GSK plc aimed at boosting its growth in emerging markets.

Notably, a couple of decades ago, few large pharma MNCs flirted with generics and, later, exited unsuccessfully. This was due to both innovation and generics being structurally different businesses and, hence, it is important to take adequate care to manage them independently and efficiently.

**Table 2: M&As in global generics market**

Year	Acquirer	Target	EV (US\$ mn)	Post Deal Equity Stake (%)	Annual Revenue US\$ mn	Price/Sales (x)	Remarks
2008	Daiichi-Sankyo	Ranbaxy	8,500	63.90	1,600	5.3	Gets additional stream of revenue from entry into generics business, will help ramp up in Japan Doubled its stake to 100%, gets strong foothold in branded generics of CEE region Complimentary product basket, strengthens US and EU presence
2008	sanofi-aventis	Zentiva	3,088	96.80	900	3.4	
2008	Teva	Barr Labs	9,000	100.00	2,500	3.6	

Source: I-Sec Research

## Generics players, too, may consolidate

In July '08, Teva acquired Barr Labs at EV of US\$9bn (EV/EBITDA of 18x and price-to-sales of 3x) to become a distant #1 in the global generics market with US\$12bn in revenues. Novartis (generics) is the #2 player, with US\$8bn revenues, followed by Mylan with US\$5.1bn revenues and Watson with US\$2.5bn revenues.

With President Obama's pro-generic stance and likely speedier regulatory framework for biogenerics in the US, global generics players have healthy growth prospects. The US Government could save US\$9bn over a 10-year period, as per industry.

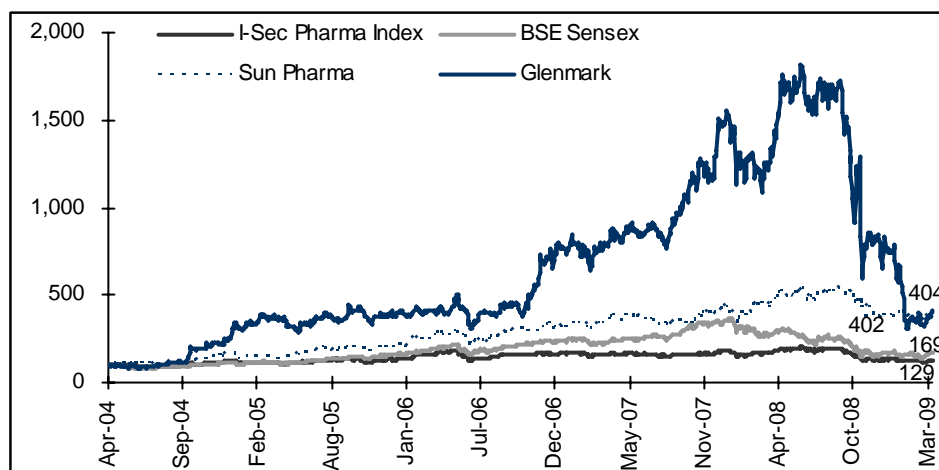
## Strong 22% YoY growth in FY10E base earnings

We expect the I-Sec pharma universe to witness 14% YoY rise in sales to Rs431bn in FY10E, primarily led by international business. EBITDA margin is expected to dip 80bps to 21.7% in FY10E. Aggregate PAT will witness muted growth of 12% YoY, mainly due to absence of para IVs generic *Protonix* of SPIL and authorised generic *Imitrex* of DRL, but will include revenues from generic *Prilosec* OTC of DRL. However, base earnings (excluding para IVs and R&D income) will likely surge 22% YoY in FY10E. We expect the I-Sec Pharma universe to witness healthy 19% (23% for base business) earnings CAGR through FY09E-11E.

## Pharma better placed in current weak environment

Historically, defensive sectors such as pharma have fared better in a bearish environment. This hypothesis has held in '08 – I-Sec Pharma index lost 26% YoY versus 51% by Sensex. With the expected economic slowdown in India and likely global recession in '09, investors will be averse to risk and, hence, lead to the pharma sector continuing its outperformance in '09 as well.

