

December 11, 2006

**FOR PRIVATE CIRCULATION**
**Equity**

	8 Dec 06	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
Sensex	13,799	(1.2)	3.9	19.5
Nifty	3,962	(1.3)	3.3	17.7
Banking	7,214	(0.6)	7.1	37.7
IT	3,578	(0.9)	7.3	27.5
Healthcare	3,725	(0.5)	(1.1)	6.2
FMCG	2,021	(1.4)	(2.5)	3.0
PSU	6,215	(1.0)	2.7	12.9
CNX Midcap	5,100	(0.5)	2.7	17.1
<b>World indices</b>				
Nasdaq	2,437.4	0.4	2.0	12.2
Nikkei	16,418	(0.3)	2.5	4.5
Hangseng	18,740	(0.5)	0.2	11.7

**Value traded (Rs cr)**

	8 Dec 06	% Chg - 1 Day
Cash BSE	3,843	8.8
Cash NSE	7,556	1.0
Derivatives	29,146	30.5

**Net inflows (Rs cr)**

	7 Dec 06	% Chg	MTD	YTD
FII	10.1	(95.9)	(1,777)	38,092
Mutual Fund	4.2	102.4	225	14,610

**FII open interest (Rs cr)**

	7 Dec 06	% chg
FII Index Futures	9,017.9	6.9
FII Index Options	5,666.0	4.5
FII Stock Futures	17,066.2	(0.7)
FII Stock Options	170.6	2.9

**Advances/Declines (BSE)**

8 Dec 06	A	B1	B2	Total	% Total
Advances	52	197	431	680	37
Declines	159	456	499	1114	61
Unchanged	1	8	29	38	2

**Commodity**

	8 Dec 06	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	62.0	(0.7)	3.7	(6.4)
Gold (US\$/OZ)	625.2	(1.4)	(0.7)	5.8
Silver (US\$/OZ)	13.7	(1.4)	4.8	23.0

**Debt/forex market**

	8 Dec 06	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	7.38	7.39	7.61	7.70
Re/US\$	44.73	44.65	44.69	46.23

**Sensex**


Source: Bloomberg

**ECONOMY NEWS**

- Stamp duty on sale of property may fall significantly with the central government proposing that the levy should be imposed only on capital appreciation. (ET)
- The Budget may dole out some fiscal incentives to encourage research and development by pharmaceutical companies, which are already under the pressure of the product patent regime. (ET)
- CII has revised its GDP growth estimate for the year from around 8% to 8.6%. In the first half of 2006-07, while industry recorded growth of 10.3%, services grew by 10.9%, as against the corresponding growth last year of 7.8% and 10.3%, respectively. (BS)
- The department of telecom is working on a draft tender for equipment to provide broadband connectivity in rural India. The tender will be in addition to the one already announced for mobile towers in rural areas that will be shared by telecom operators. (BS)
- The 11th Plan Approach Paper, which will be placed before the National Development Council, has raised concerns over revenue losses on account of tax sops to SEZs. It has also sought safeguards to prevent SEZs from being a realty play. (BS)
- Home loan rates are likely to go up once again by 25-50 basis points. Borrowers face the prospect of paying Rs.150-300 more on a Rs.1 mn loan. (ET)

