

June 15, 2007

FOR PRIVATE CIRCULATION

**Equity**

	14 June 07	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
Sensex	14,204	1.4	2.0	13.2
Nifty	4,170	1.4	1.2	14.4
Banking	7,418	0.7	3.2	19.8
IT	3,742	1.6	2.2	7.7
Healthcare	3,793	1.2	2.2	9.1
FMCG	1,781	0.4	(2.0)	8.4
PSU	6,485	1.7	(1.0)	17.9
CNX Midcap	5,618	2.0	3.9	21.3
<b>World indices</b>				
Nasdaq	2,599.4	0.7	2.9	9.3
Nikkei	17,842	0.6	2.6	6.5
Hangseng	20,867	1.4	0.3	10.3

**Value traded (Rs cr)**

	14 June 07	% Chg - 1 Day
Cash BSE	4,231	3.5
Cash NSE	8,096	0.0
Derivatives	28,760.6	(15.4)

**Net inflows (Rs cr)**

	12 June 07	% Chg	MTD	YTD
FII	(308)	(156)	(379)	16,888
Mutual Fund	(70)	(79)	(388)	(864)

**FII open interest (Rs cr)**

	12 June 07	% chg
FII Index Futures	13,418	(20.4)
FII Index Options	5,576	(18.1)
FII Stock Futures	18,188	(6.6)
FII Stock Options	31	(13.9)

**Advances/Declines (BSE)**

	14 June 07	A	B1	B2	Total	% Total
Advances	179	540	560	1,279	68	
Declines	26	174	351	551	29	
Unchanged	5	24	33	62	3	

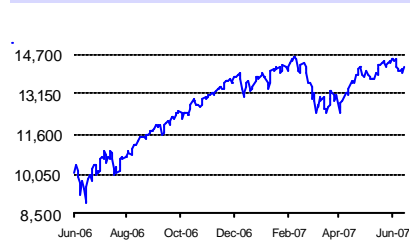
**Commodity**

	14 June 07	1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	67.6	(0.0)	7.1	17.5
Gold (US\$/OZ)	652.0	0.0	(2.8)	1.0
Silver (US\$/OZ)	13.1	0.2	(0.4)	1.2

**Debt/forex market**

	14 June 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.30	8.34	8.18	8.03
Re/US\$	40.9	40.9	41.0	44.2

**Sensex**



Source: Bloomberg

**ECONOMY NEWS**

- The high-powered panel of state finance ministers on value-added tax is likely to consider giving declared goods status to natural gas that will cap sales tax on the fuel at 4% in all states. (ET)
- With no major respite to exporters from the appreciating rupee, the Engineering Export Promotion Council has warned the Government that growth in engineering exports will turn negative if the average rupee rate to a dollar falls below 40 during the year. (BL)
- The Indian biotechnology industry grew 30.9% during 2006-07 to reach Rs.85.41 bn and upped exports by 47% to Rs.49.37 bn. At the current exchange rate, the industry's revenue works out to \$2 bn and exports \$1.2 bn. (BS)
- The Deepak Parekh committee on infrastructure financing has called for relaxing norms that stipulate lock-in periods for consortia executing projects in transportation, port and power sectors. (ET)
- The competition regulator is set to be lenient with all members of an alleged cartel in a bid to encourage confession. The person who makes the first confession may get total amnesty, while those making subsequent disclosures are likely to get far less clemency. (ET)

**CORPORATE NEWS**

- Crisil, an affiliate of S&P, downgraded Aditya Birla flagship **Hindalco** to 'AA' stable from 'AAA'. The reason is an estimated \$3.1 bn of debt raised by the company to acquire Novelis. (ET)
- Anil Dhirubhai Ambani Group company **Reliance Natural Resources** has invoked the Right to Information Act to seek vital details about the D6 block in the KG Basin where Mukesh Ambani controlled **Reliance Industries** has found huge gas reserves. (ET)
- **ICICI Bank's** housing loan portfolio business is currently growing at 20%, down from 45% earlier. The rise in interest rates has not affected the repayment of the loans, as incomes have also gone up. (BL)
- **Bharat Electronics** has handed over to Isro two flight-model traveling wave tubes that are used onboard communication satellites. With this, BEL joins the small number of companies in the world that make these space-qualified components for spacecraft. (BL)
- Barely two months after the Air Sahara acquisition **Jet Airways** is interested in **SpiceJet**, the Delhi-based budget carrier. Investment bankers of both companies are expected to meet next week to discuss the issue. (BS)
- **Corporation Bank** has signed an MoU with Icra for SME rating. A bank release said the purpose of the MoU is to enter into an alliance for utilizing the services of each other to promote the cause of SME sector. (BL)
- The Tatas are likely to buy out Ryerson's stake in their JV Tata-Ryerson to increase synergies between **Tata Steel** and its recent acquisition, the UK-based Corus. (ET)
- **Lupin** has received the required approval from the US Food and Drug Administration for multiple strengths of Trandolapril tablets used in the treatment of hypertension. (BS)
- Fiat group company Iveco's interest in American truck major Navistar may include Indian partner **Tata Motors**. According to sources, Tatas are said to be interested, though the process is at a very initial stage.