**Chart 1: Our top BUYs beat indices**



Source: Company data, I-Sec Research

Based on this, high certainty, attractiveness of underlying earnings growth (27% YoY in FY10E for base business and 18% CAGR through to FY11E) and inexpensive valuations (FY10E P/E of 12x), we believe that Indian pharma sector will be in a sweet spot in '09. This, however, does not imply that all stocks will perform well. We believe that companies with strong management, business models, higher growth certainty and newsflow visibility would fare better than most others. In this context, we continue to favour SPIL (fair value: Rs1,482) and Glenmark (fair value: Rs441) and as our top two BUYs. Both companies have been our top buys in the bull market over '03-07, performing significantly better than the Sensex and I-Sec pharma universe (Chart 1). Divi's (18-month fair value of Rs1,178/share raised from Rs1,062/share as the base year has shifted to FY11E) is our top BUY in the CRAMS space.

**Table 3: Quarterly summary**

Company (Rs mn)	Sales			EBITDA			Recurring PAT		
	% change			% change			% change		
	JFM '09*	YoY	QoQ	JFM '09*	YoY	QoQ	JFM '09*	YoY	QoQ
Alembic	2,848	9.2	2.1	313	(5.8)	3.5	102	(31.1)	(9.7)
Aventis	2,217	2.2	(17.9)	385	(4.9)	(17.4)	370	7.2	(18.4)
Cadila	7,559	38.2	2.7	1,480	30.5	3.9	764	37.9	23.8
Cipla	12,885	19.1	1.9	3,279	61.8	(3.1)	2,182	21.6	(2.3)
Dishman Pharma	2,721	12.5	(3.6)	637	41.1	(11.5)	347	26.4	(0.6)
Divi's Lab	2,700	(3.0)	0.2	1,168	(6.9)	3.4	961	(7.8)	2.7
Dr. Reddy's	16,330	29.5	(9.5)	3,150	49.8	(9.1)	1,304	97.8	(18.1)
Glenmark	5,934	3.6	1.8	1,786	(20.0)	(6.2)	891	(58.2)	9.4
GSK Pharma	4,403	5.3	19.5	1,713	7.0	53.2	1,272	4.9	42.7
Ranbaxy	19,837	18.0	21.2	1,740	(26.8)	(260.3)	614	(48.7)	255.2
Sun Pharma	9,289	(26.1)	1.2	3,819	(48.4)	(7.6)	3,729	(48.4)	(8.7)
Wockhardt	9,799	24.7	6.8	2,343	34.9	2.3	1,324	23.7	66.2
<b>Total</b>	<b>96,523</b>	<b>12.2</b>	<b>3.5</b>	<b>21,811</b>	<b>(5.4)</b>	<b>13.3</b>	<b>13,860</b>	<b>(21.5)</b>	<b>6.2</b>

\*January-March '09

Source: I-Sec Research

## Alembic (Buy)

(QoQ chg: -0.3%; YTD chg: -4.7%)

### Quarterly estimates

(Rs mn, year ending March 31)

	Q4FY09E	Q4FY08	YoY (%)	QoQ (%)	YTDFY09	YTDFY08	YoY (%)
Revenues	2,848	2,609	9.2	2.1	8,452	7,211	17.2
EBITDA	313	332	(5.8)	3.5	1,130	1,119	1.0
PBT	105	155	(32.2)	10.0	536	755	(29.0)
PAT	102	148	(31.1)	(9.7)	536	743	(27.8)

\* April-December

Source: Company data, I-Sec Research

- Alembic's total net revenues are expected to grow 9.3% YoY to Rs2.8bn. Domestic dosage-form business is expected to register 11% YoY growth to Rs1.8bn, post major restructuring exercise undertaken by the company recently, while revenues from bulk drug exports are expected to rise a strong 27% YoY to Rs800mn primarily on account of significant increase in exports to regulated markets.
- EBITDA margin is likely to decline 188bps to 10.2% due to higher operating expenses. Net income is expected to decline 31% YoY to Rs102mn with sharp 22% surge in interest cost.

## Aventis Pharma (Buy)

(QoQ chg: 1.7%; YTD chg: 1.7%)

### Quarterly estimates

(Rs mn, year ending December 31)

	Q1CY09E	Q1CY08	YoY (%)	QoQ (%)	CY08	CY07	YoY (%)
Revenues	2,217	2,169	2.2	(17.9)	9,833	8,735	12.6
EBITDA	385	405	(4.9)	(17.4)	1,854	1,675	10.7
PBT	578	543	6.4	(18.4)	2,596	2,178	19.2
PAT	370	345	7.2	(18.4)	1,662	1,394	19.2

Source: Company data, I-Sec Research

- Domestic dosage-form gross sales are expected to witness decline of 6% YoY to Rs1.8bn due to loss of marketing exclusivity (from mid-February '09) for *Rabipur*, the company's top brand. Exports are expected to rise 30% YoY to Rs512mn.
- EBITDA margin is likely to dip 130bps to 17.4% on account of higher operating expenses during the quarter. Net recurring profit is expected to witness moderate rise of 7% YoY to Rs370mn.