**CORPORATE NEWS**

- In its first investment in the aviation sector, the **Tata group** has picked up a 7.5% stake in Delhi-based budget carrier **SpiceJet** for less than Rs.1 bn. The stake is being acquired through one of the group's financial investment arms. (BS)
- **UTI Bank** has indicated to the government that it is interested in buying out UTI AMC, with which it shares a brand name. The UTI Bank management recently sounded out the finance ministry on a possible buyout of UTI AMC. (ET)
- **Tata Steel** has announced a revised bid of 500 pence/share for Corus, as against its earlier bid of 455 pence/share. Following the revised Tata offer, Corus is now valued at \$9.16 bn. (BS)
- **Cairn India** is planning to challenge the government's claim for oil cess on crude production at a London-based arbitration forum. The company maintains that cess liabilities should be borne by partner **ONGC**. Cairn hopes it will be either exempted from paying tax or be charged cess at the rate of Rs.918 per mt. (ET)
- **TCS** has signed an agreement with Morocco to set up a 500-employee unit, which going ahead, would help create over 25,000 IT jobs in the Arab nation. TCS Morocco would be an offshoring delivery center for the French and Spanish-speaking parts of Europe and begin operations in January 2007. (ET)
- The \$3.2-bn Munjal family-promoted **Hero group** is all set to become the next big entrant in the Indian retail sector. The group is scouting for a foreign joint venture partner for this venture. (BS)
- **Cairn Energy** plans to float a tender for three onshore drilling rigs for its oil fields in Rajasthan at \$100 mn, which is part of the \$500-mn investment that it has lined up for development and construction work for the next year at these fields. (BS)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange

## FROM OUR RESEARCH TEAM

### EVENT UPDATE

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## GLENMARK PHARMACEUTICALS LTD (Rs.552, FY08E PE: 18.8x, HOLD)

### Raising target price to Rs.556, Maintain HOLD

### Glenmark signs additional deal for seven ANDAs having cumulative market size of US\$2.8 bn with Lehigh Valley Technologies Inc, US

Glenmark Pharmaceuticals (through its US subsidiary) has signed another supply and marketing agreement with Lehigh Valley Technologies Inc for manufacturing and marketing seven products for the US market. The products, with a cumulative market size of US\$2.8bn, belong to the C-II (controlled substances) categories, which have limited competition. These products, which are for pain management comprise both, para-3 and para-4 applications and are a mix of immediately release and controlled release solid oral dosage formulations.

According to the agreement, Lehigh Valley Technology will develop and manufacture the products. These products will be filed with the USFDA under Glenmark's name and marketed exclusively by Glenmark in the US. Glenmark expects to launch these products starting FY09.

#### Summary table

(Rs mn)	FY06	FY07E	FY08E
Revenues	7,020	12,162	16,075
Growth (%)	40.5	59.6	34.7
EBITDA	1,372	3,769	4,988
EBITDA margin (%)	19.5	31.0	31.0
Net profit	880	2,718	3,755
Net Margin (%)	12.5	22.3	23.4
EPS diluted (Rs)	7.4	21.7	29.4
Growth (%)	(18.0)	192.7	35.5
DPS (Rs)	0.7	0.7	0.7
RoE (%)	24.4	40.2	31.3
RoCE (%)	12.9	27.9	30.0
EV/Sales (x)	5.6	5.8	4.3
EV/EBITDA (x)	28.9	18.6	13.7
P/E (x)	38.1	25.5	18.8
P/BV (x)	9.0	7.4	4.9

Source: Company & Kotak Securities - Private Client Research

### ...Where the deal will benefit Glenmark

We believe this deal with Lehigh Valley Technology will enhance Glenmark's product basket and take it closer to establishing it as a company selling niche products in the highly competitive US generic market. Since the first product launch will take place in the beginning or mid FY09, we believe this deal will have a full or partial positive impact on our earnings estimates for FY09, wherein we have assumed 15% exports sales growth and overall 20% revenue growth.

At present, Glenmark is marketing 10 products in the US and expects to meet its target of ending the year with 18 to 20 generic products in the US market. The company has filed a total of 35 ANDAs as of October 2006 from its USFDA approved facility at Goa.

We have fine tuned our estimates incorporating management's revision in guidance and recent deal with Leigh Valley Technology in to our model. Following table summarises these changes in our estimates.