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

### RESULT UPDATE

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## PANACEA BIOTEC LTD

PRICE : Rs.425

RECOMMENDATION : BUY

TARGET PRICE : Rs.512

FY08E PE : 13.7x

### Key Result Highlights

- Panacea Biotech has reported a strong set of numbers for the full year FY07 which are in line with our expectation. Net sales rose 55.4% at Rs.8.42 bn vs. Rs.5.42 bn in FY06 primarily driven by a 64% growth in vaccine sales and 32% growth in formulation sales. The company continues to expand its geographic reach by exporting the branded formulations and vaccines to several new markets worldwide.
- The Novartis-Panacea joint venture has registered sales of Rs.422 mn (up 100%) and net profit of Rs.63.5 mn (an increase of more than six times) in FY07. The JV now commands market share of 35% in the pediatric combination vaccines segment in India.
- For Q4FY07, net sales grew 67.8% to Rs.2.29 bn and net profit increased by 104% to Rs.234 mn. However, net profit has also been impacted negatively due to the Rs.185 mn managerial remuneration. For the quarter, the vaccines business rose 74% to Rs.1.89 bn while formulation sales grew around 38% to Rs.377 mn.
- The company has launched Glimtotal 1, Glimtotal 2, GlizidTotal and GlibenTotal 5 Tablets (Type 2 Diabetes) Lower EZ Tablet (Diabetic Dyslipidemia), Mycept-S 180 and Mycept S 360 Tablets (Immunosuppressive agent used in renal/liver transplantation) and Dolzero Tablet (acute pain), during the quarter.
- EBITDA margins expanded 570 bps in FY07 to 27.8% vs. 22.1% in FY06. We expect the company to maintain margins at 29% in FY08. Operating profit grew sharply by 95% to Rs.2.34 bn from Rs.1.12 bn in FY06 due to the same reason.
- Net profit after taxes rose sharply by 149% to Rs.1.48 bn against Rs.592 mn in FY06 led by improvement in operating margin and higher other income. However higher interest cost and depreciation and managerial remuneration has impacted the profitability negatively. This translated into EPS of Rs.22.4 for FY07.
- We expect EPS of Rs.31 and Rs.34.9 for FY08 and FY09, respectively. We maintain **BUY**.

### Summary table

(Rs mn)	FY07	FY08E	FY09E
Revenues	8,424	11,386	12,664
Growth (%)	55.4	35.2	11.2
EBITDA	2,339	3,302	3,799
EBITDA margin (%)	27.8	29.0	30.0
Net profit	1,476	2,208	2,490
Net Margin (%)	17.5	19.4	19.7
EPS diluted (Rs)	22.4	31.0	34.9
Growth (%)	116.5	38.1	12.8
DPS (Rs)	1.0	1.0	1.0
RoE (%)	35.7	28.5	22.8
RoCE (%)	25.9	30.7	28.7
EV/Sales (x)	3.0	2.4	2.0
EV/EBITDA (x)	10.6	8.2	6.5
P/E (x)	18.9	13.7	12.2
P/BV (x)	4.7	3.1	2.5

Source: Company & Kotak Securities - Private Client Research

### Q4FY07 Performance (Standalone)

(Rs mn)	Q4FY07	Q4FY06	YoY (%)	Q3FY07	QoQ (%)	FY07	FY06
<b>Net Sales</b>	<b>2,268</b>	<b>1,351</b>	<b>67.8</b>	<b>1,971</b>	<b>15.0</b>	<b>8,316</b>	<b>5,364</b>
Expenditure	1,843	1,084		1,524		6,017	4,115
<b>EBIDTA</b>	<b>424</b>	<b>267</b>	<b>58.9</b>	<b>447</b>	<b>-5.1</b>	<b>2,299</b>	<b>1,249</b>
Depreciation	107	54		92		355	182
<b>EBIT</b>	<b>317</b>	<b>214</b>	<b>48.6</b>	<b>355</b>	<b>-10.7</b>	<b>1,944</b>	<b>1,067</b>
Interest	33	37		11		152	133
Other Income	2	38		41		300	71
<b>PBT</b>	<b>286</b>	<b>215</b>	<b>33.4</b>	<b>385</b>	<b>-25.6</b>	<b>2,091</b>	<b>1,004</b>
Tax	52	99		114		623	393
Extra-Ordinary Items	-	(1)		-		-	(2)
Profit After Tax	234	115	104.0	271	-13.6	1,468	609
Equity Shares (Mn)	66	57		66		66	57
<b>EPS (Rs)</b>	<b>3.6</b>	<b>2.0</b>	<b>77.0</b>	<b>4.1</b>	<b>-13.6</b>	<b>22.3</b>	<b>10.7</b>
EBIDTA Margin (%)	18.7	19.8		22.7		27.6	23.3
PAT Margin (%)	10.3	8.5		13.7		17.7	11.4

Source: Company

### **Institutional business of vaccines**

The company is the largest supplier of Oral Polio Vaccine (OPV) to Unicef for their requirements in India. In FY06, the company also started export of OPV to Unicef for their international requirements and registered an export turnover of Rs.267 mn. In FY07, the export of OPV to Unicef has further grown to Rs.1.35 bn, thereby indicating large demand of OPV in the international market. In the domestic market, the demand of OPV is also expected to increase in the wake of a recent increase in the number of polio cases in India, which has increased from 66 in 2005 to around 522 in 2006. The polio eradication program is expected to continue till 2010.