## Cadila Healthcare (Buy)

(QoQ chg: 1.8%; YTD chg: -2.0%)

### Quarterly estimates

(Rs mn, year ending March 31)

	Q4FY09E	Q4FY08	YoY (%)	QoQ (%)	YTD FY09	YTD FY08	YoY (%)
Revenues	7,559	5,469	38.2	2.7	21,599	17,191	25.6
EBITDA	1,480	1,134	30.5	3.9	4,567	3,464	31.8
PBT	921	800	15.1	2.5	3,292	2,394	37.5
PAT	764	554	37.9	23.8	2,699	1,983	36.1

\* April-December

Source: Company data, I-Sec Research

- Gross domestic sales are expected to register growth of 18% YoY to Rs4bn. Total exports are likely to surge 64% YoY to Rs3.7bn powered by strong 82% YoY rise in dosage-form exports. API exports are expected to rise 15% YoY to Rs704mn.
- EBITDA margin is likely to expand 64bps to 18.4% primarily on account of favourable sales mix, better cost management and rupee depreciation vis-à-vis the US dollar. Recurring net income is likely to surge 38% YoY to Rs764mn.

## Cipla (Hold)

(QoQ chg: 17.9%; YTD chg: 14.0%)

### Quarterly estimates

(Rs mn, year ending March 31)

	Q4FY09E	Q4FY08	YoY (%)	QoQ (%)	YTD FY09	YTD FY08	YoY (%)
Revenues	12,885	10,816	19.1	1.9	37,375	29,247	27.8
EBITDA	3,279	2,027	61.8	(3.1)	9,241	6,640	39.2
PBT	2,567	2,021	27.0	(2.1)	6,144	6,455	(4.8)
PAT	2,182	1,795	21.6	(2.3)	5,149	5,380	(4.3)

\* April-December

Source: Company data, I-Sec Research

- We expect Cipla's total gross revenues to grow 18% YoY to Rs12.9bn led by strong 26% YoY surge in dosage-form exports to Rs5.9bn. Gross domestic revenues are likely to witness strong rise of 30% YoY, on a low base, to Rs5.9bn.
- EBITDA margin is expected to expand 636bps to 24.4% primarily on the back of favourable product mix and depreciation of the rupee vis-à-vis the US dollar. As a result, recurring PAT is expected to rise 22% YoY to Rs2.2bn.

## Dishman Pharma (Buy)

(QoQ chg: -29.0%; YTD chg: -30.2%)

### Quarterly estimates

(Rs mn, year ending March 31)

	Q4FY09E	Q4FY08	YoY (%)	QoQ (%)	YTD FY09	YTD FY08	YoY (%)
Revenues	2,721	2,419	12.5	(3.6)	7,739	5,611	37.9
EBITDA	637	451	41.1	(11.5)	1,917	1,078	77.9
PBT	385	217	77.3	(14.1)	1,245	661	88.3
PAT	347	274	26.4	(0.6)	1,130	591	91.3

\* April-December

Source: Company data, I-Sec Research

- Dishman Pharma's total revenues are expected to rise 13% YoY to Rs2.7bn on the back of 14% YoY increase in CRAMS business. QUATS/APIs are expected to witness growth of 8% YoY to Rs670mn in the quarter.



- EBITDA margins are likely to witness expansion of 470bps to 23.4% on the back of favourable sales mix and better cost management. Recurring net profit is expected to rise 26% YoY to Rs347mn. However, reported net profit will increase 21% YoY due to Rs12mn forex gain a year ago.

## Divi's Laboratories (Buy)

(QoQ chg: -29.3%; YTD chg: -29.3%)

### Quarterly estimates

(Rs mn, year ending March 31)

	Q4FY09E	Q4FY08	YoY (%)	QoQ (%)	YTDFY09	YTDFY08	YoY (%)
Revenues	2,700	2,784	(3.0)	0.2	8,696	7,619	14.1
EBITDA	1,168	1,254	(6.9)	3.4	3,844	3,050	26.1
PBT	1,050	1,176	(10.7)	2.9	3,509	2,717	29.2
PAT	961	1,043	(7.8)	2.7	3,233	2,549	26.8

\*April-December

Source: Company data, I-Sec Research

- We expect Divi's to report total revenue decline of 3% YoY to Rs2.7bn mainly due to lower offtake for custom synthesis work and inventory tightening by its customers, amid a recessionary environment.
- EBITDA margin is likely to decline 180bps to 43.3% on account of higher operating expenses during the quarter. Consequently, recurring net profit is expected to decline 8% YoY to Rs961mn.

