

Industry

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Indian Pharma & Ag Daily Dose

 Equity

Opto Circuits (Capex Plans); Watson (FDA Approval for Generic Prograf)

- **From the Research Desk (pg 2)** — [Indian Pharma](#) (Brief Thesis & Preferred Picks); [Ranbaxy](#) (Integrating R&D with Daiichi)
- **Opto Circuits slates Rs 150 cr investment, to increase focus on emerging markets** — Opto Circuits has planned an investment of around Rs 150 crore for its next phase of expansion. The proposed investment will be for a production centre in Malaysia and for a greenfield project at SEZ Nanjungad in Mysore. “*Our focus will be on the emerging markets and India is the centre of action going by its market potential and manufacture-research capability,*” stated Vinod Ramnani, chairman and managing director, Opto Circuits. In this regard the company will also look to augment its current strength from 1,500 to 2,000 by the end of this fiscal and eventually double the workforce as projects consolidate. (*Pharmabiz*)
- **Watson's generic Prograf receives FDA approval** — Watson Pharmaceutical has received approval from the United States Food and Drug Administration on its ANDA for Tacrolimus 5 mg capsules, the generic equivalent to Astellas' Prograf capsules. Watson intends to begin shipping the product immediately. Prograf 5 mg had total U.S. sales of approximately \$108 million for the twelve months ending May 2010, according to IMS Health. (*Company Release*)
- **Fertiliser companies see potential in customised biz** — Indian chemical firms are rushing to set up 'customised fertiliser' plants in a bid to capitalise on rising demand, while farmers can now buy fertiliser tailored for the soil and crop in their regions. Tata Chemicals, Deepak Fertilisers and Petrochemicals Corp and Nagarjuna Fertilizers have lined up investments in excess of 7 billion rupees over next three years to make these 'need-based' soil nutrients. (*Reuters*)
- **Other stories (Pg 2)** — ICICI Venture to exit I-Ven Pharma; Strides Arcolab plans to raise \$100 mn; U.S. House approves restrictions on pay for delay deals; Axis, IDBI Bank led consortium to fund Fortis' Parkway buy

Prashant Nair, CFA

 +91-22-6631-9855
 prashant.nair@citi.com

Akshay Rai

 akshay.raii@citi.com

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

BSE Sensex down 0.3%; **S&P Nifty** down 0.3%; **BSE H/C** down 0.1%

Key Gainers: Glenmark up 2%

Key Losers: Cadila, Biocon down 2% each

Volumes: Strong volumes in Jubilant

Source: datacentral, Bloomberg

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

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Other Top Stories

- **ICICI Venture to exit I-Ven Pharma** — ICICI Venture is set to divest its entire stake in I-Ven Pharma Capital, a special purpose vehicle, to Dr Reddy's Labs (DRL), its exclusive partner in the SPV. The transaction value is estimated at Rs 300 crore. During the year ended Mar 31, 2010, Dr Reddy's and I-Ven reached an agreement to settle the portfolio termination value option available to I-Ven on or before September 30, 2010. (*Economic Times*)
- **Strides Arcolab plans to raise \$100 mn** — Strides Arcolab has convened an extra-ordinary general meeting on July 23 to seek approval from shareholders for raising equity worth nearly \$100 million. The money would be primarily used for acquisitions, investments and other capital expenditure, the EGM notice to shareholders said. Shareholders will also vote on a resolution which seeks to hike the borrowing limit for the company's board of directors of up to Rs 2,500 crore. (*Business Standard*)
- **U.S. House approves restrictions on pay for delay deals** — The U.S. House approved a measure restricting the ability of drugmakers to enter agreements that the Federal Trade Commission has said keep generic medicines off the market. Companies could be fined under the measure if the FTC and courts find they are involved in settlements that preserve a brand-name pharmaceutical firm's patent by delaying a generic-drug maker's introduction of a lower-priced product. The proposal, included in a war-funding bill that passed the House, now goes to the Senate. (*Bloomberg*)
- **Axis, IDBI Bank led consortium to fund Fortis' Parkway offer** — A consortium of banks, led by the country's third largest private sector lender Axis Bank and state-run IDBI Bank, has committed to part finance the \$2.3 billion counter-offer of Fortis Healthcare to acquire Singapore's Parkway Holdings. The consortium, in which Axis Bank and IDBI Bank are among the lead arrangers, could expand to 10-12 participating lenders from both India and abroad. Other banks in the consortium include State Bank and ICICI Bank, according to a source close to developments. (*Economic Times*)

From the Research Desk

- **[Indian Pharma Capsule: Taking Stock at Higher Levels - Brief Thesis & Preferred Picks](#)** — We remain positive on the Indian pharma sector and expect continued outperformance over the medium to long term. With multiple growth drivers (US generics, emerging mkts, traction in CRAMS) playing out simultaneously, we expect earnings trajectory to be strong over the next three to four years for most companies, leading to continued upward pressure on multiples. (*Prashant Nair, CFA, India*)
- **[Ranbaxy \(RANB.BO\) - Integrating R&D with Daiichi - Margin Accretive](#)** — Daiichi & Ranbaxy's move to integrate its NDDR efforts was expected, given their respective strengths. Besides some cash inflow, we believe this could be accretive at the EBDITA (by c140bps) & net income (by c8%) levels. This is the first tangible sign of the synergies that Daiichi could bring in & should help bring margins closer to the normalized range from current low levels. (*Prashant Nair, CFA, India*)