#### Change in estimates

(Rs mn)	Original Estimates			Revised Estimates		
	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E
<b>Revenues</b>	<b>11,430</b>	<b>15,166</b>	<b>16,352</b>	<b>12,162</b>	<b>16,075</b>	<b>20,556</b>
<b>EBITDA</b>	<b>3,518</b>	<b>4,470</b>	<b>3,868</b>	<b>3,769</b>	<b>4,988</b>	<b>7,512</b>
EBITDA Margin (%)	31	29	24	31	31	37
Depreciation	286	314	316	346	373	371
Interest	157	157	157	292	292	292
Tax	635	820	699	613	769	1,338
<b>Net Profit</b>	<b>2,539</b>	<b>3,279</b>	<b>2,796</b>	<b>2,718</b>	<b>3,755</b>	<b>5,711</b>
Net Margin (%)	22	22	17	22	23	28
EPS - Fully diluted (Rs)	20.3	25.7	21.9	21.7	29.4	44.7

Source: Kotak Securities - Private Client Research Estimates

## **Near-term catalysts are much awaited milestone payments and out-licensing of GRC-6211**

### **■ Diabetes molecule (GRC-8200) likely to contribute US\$31 mn in FY07E**

Glenmark has recently out-licensed its DPP-IV inhibitor molecule (GRC-8200) to Merck KGaA. According to the terms of the arrangement, Merck will develop, register and commercialize the molecule in North America, Europe and Japan, while Glenmark will retain the Indian rights and share the rights for other markets with Merck. Further, Merck would bear the costs of all ongoing studies.

Glenmark would receive an upfront sum of 25 mn euros (US\$31 mn) and further payments on the molecule achieving certain milestones. According to the company, the sum total of these payments would amount to 190 mn euros. On its successful launch, Glenmark would get royalties on sales and also supply the API to Merck for global requirements.

We believe this deal is a big positive for the company in many senses. Going forward, it may turn out to be a major revenue stream. Also, the company has gained an implied recognition as emerging innovator life science player, as Merck has shown interest in its IP assets.

### **■ We expect US\$35 mn milestone payment from asthma molecule GRC-3886 in FY08E**

The management has categorically ruled out any negative development in GRC-3886 clinical trials. It says the program is progressing in two phase-II trials initiated in April 2006 assessing preliminary efficacy in asthma patients. One study is evaluating the efficacy of Oglemilast in exercise induced asthma. Patient enrolment and dosing for this study was recently completed and revenue figures are likely by end of 2006.

The second study is exploring the effect of Oglemilast in mild asthmatic patients facing an antigen challenge. Patient enrolment for this study is ongoing and the study is likely to be completed by early calendar 2007. Both phase-II studies utilize a once-daily dosing regimen, as supported by pharmacokinetics and safety profile observed in Phase-I. Additionally, the partnership has finalized tablet formulation for further development.

The management has accepted that there is a delay in milestone payment from Forest Laboratories. The US\$35 mn, which they were earlier expecting in FY07, is now likely to come in FY08. Hence, they have now given a guidance of US\$69 mn milestone payments in FY08E.

### **■ Talks ongoing to out-license GRC-6211**

The company also announced three new NCE compounds GRC 4039, a PDE4 inhibitor, GRC 6211, a TRP V1 antagonist and GRC 10622, a CB2 agonist. All these compounds are being developed for different pain and inflammatory indications and are expected to enter phase I studies in FY07.

The company has revealed that talks are ongoing for out-licensing its GRC-6211 (osteoarthritis, dental pain, incontinence, neuropathic pain) molecule with some global life science companies for further clinical studies and development.

### **■ Acquisition activities on the cards**

Glenmark has raised US\$70 mn on attractive terms through an FCCB issue in January 2005 and further US\$30 mn in January 2006. With these funds and strong free-cash generation in FY07, the company is expected to have US\$65-70 mn in its kitty by the end of FY07. We expect the company to use this money largely to fund aggressive acquisition plans and drug discovery initiatives.

The management has revealed in its recently held analyst meet that it is close to acquiring a branded generic privately held front-end company in Europe. The company has sales of 8-12 mn euros and is cash generating. The deal size is believed to be in the range of US\$20-25 mn.