## Dr. Reddy's Laboratories (Buy)

(QoQ chg: 4.6%; YTD chg: 4.8%)

### Quarterly estimates

(Rs mn, year ending March 31)

	Q4FY09E	Q4FY08	YoY (%)	QoQ (%)	YTDFY09	YTDFY08	YoY (%)
Revenues	16,330	12,609	29.5	(9.5)	48,622	36,246	34.1
EBITDA	3,150	2,102	49.8	(9.1)	8,062	6,287	28.2
PBT	1,650	1,156	42.7	(19.3)	4,326	3,633	19.1
PAT	1,304	660	97.8	(18.1)	3,378	3,061	10.4

\*April-December

Source: Company data, I-Sec Research

- Total gross revenues of DRL are expected to rise 30% YoY to Rs16.3bn powered mainly by: i) launch of authorised generic version of *Imitrex* on November 24, '08 in the US ii) strong 51% YoY surge in revenues of the pharmaceutical services & active ingredients (PSAI) segment to Rs4.5bn. The generics business is expected to witness modest growth of 4% YoY to Rs10.2bn.
- EBITDA margin is likely to witness expansion of 162bps to 16.5% on the back of improved revenue mix and aggressive cost efficiencies. We estimate betapharm's brands-related intangibles write-off of €25mn in Q4FY09E, which is a one-time, non-cash charge due to impairment. Consequently, we expect total consolidated recurring PAT to surge 98% YoY to Rs1.3bn.



## GlaxoSmithKline Pharma (Buy)

(QoQ chg: -5.1%; YTD chg:-4.9%)

### Quarterly estimates

(Rs mn, year ending December 31)

	Q1CY09E	Q1CY08	YoY (%)	QoQ (%)	CY08	CY07	YoY (%)
Revenues	4,403	4,181	5.3	19.5	16,604	15,771	5.3
EBITDA	1,713	1,601	7.0	53.2	6,148	5,571	10.4
PBT	1,913	1,826	4.8	39.8	6,904	6,127	12.7
PAT	1,272	1,213	4.9	42.7	4,573	4,012	14.0

Source: Company data, I-Sec Research

- We expect revenues to rise 5% YoY to Rs4.4bn on the back of healthy growth in top brands and vaccine portfolio.
- EBITDA margin is likely to witness expansion of 50bps to 36.9% led by favourable sales mix and better cost management. Recurring net income is expected to rise 5% YoY to Rs1.3bn.

## Glenmark Pharmaceuticals (Buy)

(QoQ chg: -47.0%; YTD chg: -47.0%)

### Quarterly estimates#

(Rs mn, year ending March 31)

	Q4FY09E	Q4FY08	YoY (%)	QoQ (%)	YTD FY09	YTD FY08	YoY (%)
Revenues	5,934	5,727	3.6	1.8	16,045	12,264	30.8
EBITDA	1,786	2,233	(20.0)	(6.2)	5,008	5,921	(15.4)
PBT	1,204	2,112	(43.0)	(10.8)	3,792	5,075	(25.3)
PAT	891	2,130	(58.2)	9.4	3,081	4,246	(27.4)

\* April-December

Source: Company data, I-Sec Research

- Glenmark's consolidated product revenues are expected to post 16% YoY growth to Rs6bn. Gross domestic sales are likely to witness modest growth of 1.5% YoY on high base to Rs1.8bn. Dosage-form exports are expected to witness rise of 26% YoY to Rs3.9bn led by strong revenue growth in LatAm, RoW and Europe. However, total operating revenues are likely to rise only 4% YoY due to absence of Rs610mn (or US\$15mn) R&D income received from Forest labs as milestone payment for *Oglemilast*.
- EBITDA margin (excluding R&D income) is expected to dip 163bps to 30.1% mainly due to: i) rising operating costs and ii) a year-ago, margins were higher-than-normal on account co-exclusivity for generic *Trileptal*. We expect interest cost to almost double to Rs353 mn during the quarter due to increase in debt (Rs3.5bn at 16% interest rate) to fund brand acquisitions in Poland and higher working capital needs. Consequently, recurring PAT is expected to decline 58% YoY to Rs891mn. However, excluding R&D income, recurring PAT would decline 43% YoY.