Stock Trends & Valuations

Figure 2. CIRA India Pharma Universe — Price & Volume Movement

Name	RIC	Price (Rs)			Volume (k Shares)		CIRA Rating	TP (Rs)
		02 Jul 10	1-day	YTD	1-day	3-m avg		
BSE Sensex		17,461	(0.3)	(0.0)	16,244	18,415		
NIFTY Index		5,237	(0.3)	0.7	141,431	176,546		
BSE Healthcare		5,708	(0.1)	13.7	1,588	2,677		
Apollo Hospitals	APLH.BO	752	0.7	14.5	23	65	1M	840
Aurobindo Pharma	ARBN.BO	918	(0.2)	0.7	180	153	1M	1,340
Biocon	BION.BO	317	(1.6)	14.9	628	610	3H	285
Cadila HC	CADI.BO	657	(1.9)	51.6	63	123	3M	580
Cipla	CIPL.BO	337	0.5	0.5	431	1,522	3M	290
Dishman Pharma	DISH.BO	212	(0.8)	(10.6)	45	163	1M	265
Dr.Reddy's Labs	REDY.BO	1,436	0.5	25.2	242	532	2M	1,350
Fortis HC	FOHE.BO	152	(1.1)	11.4	1,633	3,742	3M	145
GSK Pharma	GLAX.BO	2,160	(1.3)	34.0	16	34	3L	1,820
Glenmark	GLEN.BO	275	1.9	(0.2)	514	886	1M	335
Jubilant	JUBO.BO	353	0.6	5.4	3,163	352	1M	465
Lupin	LUPN.BO	1,932	0.1	31.1	112	182	1L	2,100
Piramal HC	PIRA.BO	489	1.4	(7.5)	604	2,844	2M	560
Ranbaxy	RANB.BO	456	(1.0)	31.1	681	1,131	1M	620
Sun Pharma	SUN.BO	1,756	0.2	16.4	137	244	1L	1,850
United Phosphorus	UNPO.BO	182	0.5	5.0	1,254	2,431	1H	240

Source: dataCentral, Bloomberg and Citi Investment Research and Analysis estimates

Figure 3. CIRA Indian Pharma — Valuation Snapshot

Company	RIC	Rating	MCap (US\$m)	Price 02 Jul 10	Target price	EPS (Rs/sh)		P/E (x)		EV/EBITDA (x)		EV/S (x)		RoCE		RoE	
						FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
Generic Pharma																	
Aurobindo	ARBN.BO	1M	1,110	916	1,340	101.2	126.5	9.1	7.2	6.9	5.7	1.6	1.4	16%	18%	31%	25%
Biocon	BION.BO	3H	1,358	316	285	16.5	18.0	19.2	17.6	11.8	10.5	2.4	2.1	15%	16%	18%	17%
Cadila HC	CADI.BO	3M	2,892	658	580	30.3	37.1	21.7	17.7	14.9	12.6	3.2	2.7	24%	25%	33%	31%
Cipla	CIPL.BO	3M	5,806	337	290	13.7	16.0	24.5	21.0	17.8	15.5	4.4	3.9	16%	17%	17%	18%
Dr Reddy	REDY.BO	2M	5,209	1,435	1,350	59.7	76.2	24.0	18.8	18.0	14.9	3.0	2.6	17%	18%	22%	23%
Glenmark	GLEN.BO	1M	1,594	275	335	21.0	21.8	13.1	12.6	9.4	8.9	3.0	2.7	17%	16%	22%	19%
Lupin	LUPN.BO	1L	3,687	1,930	2,100	102.6	112.8	18.8	17.1	13.9	12.4	3.0	2.6	28%	27%	34%	29%
Ranbaxy	RANB.BO	1M	4,120	456	620	9.6	23.2	47.6	19.6	7.8	3.3	2.0	1.3	20%	40%	35%	52%
Sun Pharma	SUN.BO	1L	7,802	1,755	1,850	77.7	91.5	22.6	19.2	20.0	16.8	6.6	5.5	16%	17%	18%	18%
Innovator GRAMS																	
Dishman	DISH.BO	1M	367	212	265	19.3	23.4	11.0	9.1	8.7	7.6	2.2	1.9	11%	12%	18%	19%
Jubilant	JUBO.BO	1M	1,201	353	465	30.8	38.3	11.4	9.2	8.9	7.5	1.9	1.6	11%	12%	24%	22%
Piramal HC	PIRA.BO	2M	2,194	489	560	29.1	38.1	16.8	12.8	12.3	9.9	2.7	2.2	22%	26%	32%	32%
Hospitals																	
Apollo Hosp.	APLH.BO	1M	999	753	840	32.2	39.6	23.4	19.0	11.8	10.2	2.0	1.8	9%	10%	12%	14%
Fortis HC	FOHE.BO	3M	1,326	152	145	4.0	6.5	37.7	23.4	22.6	16.9	4.4	3.4	6%	8%	6%	9%
MNC Pharma																	
GSK Pharma	GLAX.BO	3L	3,929	2,161	1,820	68.0	77.4	31.8	27.9	21.1	18.3	7.4	6.6	n/a	602%	31%	31%
AgroChem																	
United Phos.	UNPO.BO	1H	1,720	182	240	16.3	19.2	11.2	9.5	6.5	5.2	1.3	1.1	21%	22%	21%	20%

Source: dataCentral, CIRA estimates

Appendix A-1

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