

Morgan Stanley India Company  
Private Limited+

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Stock Rating  
Equal-weight

Industry View  
In-Line

## Dr. Reddy's Lab

### Quick Comment: Partial AOK Tender Results – Initial Thoughts

**What's new:** AOK (Allgemeine Ortskrankenkassen), German group of public health insurer, has indicated partial (44 APIs out of 64) results for the recent bidding for its two year tender (starting April 2009). AOK has divided the overall market into five zones for each API and has awarded one contract per API zone. Amongst Indian players, DRL (Betapharm) has the highest interest in AOK business.

**DRL's score with AOK** - According to DRL, it has won 29 contracts so far (out of 220 awarded so far), which relate to seven APIs (out of 33 APIs bid by DRL). Sandoz has received contracts for 12 APIs and Winthrop (Sanofi's subsidiary) for 7 APIs. So far, Stada and Ratiopharm (current market leaders) don't appear to have won sizable contracts. Overall, 58 companies have been awarded contracts by AOK.

**Information so far is incomplete** to assess the impact of AOK contracts on DRL's financials. In our view, what matters is the value of contracts won (rather than the number of contracts), price compression and, also, the value of sales lost. DRL did not win any contracts for 26 APIs, some of which are currently being sold to AOK, which will get terminated. It appears that Winthrop and Sandoz have won contracts for big products including ramipril and simvastatin. We await results of the AOK tender for the balance of 20 APIs and disclosure by DRL on the net impact of AOK tender on its German business.

**Investment thesis:** We reiterate our Equal-weight rating on DRL. Ongoing Imitrex AG sales could boost profits in the near term, especially if Ranbaxy is unable to launch in December. Due to this, we think there is upside risk to DRL's stock price in the short term.

#### Key Ratios and Statistics

Reuters: REDY.BO Bloomberg: DRRD IN ADR: RDY.N

#### India Pharmaceuticals

Price target	Rs537.00
Upside to price target (%)	14
Shr price, close (Dec 2, 2008)	Rs469.10
52-Week Range	Rs760.00-387.05
Sh out, dil, curr (mn)	168
Mkt cap, curr (mn)	Rs78,890
EV, curr (mn)	Rs91,020
Avg daily trading volume (mn)	Rs46

Fiscal Year ending	03/08	03/09e	03/10e	03/11e
ModelWare EPS (Rs)	27.84	33.37	35.78	41.99
Prior ModelWare EPS (Rs)	-	-	-	-
Consensus EPS (Rs)§	28.92	33.32	39.77	46.56
Revenue, net (Rs mn)	50,004	60,540	65,702	71,885
EBITDA (Rs mn)	8,475	9,550	10,276	11,210
ModelWare net inc (Rs mn)	4,678	5,612	6,017	7,062
P/E	21.2	14.1	13.1	11.2
P/BV	2.1	1.5	1.4	1.3
RNOA (%)	3.4	7.2	8.1	9.1
ROE (%)	11.3	11.9	11.8	12.7
EV/EBITDA	13.2	9.0	8.0	6.9
Div yld (%)	0.7	1.9	2.1	2.4
FCF yld ratio (%)	(5.0)	8.8	7.3	8.0
Leverage (EOP) (%)	25.8	13.7	5.6	(2.2)

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).

§ = Consensus data is provided by FactSet Estimates.

e = Morgan Stanley Research estimates

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### **Company Description**

Dr. Reddy's Laboratories Ltd. manufactures and markets pharmaceutical products. The company has three bulk-drug manufacturing plants and one formulation manufacturing plant. It exports to the UK, Switzerland, Germany, Spain, Russia and the Netherlands.

### **India Pharmaceuticals**

**Industry View: In-Line**

### **MSCI Country: India**

Asia Strategist's Recommended Weight: 2.8%

MSCI Asia/Pac All Country Ex Jp Weight: 6.6%



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(as of November 30, 2008)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
<b>Overweight/Buy</b>	<b>838</b>	<b>36%</b>	<b>254</b>	<b>40%</b>	<b>30%</b>
<b>Equal-weight/Hold</b>	<b>1037</b>	<b>44%</b>	<b>282</b>	<b>45%</b>	<b>27%</b>
<b>Not-Rated/Hold</b>	<b>31</b>	<b>1.3%</b>	<b>7</b>	<b>1.1%</b>	<b>22.5%</b>
<b>Underweight/Sell</b>	<b>427</b>	<b>18%</b>	<b>90</b>	<b>14%</b>	<b>21%</b>
<b>Total</b>	<b>2,333</b>		<b>633</b>		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley or an affiliate received investment banking compensation in the last 12 months.

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**Overweight (O or Over)** - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

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Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

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December 3, 2008

Dr. Reddy's Lab

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**Industry Coverage:India Pharmaceuticals**

<b>Company (Ticker)</b>	<b>Rating (as of)</b>	<b>Price (12/02/2008)</b>
<b>Sameer Baisiwala, CFA</b>		
Aventis (India) (AVPH.BO)	O (07/06/2005)	Rs820
Biocon Ltd (BION.BO)	U (10/24/2005)	Rs91.3
Cipla Ltd. (CIPL.BO)	O (07/21/2008)	Rs185.55
Dr. Reddy's Lab (REDY.BO)	E (05/14/2007)	Rs469.1
GlaxoSmithKline Pharma (GLAX.BO)	O (06/05/2006)	Rs1,181.2
Lupin Ltd. (LUPN.BO)	O (10/03/2006)	Rs583.15
Ranbaxy Laboratories (RANB.BO)	U (09/19/2008)	Rs201.95
Sun Pharmaceutical Industries (SUN.BO)	O (09/27/2004)	Rs1,058.15
Wockhardt Limited (WCKH.BO)	E (05/02/2008)	Rs93.55

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