## Ranbaxy Laboratories (Sell)

(QoQ chg: -34.3%; YTD chg: -33.8%)

### Quarterly estimates

(Rs mn, year ending December 31)

	Q1CY09E	Q1CY08	YoY (%)	QoQ (%)	CY08	CY07	YoY (%)
Revenues	19,837	16,811	18.0	21.2	70,999	70,027	1.4
EBITDA	1,740	2,377	(26.8)	(260.3)	5,993	10,540	(43.1)
PBT	682	1,457	(53.2)	(140.1)	2,229	7,094	(68.6)
PAT	614	1,196	(48.7)	255.2	2,928	6,028	(51.4)

Source: Company data, I-Sec Research

- We expect Ranbaxy's consolidated revenues to increase 18% YoY to Rs19.8bn led by strong growth in branded dosage forms in emerging markets and weakening of INR vis-à-vis the USD. However, the ongoing ban on 30 products in the US and absence of any launches will lead to sales decline of 17% YoY in North America.
- EBITDA margin likely to dip 540bps to 8.8% due to impact of US FDA issues and higher operating costs. Consequently, consolidated recurring net profit is expected to decline 49% YoY to Rs614mn.

## Sun Pharmaceutical (Buy)

(QoQ chg: 4.4%; YTD chg: 5.3%)

### Quarterly estimates

(Rs mn, year ending March 31)

	Q4FY09E	Q4FY08	YoY (%)	QoQ (%)	YTD FY09	YTD FY08	YoY (%)
Revenues	9,289	12,572	(26.1)	1.2	31,379	20,994	49.5
EBITDA	3,819	7,407	(48.4)	(7.6)	14,893	8,104	83.8
PBT	3,942	7,695	(48.8)	(7.6)	15,479	8,299	86.5
PAT	3,729	7,228	(48.4)	(8.7)	14,229	7,641	86.2

\* April-December

Source: Company data I-Sec Research

- SPIIL's net revenues are expected to decline 26% YoY to Rs9.3bn due to high base on account of US\$135mn sales of generic *Protonix* a year ago. Excluding marketing exclusivity for generics *Protonix* and *Ethyol* during the quarter, exports are likely to witness 20% YoY increase to Rs4bn. Gross domestic dosage-form business revenues are expected to report healthy growth of 16% YoY to Rs4.5bn.
- EBITDA margin is likely to decline 18pps to 41.1% due to drop in revenues of its exclusivity product generic *Protonix* to US\$20mn and higher operating costs. As a result, consolidated recurring net income is expected to decline 48% YoY to Rs3.7bn.

## Wockhardt

(QoQ chg: -21.5%; YTD chg: -24.2%)

Some key decisions taken at Wockhardt's board meeting yesterday:

- Audited CY08 results were postponed to April 25, '09
- Wockhardt is restructuring operations
- Reeling under heavy debt, Wockhardt plans to approach the Corporate Debt Restructure Cell

Note that Wockhardt has acquired many EU-based companies in the past few years and funded it through debt. Based on this and the inability to integrate quickly and generate free cashflow, the company has been reeling under debt, with current total debt of ~US\$800mn (of which US\$140mn of FCCB is due in November '09). On the other hand, the company's current market cap is only US\$185mn. Consequently, there will be many uncertainties, which make it difficult to forecast earnings, balance sheet and intrinsic value of the company. **Hence, we discontinue coverage of the stock with immediate effect.** The stock is trading at CY08E P/E of 2.2x.