## Incorporating option value of molecules; Raising target price to Rs.556

We have valued the company on a sum-of-the-parts (SOTP) valuation method, with the core business valued at Rs.310 (a PER of 15x on FY08E fully diluted earnings) and an option value of Rs.246 for IP assets (Rs.138 for GRC-3886 and Rs.108 for GRC-8200)

We have included US\$31 mn in our FY07E earnings estimates from an upfront milestone payment from Merck KGaA for GRC8200. While the management is expecting US\$69 mn income from milestone payments in FY08E, we have taken only US\$35 mn as milestone income since significant uncertainty is attached to the timeline and the size of future milestone payments.

## Valuations are reasonable; Many catalysts exist; Maintain Hold

We expect the company to register 209% and 38% consolidated earnings growth in FY07E and FY08E, respectively. This will be led by 47% core revenue growth, milestone payment of US\$31 mn in FY07 and US\$35 mn in FY08E. Also expansion in operating margins led by a shift in production to the Baddi plant and a change in business mix, namely, rising share of formulations and exports.

We expect fully diluted EPS of Rs.21.7 and Rs.29.4 for FY07 and FY08E, respectively, assuming income from milestone payments of US\$31 mn in FY07 and US\$35 mn in FY08E, while EPS from the core business is expected to be Rs.13.9 in FY07 and Rs.20.7 in FY08E.

At Rs.552, the stock is trading at a PE of 25.5x FY07E and 18.8x FY08E fully diluted earnings. We are incorporating option value of IP assets (adopting international practice to value such type of companies) into stock prices to arrive at a new price. We have valued the company on a sum-of-the-parts (SOTP) valuation method, with the core business valued at Rs.310 (a PER of 15x on FY08E fully diluted earnings) and an option value of Rs.246 for IP Assets (Rs.138 for GRC-3886 and Rs.108 for GRC-8200). Hence, we arrive at a new target price of Rs.556.

We believe valuations are reasonable and many potential catalysts are exists in the stock namely, expected milestone payments, potential out-licensing deal for GRC-3886 to European region, potential out-licensing deal for GRC-6211 and potential acquisition in EU/US countries. We maintain **HOLD**.

## Key risks and concerns

### ■ Suspension of NCE in clinical trials

NCE molecules that are in various clinical trials can be suspended at any stage if they show toxicity and/or they fail to prove efficacy. The downside risk to our price target is if GRC-3886 or GRC-8200 molecules fail in clinical studies at any point in place and time. The stock could see downward price movement if the molecule actually fails at the end of phase II or III clinical trials. Given that the main issue with this class of compounds is safety rather than efficacy, we believe chances are low that the molecule will fail in phase II, as it has already cleared the riskier phase I, which checks for safety.

### ■ Pricing pressure in APIs

Greater than anticipated pricing pressure in generic API business or lower market share could act as a cap for Glenmark's API business.

### ■ Delay in ANDA filing or approval

Any delay in ANDA filings and/or approval and any delay in launch by its global partners would impact the growth and profitability of the company.

**We maintain HOLD on the stock with a revised price target of Rs.556**

## CONSOLIDATED FINANCIALS: GLENMARK PHARMACEUTICALS

Profit and loss statement (Rs mn)				
Year end March	FY06	FY07E	FY08E	FY09E
<b>Revenues</b>	<b>7,020</b>	<b>12,162</b>	<b>16,075</b>	<b>20,556</b>
% Change Y-o-Y	40.5	59.6	34.7	20.0
Total Expenditure	5,648	8,394	11,087	13,044
<b>EBITDA</b>	<b>1,372</b>	<b>3,769</b>	<b>4,988</b>	<b>7,512</b>
% Change Y-o-Y	(11.9)	174.7	32.4	50.6
Other Income	128	200	200	200
Depreciation	232	346	373	371
<b>EBIT</b>	<b>1,268</b>	<b>3,623</b>	<b>4,815</b>	<b>7,341</b>
Interest	147	292	292	292
Profit before tax	1,121	3,331	4,524	7,049
Tax	241	613	769	1,338
as % of PBT	21.5	18.4	17.0	19.0
<b>Net Income</b>	<b>880</b>	<b>2,718</b>	<b>3,755</b>	<b>5,711</b>
% Change Y-o-Y	(17.9)	208.9	38.2	52.1
Shares outstanding (Mn)	118.7	125.3	127.8	127.8
EPS - Fully diluted (Rs)	7.4	21.7	29.4	44.7
CEPS (Rs)	9.4	24.4	32.3	47.6
BVPS (Rs)	31	75	113	157
DPS (Rs)	0.7	0.7	0.7	0.7

