

Buy
Celestial Lab (CLL)

Face Value	Rs 10
Last Price	Rs 74
Target Price	Rs 120

Industry: Pharmaceuticals

Market Cap (Rs Crs)	82.9
Year High/Low (Rs)	75/35

Holding Pattern (%)

Foreign	1.3
Institutions/Mutual Funds	0
Corporate Holding	13
Promoters	35
Public	50.7

(As on 31 December 2007)

Performance (%)	1M	3M	6M
Stock (CLL)	34	57	10
BSE-200	1.8	10.8	42.8
BSE-500	2	12.6	44.6

Price Chart: (Daily)


A typical chart pattern called a cup-and-handle has been formed in the stock. Prices have breached the right lip of the cup (previous top) and are moving higher. The initial target for the stock is Rs 91 which can be revised upwards on achieving the same.

Company Description:

Celestial Lab was incorporated as a Private Limited Company in 1997 as Celestial Technologies Private Limited. It offers industrial biotechnology products (industrial enzymes), drug molecule development & licensing, clinical data management, clinical research trials and bioinformatics services (molecular modeling). It also offers enterprise resources, planning solutions, database warehousing and bio services like clinical data management, molecular modeling and design and development of drug molecules. It tapped the capital market in June 2007 with an IPO of 50-lakh equity shares of Rs 10 each at a price of Rs 60 per share aggregating Rs 30 crore.

Highlights:

CLL offers Bioinformatics services to Govt. Institutions, Pharmaceutical and Biotech companies, Hospitals and Medical centers in India and overseas in field of Clinical Data Management, Gene Sequence Analysis, Molecular Modeling and Design and Development of Drug Molecules dedicated to health sector and services like ERP (Celvision), Data Warehousing, Business Intelligence Solutions to Pharma and Biotech Companies.

Celestial Technologies, a division of CLL is a rapidly growing global IT services with headquarter in Hyderabad, India. It was established in 1997, offering a wide array of customized solutions to various clients across the globe. CLL is registered with Software Technology Parks of India, Hyderabad and is awarded ISO 9001:2000 certification by American Quality Assessors, USA.

The company has developed a bio-molecule by using recombinant DNA technology to treat vitiligo, a white patch skin disorder with the technological collaboration with CCMB Hyderabad, a premier CSIR Laboratory.

Along with enhancing its existing infrastructure, CLL is setting up an Industrial biotechnology facility to manufacture industrial enzymes. This facility would also include the development laboratories for carrying out further R & D activities to develop new related products for reducing wrinkles/stretch marks and acceleration of wound healing from the same chemical structure of vitiligo. The facility is being set up at Shapoorji Pallonji Biotech Park in Genome Valley at Hyderabad in Andhra Pradesh. The projects are expected to be completed by March/June 2008.

Key Financial:

(Rs Crore)

Year End March	9 months FY08	FY07	FY08E	FY09E
Income	15	14	21	40
Other Income	0.2	0	0.3	1
PBIDT	7.1	5.4	10.1	18
Interest	0	0	0.5	1
PBDT	7.1	5.4	9.6	17
Depreciation	0.2	0.3	0.5	1.5
Tax	0.03	0.06	0.5	1.9
PAT	6.9	5.1	8.6	13.6
Equity	11.2	6.2	11.2	11.2
Reserves	46	14.6	47.7	61.3
Book Value (Rs)	51	33.5	52.6	64.7
EPS (Rs)	6.2	8.2	7.7	12.1
OP Margin (%)	47.3	38.6	48	45
NP Margin (%)	46	36.4	41	39
P/E (x)			7.7	6.1

Valuation & Recommendations:

Celestial hopes to make use of the emerging drug discovery and development models including the computer aided drug discovery processes to speed up the drug development process for the benefit of both the patient as well as the innovator company.

Based on its own *in silico* expertise (applying the bioinformatics tools), Celestial has developed therapeutic molecules to treat Leucoderma and multiple cancer and these have been filed for the Indian patent rights. It has completed the cloning of the therapeutic molecule for curing the vitiligo and currently, the purification stage is in progress at its collaborative institute, Department of Microbiology, Osmania University, Hyderabad.

As an upward integration strategy enhancing the regular revenue stream, Celestial is leveraging its expertise in fermentation process, has signed a technology transfer agreement with Institute of Microbial Technology (IMTECH), a premier CSIR organization at Chandigarh, India, to manufacture two industrially important enzymes, alpha amylase and alkaline protease and market them in India and overseas.

CLL has worked on the active site prediction of tubulin complex for cancer treatment and designed a few promise showing ligands. Further work is in active progress and is optimistic for generating potential peptide that can help in tubulin aggregation leading to anti-cancer activity.

Consumption of the proposed enzymes to be manufactured is shared mainly by detergents, textiles, food and pharmaceutical industries in India, currently with an import of 70 % of these enzyme products.

The growth of biotechnology at this pace would outgrow the big pharma. At present the US is dominating the biotech market. Market forecasts predict that Japan and the EU will see a fall in global market share, whilst the Asia-Pacific region will see high levels of unprecedented growth. Biopharmaceuticals, diagnostics, bioremediation and industrial enzymes are important major segments in the biotechnology market.

Considering the tremendous growth of about 35 % a year with a current size of \$ 1.5 billion (Rs 6000 crore) of biotechnology, more than 2000 products under clinical trials and increasing use of enzymes in host of industries, CLL is poised to carve itself a place in this upcoming sectors with unique products and services, and will continue to grow in the marketplace with an aggressive pro-active approach.

The company's revenue & profitability are expected to move up significantly in the coming years as its ongoing projects are likely to go on stream by March/June 2008.

At CMP of Rs 74, the share is trading at a P/E of 7.7x on FY08E and 6.1x on FY09E. We recommend BUY on the stock with a price target of Rs 120 in the medium-to-long term.



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