## Earnings watch

		Key Data		Year	Valuation				Growth Rates (% YoY)				Forecasts (Rs mn)						Ratios				
					P/E	P/CEPS	*EV/E	Div. Yield	Rec. EPS	Rep. EPS	EBITDA	Rev.	Rev.	EBITDA	Rec. PAT	Rep. PAT	Op. FCF (post-capex)	Rec. EPS	EBITDA Margin (%)	RoE	RoCE	Net D/E	
					(x)	(x)	(x)	(%)										(Rs)	(%)	(%)	(%)	(%)	
PHARMA																							
Alembic		BUY																					
Price (Rs)	31	MCap (Rs mn)	4,334	FY07	5.0	3.7	4.9	3.7	32.5	2.8	16.8	11.7	7,046	1,267	871	807	245	6.3	16.4	24.3	14.3	97.5	
52 week Hi/Lo (Rs)	74/21	MCap (US\$ mn)	85.1	FY08	4.7	3.5	5.5	5.6	5.1	49.1	20.9	42.3	10,025	1,532	915	1,203	(984)	6.6	14.2	25.2	16.3	122.6	
Free float (%)	39	*BVPS (Rs)	25	FY09E	6.8	4.2	5.6	2.1	(30.3)	(81.3)	(5.9)	13.8	11,412	1,442	638	226	815	4.6	11.8	18.3	14.2	112.3	
Shares out (mn)	138.5	*Returns (%): 1 mo	0.2	FY10E	5.5	3.6	4.8	2.7	23.3	248.6	19.9	17.6	13,424	1,729	786	786	(207)	5.7	12.1	20.2	16.2	94.5	
Year ending	March	12 mo	(44.7)	FY11E	4.2	2.8	3.6	3.6	31.6	31.6	29.7	18.6	15,915	2,242	1,034	1,034	462	7.5	13.2	22.2	19.2	72.3	
Aventis																							
BUY																							
Price (Rs)	982	MCap (Rs mn)	22,625	CY06	13.3	12.0	8.5	3.7	7.2	16.7	(2.1)	10.0	8,821	2,220	1,707	1,693	1,279	74.1	25.2	31.1	31.6	(2.2)	
52 week Hi/Lo (Rs)	1014/650	MCap (US\$ mn)	444.1	CY07	15.7	13.9	11.2	1.9	(15.4)	(14.7)	(24.5)	(2.0)	8,640	1,675	1,444	1,444	(245)	62.7	19.4	22.5	23.0	(1.8)	
Free float (%)	40	*BVPS (Rs)	300	CY08E	14.2	12.7	9.4	2.1	10.5	10.5	6.6	8.9	9,408	1,785	1,597	1,597	1,539	69.3	19.0	21.4	21.7	(1.6)	
Shares out (mn)	23.0	*Returns (%): 1 mo	18.7	CY09E	11.9	10.8	7.4	2.3	19.0	19.0	18.4	14.0	10,728	2,113	1,899	1,899	716	82.5	19.7	21.8	22.1	(1.3)	
Year ending	December	12 mo	28.3	CY10E	10.4	9.5	5.7	2.5	14.7	14.7	17.8	14.2	12,248	2,490	2,178	2,178	1,003	94.6	20.3	21.3	21.6	(1.1)	
Cadila																							
BUY																							
Price (Rs)	272	MCap (Rs mn)	36,944	FY07	17.6	11.7	11.5	1.8	19.5	59.7	25.0	23.7	18,288	3,521	2,104	2,338	740	15.4	17.3	26.9	17.1	65.5	
52 week Hi/Lo (Rs)	324/204	MCap (US\$ mn)	725.1	FY08	14.8	11.7	9.7	2.0	18.8	10.2	29.7	26.9	23,213	4,566	2,500	2,576	(3,406)	18.3	17.7	25.9	15.9	90.5	
Free float (%)	28	*BVPS (Rs)	85	FY09E	11.2	11.7	8.4	2.2	32.0	19.0	23.5	21.1	28,104	5,640	3,300	3,066	(32)	24.2	18.0	28.0	17.2	102.0	
Shares out (mn)	136	*Returns (%): 1 mo	8.2	FY10E	9.6	11.7	6.8	2.9	17.2	26.1	21.9	18.1	33,187	6,878	3,867	3,867	1,276	28.3	18.7	27.0	17.8	84.6	
Year ending	March	12 mo	8.2	FY11E	7.9	11.7	5.7	3.3	21.1	21.1	16.2	14.9	38,135	7,989	4,683	4,683	2,442	34.3	18.9	26.9	18.2	69.9	
Cipla																							
HOLD																							
Price (Rs)	220	MCap (Rs mn)	171,043	FY07	25.9	22.4	21.1	1.1	8.6	9.9	4.8	19.5	35,620	8,115	6,598	6,678	(1,460)	8.5	22.8	24.3	22.1	7.1	