Balance sheet (Rs mn)				
Year end March	FY06	FY07E	FY08E	FY09E
Shareholder's Equity	237	251	256	256
Reserves	3,494	9,148	14,170	19,779
Total Networth	3,731	9,399	14,426	20,035
Secured Loans	1,471	1,471	1,471	1,471
Unsecured Loans	5,883	2,819	1,445	1,445
Total Loans	7,354	4,290	2,916	2,916
Net deferred tax liability	420	420	420	420
<b>Total Liability</b>	<b>11,705</b>	<b>14,309</b>	<b>17,762</b>	<b>23,371</b>
Net Fixed Assets	5,805	5,959	6,086	5,915
Investments	197	197	197	197
Inventory	1,575	2,098	2,772	3,261
Debtors	3,816	3,685	4,963	5,956
Cash & Bank Balance	1,056	3,250	4,935	9,475
Loans & Advances	968	1,009	1,359	1,630
Current Liabilities	1,719	1,681	2,265	2,717
Provisions	8	224	302	362
Net Current Assets	5,687	8,137	11,462	17,243
<b>Total Assets</b>	<b>11,705</b>	<b>14,309</b>	<b>17,762</b>	<b>23,371</b>

Cash flow statement (Rs mn)				
Year end March	FY06	FY07E	FY08E	FY09E
PAT	880	2,718	3,755	5,711
Depreciation	334	346	373	371
Change in NWC	1,605	256	1,640	1,240
<b>Operating Cash Flow</b>	<b>(391)</b>	<b>2,808</b>	<b>2,487</b>	<b>4,842</b>
Investments	45	-	-	-
Capex	2,552	500	500	200
<b>Investment Cash Flow</b>	<b>(2,507)</b>	<b>(500)</b>	<b>(500)</b>	<b>(200)</b>
Loans	2,979	(3,064)	(1,374)	-
Dividend	111	114	102	102
Issue of capital	(241)	3,064	1,174	-
<b>Financial Cash Flow</b>	<b>2,627</b>	<b>(114)</b>	<b>(302)</b>	<b>(102)</b>
Change in Cash	(217)	2,194	1,685	4,540
Opening Cash	1,273	1,056	3,250	4,935
Closing Cash	1,056	3,250	4,935	9,475

Source: Company, Kotak Securities - Private Client Research

Ratio analysis				
Year end March	FY06	FY07E	FY08E	FY09E
Debt-Equity Ratio	1.9	0.4	0.2	0.1
Current Ratio	4.3	5.3	5.5	6.6
Inventory Turnover	4.1	4.6	4.6	4.3
Debtors Turnover	2.4	3.0	3.5	3.3
Fixed Assets Turnover	1.5	2.1	2.7	3.4
Interest coverage (x)	8.6	12.4	16.5	25.2
EBITDA Margin (%)	19.5	31.0	31.0	36.5
PAT Margin (%)	12.5	22.3	23.4	27.8
RoE (%)	24.4	40.2	31.3	33.1
RoCE (%)	12.9	27.9	30.0	35.7
EV/Sales (x)	5.6	5.8	4.3	3.1
EV/ EBITDA (x)	28.9	18.6	13.7	8.5
Price to earnings (x)	38.1	25.5	18.8	12.4
Price to book value (x)	9.0	7.4	4.9	3.5
Price to cash earnings (x)	30.1	22.6	17.1	11.6

## Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
8-Dec	Axon Infotec	Pawandevi Maganlal Mehta	S	5,000	147.00
8-Dec	Cupid Ltd	Hemendra Chandra Singh	B	50,000	40.30
8-Dec	Cupid Ltd	Rahul Jha	B	50,000	40.30
8-Dec	Cupid Ltd	Mukesh Jitendra Vora	S	46,399	40.40
8-Dec	Infotech Enr	Franklin India Prima Fund	B	1,100,000	312.00
8-Dec	Infotech Enr	Merrill Lynch Capital Mar	S	1,136,860	312.03
8-Dec	Madhav Mar G	V And U Caplease Pvt Ltd	B	90,000	142.99
8-Dec	Madhav Mar G	Volga International Ltd	S	80,160	143.00
8-Dec	Mahar Polybu	Satchithanandam Namasivay	B	210,000	14.34
8-Dec	Mahar Polybu	Simran Sunil Raheja	S	214,400	14.35
8-Dec	Nandan Exim	Jhaveri Trading And Inves	S	887,681	8.35
8-Dec	NovaPetro	Quality Exim Pvt Ltd	S	84,319	14.45
8-Dec	NovaPetro	Hexa International Pvt Lt	S	78,036	14.45
8-Dec	Osian Lpg Bo	Chander Bhan Banasal And	B	50,000	17.45
8-Dec	Osian Lpg Bo	Dhananjay Khot	S	30,000	17.87
8-Dec	Pace Elec(P)	Perfect Homfin Pvt Ltd	B	89,950	38.90
8-Dec	Pantaloon In	Chartered Traders Pvt.Ltd	B	63,087	379.10
8-Dec	Pantaloon In	Asuti Trading Pvt Ltd	S	50,000	379.10
8-Dec	Paramo Commu	Volga International Ltd	B	134,455	235.01
8-Dec	Paushak Ltd	Sierra Investments Ltd.	B	150,000	97.00
8-Dec	Paushak Ltd	Granada Investment Ltd	S	150,000	97.00
8-Dec	Prem Explosi	Asha P.Jain	B	55,000	55.90
8-Dec	Royale M H I	Jhaveri Trading And Inves	B	203,959	79.03
8-Dec	Rpg Transm	Pushkar Banijya Ltd	B	70,000	172.00
8-Dec	Shree Ram	Anvil Fintrade Pvt. Ltd	B	113,216	619.50
8-Dec	Shree Ram	Jyoti Kasliwal	S	140,000	619.60
8-Dec	Sky Industri	Arunaben N Bhanushali	B	20,000	44.10
8-Dec	Sujana Univ	Mavi Investment Fund Ltd	S	350,000	25.22
8-Dec	Uniflex Cabe	Hitesh Jhaveri	B	90,109	37.81
8-Dec	Usher Agro	Kapish Packaging Private	S	214,297	12.95
8-Dec	Visualsoft	Ashok Popatlal Shah	S	129,000	68.16
8-Dec	Western Indi	C R Rajesh Nair	B	500,000	9.74

Source: BSE

## Gainers & Losers

### Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
SBI	1,355	0.6	0.8	1.2
Reliance Energy	555	2.4	0.5	1.1
DRL	774	2.3	0.5	1.2
<b>Losers</b>				
ONGC	840	(2.5)	(9.3)	1.5
Reliance Ind	1,269	(2.5)	(9.0)	2.9
Reliance Com	448	(1.9)	(3.5)	4.3

Source: Bloomberg

## Forthcoming events

### COMPANY/MARKET

Date	Event
11-14 Dec	Initial Public Offer of Tanla Solutions opens
11-15 Dec	Initial Public Offer of Cairn India opens
11-Dec	LG Electronics India Pvt Ltd organizes a press conference; Shree Ashtavinayak Cine Vision holds press conference for IPO; Jet Airways press conference for on Bangkok flights
14-21 Dec	Initial Public Offer of Lumax Auto Technologies open
15-Dec	Aurobindo Pharma to consider merger of 2 units
20-Dec	GAIL India to announce interim dividend; MRF to announce earnings and dividend
22-Dec	Indian Oil Corp to announce interim dividend

Source: Bloomberg

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