52 week Hi/Lo (Rs)	245/145	MCap (US\$ mn)	3,357	FY08	24.5	20.6	20.8	1.1	5.8	5.0	4.3	18.4	42,158	8,465	6,981	7,010	(4,546)	9.0	20.1	19.2	17.8	18.7	
Free float (%)	60.64	*BVPS (Rs)	50	FY09E	23.3	19.1	14.0	1.0	5.0	4.6	47.9	24.4	52,463	12,520	7,331	7,331	1,970	9.4	23.9	17.5	15.9	16.4	
Shares out (mn)	777.3	*Returns (%): 1 mo	15.2	FY10E	17.6	14.7	13.3	1.2	32.9	32.9	4.4	15.8	60,766	13,075	9,744	9,744	6,052	12.5	21.5	20.1	18.5	13.9	
Year ending	March	12 mo	0.3	FY11E	15.8	13.2	11.9	1.2	10.7	10.7	11.8	18.3	71,869	14,612	10,792	10,792	6,460	13.9	20.3	19.0	17.8	11.9	
Dishman Pharma																							
BUY																							
Price (Rs)	100	MCap (Rs mn)	7,990	FY07	9.8	7.3	11.5	1.1	67.1	80.4	81.5	109.6	5,786	1,151	824	917	(3,896)	10.1	19.9	33.7	14.1	185.0	
52 week Hi/Lo (Rs)	337/87	MCap (US\$ mn)	157	FY08	9.7	6.1	9.3	1.2	1.5	30.5	32.8	38.8	8,031	1,529	837	1,197	(2,921)	10.3	19.0	19.1	10.7	119.1	
Free float (%)	39.3	*BVPS (Rs)	69.4	FY09E	5.5	3.8	6.0	1.2	76.6	(17.0)	57.0	26.3	10,140	2,401	1,477	993	82	18.2	23.7	24.1	14.5	101.5	
Shares out (mn)	80.3	*Returns (%): 1 mo	(6.0)	FY10E	4.1	2.9	4.3	1.5	34.5	100.0	27.2	23.5	12,522	3,052	1,987	1,987	906	24.4	24.4	25.7	16.8	67.5	
Year ending	March	12 mo	(65.7)	FY11E	3.1	2.3	3.2	2.0	32.4	32.4	22.8	22.1	15,289	3,750	2,631	2,631	1,285	32.3	24.5	26.0	19.2	39.3	
Divi's Lab																							
BUY																							
Price (Rs)	944	MCap (Rs mn)	61,002	FY07	28.8	26.1	22.7	0.2	197.6	167.3	119.8	88.9	7,347	2,746	2,115	1,859	128	32.7	36.5	48.6	35.9	33.9	
52 week Hi/Lo (Rs)	1635/765	MCap (US\$ mn)	1,197	FY08	16.9	15.4	14.2	0.4	70.1	87.0	58.0	42.2	10,451	4,340	3,597	3,476	1,515	55.7	40.8	51.5	43.4	14.4	
Free float (%)	46.6	*BVPS (Rs)	133.3	FY09E	14.8	13.1	11.8	0.5	14.5	12.3	15.5	9.0	11,397	5,012	4,193	3,903	2,500	63.8	44.0	40.3	36.8	9.3	
Shares out (mn)	64.6	*Returns (%): 1 mo	11.1	FY10E	12.6	11.0	9.6	0.6	17.7	27.8	18.2	18.0	13,448	5,925	4,987	4,987	2,594	75.1	44.1	34.4	32.3	7.4	
Year ending	March	12 mo	(23.8)	FY11E	10.1	8.9	7.3	0.8	24.2	24.2	22.9	22.0	16,407	7,280	6,192	6,192	4,270	93.2	44.4	31.5	29.9	6.3	
Dr. Reddy's																							
BUY																							
Price (Rs)	490	MCap (Rs mn)	82,201	FY07	8.7	6.2	5.3	0.9	497.9	558.3	412.2	176.6	65,139	16,555	9,434	9,659	4,302	56.3	24.4	31.1	17.9	64.7	
52 week Hi/Lo (Rs)	740/355	MCap (US\$ mn)	1,613	FY08	22.6	10.8	11.3	0.9	(61.5)	(54.6)	(49.3)	(23.8)	49,630	8,389	3,636	4,381	(5,103)	21.7	15.6	8.6	6.7	45.6	
Free float (%)	72.5	*BVPS (Rs)	268	FY09E	17.6	8.6	8.8	0.9	28.8	(44.9)	33.7	33.9	66,442	11,212	4,682	2,415	(1,634)	27.9	15.0	10.2	8.0	48.6	
Shares out (mn)	168	*Returns (%): 1 mo	22.9	FY10E	14.1	7.3	7.2	1.0	24.5	141.4	15.4	8.2	71,900	12,936	5,830	5,830	5,821	34.8	15.8	11.9	9.6	40.3	
Year ending	March	12 mo	(17.4)	FY11E	10.5	5.8	5.1	1.2	34.6	34.6	28.9	16.6	83,871	16,679	7,848	7,848	8,522	46.8	17.7	14.3	11.9	31.8	
GSK Pharma																							
BUY																							
Price (Rs)	1092	MCap (Rs mn)	92,534	CY06	25.7	24.3	17.5	3.2	16.7	8.6	12.9	4.9	16,193	5,274	3,607	5,510	2,791	42.6	31.0	33.4	34.2	0.5	
52 week Hi/Lo (Rs)	1216/916	MCap (US\$ mn)	1,816	CY07	22.9	21.8	15.1	3.9	12.2	(0.6)	14.6	2.4	16,574	6,044	4,046	5,475	5,263	47.8	34.5	31.3	31.7	0.4	
Free float (%)	50.9	*BVPS (Rs)	163	CY08P	20.0	19.3	13.6	4.3	14.4	7.9	1.6	3.3	17,122	6,141	4,629	5,911	2,246	54.6	35.2	31.3	31.7	0.1	
Shares out (mn)	84.7	*Returns (%): 1 mo	(9.7)	CY09E	17.9	17.3	12.0	2.4	12.0	(12.3)	12.6	10.7	18,952	6,913	5,183	5,183	4,299	61.2	35.8	30.1	30.5	0.1	
Year ending	December	12 mo	3.4	CY10E	15.6	15.1	10.7	2.7	14.4	14.4	11.5	11.0	21,035	7,705	5,929	5,929	4,545	70.0	35.9	29.1	29.4	0.1	
Glenmark																							
BUY																							
Price (Rs)	157	MCap (Rs mn)	39,068	FY07	13.2	10.9	11.1	0.3	279.7	252.2	210.6	74.1	12,220	4,262	3,039	3,100	(2,021)	11.9	34.9	57.3	23.6	147.0	
52 week Hi/Lo (Rs)	736/119	MCap (US\$ mn)	767	FY08	6.6	5.6	5.9	0.5	98.1	103.9	87.8	61.7	19,757	8,005	5,996	6,321	(2,580)	23.6	40.5	54.4	30.8	71.5	
Free float (%)	46	*BVPS (Rs)	63	FY09E	10.0	7.5	7.4	0.4	(33.8)	(36.2)	(15.1)	11.2	21,979	6,794	3,972	4,032	(832)	15.6	30.9	23.3	16.1	73.6	
Shares out (mn)	249	*Returns (%): 1 mo	0.0	FY10E	6.9	5.4	5.0	0.6	44.9	42.7	36.8	29.9	28,559	9,296	5,756	5,756	3,873	22.6	32.5	26.8	19.6	48.3	
Year ending	March	12 mo	(66.9)	FY11E	4.7	3.8	3.4	0.9	46.7	46.7	41.8	31.3	37,494	13,180	8,446	8,446	3,350	33.2	35.2	30.0	24.7	28.1	
Note: EPS on fully diluted basis																							
Ranbaxy																							
SELL																							
Price (Rs)	166	MCap (Rs mn)	74,731	CY06	14.6	10.7	12.4	4.2	147.9	95.0	246.0	17.3	61,268	8,956	5,132	5,103	(18,876)	11.4	14.6	20.5	11.0	156.7	
52 week Hi/Lo (Rs)	660/133	MCap (US\$ mn)	1,467	CY07	13.9	9.9	12.2	4.2	4.6	51.7	2.1	13.9	69,756	9,147	5,370	7,743	2,697	11.9	13.1	20.1	9.6	154.0	
Free float (%)	36	*BVPS (Rs)	117	CY08	25.5	13.4	15.2	-	(45.5)	(218.1)	(34.5)	1.8	70,999	5,994	2,927	(9,145)	3,487	6.5	8.4	7.3	6.5	67.2	
Shares out (mn)	451.0	*Returns (%): 1 mo	3.2	CY09E	23.2	12.2	9.3	1.8	10.2	(135.3)	22.8	8.5	77,017	7,362	3,225	3,225	2,783	7.1	9.6	5.2	4.8	39.2	
Year ending	December	12 mo	(62.6)	CY10E	15.1	8.9	7.0	2.7	53.4	53.4	34.4	17.1	90,153	9,893	4,947	4,947	1,261	11.0	11.0	6.7	6.0	31.5	
Note: EPS on fully diluted basis																							
Sun Pharma																							
BUY																							
Price (Rs)	1111	MCap (Rs mn)	230,070	FY07	31.7	26.6	(0.4)	0.7	37.3														

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