### **Combination vaccines would be key growth driver**

The company has last year received WHO pre-qualification for EnivacHB (r-Hep B) making it one of the nine companies in the world to get this pre-qualification. The process for WHO pre-qualification of other innovative combination vaccines is at an advanced stage. We expect combination vaccines to register US\$30 mn sales in FY08 on the back of supplies to Unicef/WHO for their global requirements. Total vaccine business (domestic and exports) is likely to grow at 20% CAGR over FY07-09E.

### **JV with Novartis Vaccines to drive growth in domestic vaccine industry**

In 2005, the company has launched innovative branded combination vaccines - EnivacHB (r-Hep B), Ecovac4 (Hep B+DTP), Easyfour (Hib+DTP) and Easyfive (Hep B+DTP+Hib) in the domestic market through its 50:50 JV with Novartis Vaccines (formerly Chiron Corporation), which is doing very well. In FY07, Panacea has added a turnover of Rs.300 mn as the JV's contribution to its consolidated turnover. The JV has registered a turnover of Rs.422 mn in FY07 as against Rs.211 mn in FY06.

The market size for these combination vaccines is close to Rs.1.25 bn and is growing at 25-30% per annum. We expect the JV to capture about 35-40% market share in FY08 to Rs.500 mn of potential revenues.

### **Proprietary NDDS-based products for international markets - Next big growth driver**

At present, Panacea is exporting its branded formulations to several countries in the CIS regions, African region and SEA region. The export turnover has registered a growth of 55% in FY07 at Rs.257 mn as against Rs.166 mn in FY06. According to the company, it is in the process of registering its existing branded formulations in several countries in these regions and plans to launch Panimun Bioral (Cyclosporin) NDDS formulations in the Brazilian market by FY08. We have assumed that Panimun Bioral could yield revenues of US\$10 mn in FY08 and US\$15 mn in FY09. Further, formulations exports in other developing countries are expected to yield around US\$10 mn in FY08. Overall, we expect NDDS-based proprietary product exports to contribute around 10% to revenues by FY08.

### **Strategic collaborations for new innovative vaccines to benefit in medium-to-long-term**

Panacea Biotec has entered into several strategic collaborations and tie-ups with various global institutions for developing, manufacturing and marketing innovative vaccines for launching over the next few years. These collaborations are of a long-term nature and are likely to turn out to be one of the growth drivers in the medium-to-long term.

### **Valuations & recommendation**

Panacea has posted an EPS of Rs.22.4 in FY07 and we expect EPS to grow 38% and 13% to Rs.31 and Rs.35 in FY08 and FY09, respectively. At the current market price of Rs.425, the stock is trading at 13.7x FY08 and 12.2x FY09 fully diluted expected earnings. We maintain **BUY** with a one-year target price of Rs.512.

**We maintain BUY on Panacea Biotec with one year price target of Rs.512**

### Key risks and concerns

- Price cuts and/or potential slowdown in domestic formulation market and risk of failure in NDDS research initiatives.
- Timely execution risk - Panacea is working on several new combination vaccines and proprietary products. Any delay in the execution of the new business segment could roll over the revenue to farther period.
- Potential delays in regulatory approvals for combination vaccines, Panimun Bioral (Cyclosporin), Sitcom (piles management) and other NDDS-based formulation products.
- Separation risk - The company has entered into several collaborations and tie-ups/JVs. Pre-mature break-up of these long-term relationship would impact the revenues directly.

## Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
14-Jun	Chandrik Tra	Bhagya Shree Leasing and Fin Ltd	S	50,000	3.92
14-Jun	Comp Disc In	Vinod S Parekh	B	50,000	27.80
14-Jun	Encore Soft	Salora Finance Ltd	B	100,000	42.32
14-Jun	Encore Soft	Hans Plaza Tracon Pvt Ltd	S	39,000	41.13
14-Jun	Encore Soft	Brightmoon Supply Ovt Ltd	S	41,200	41.93
14-Jun	Encore Soft	Speed Tex Pvt Ltd	S	35,000	40.87
14-Jun	Gemini Commu	Bankimbhai V. Patel	B	52,034	405.80
14-Jun	Gemstone Inv	Arcadia Share and Stock Brokers Pl	B	50,000	20.98
14-Jun	Gemstone Inv	Hemant Madhusudan Sheth	B	50,000	19.90
14-Jun	Gitanjali Ge	Citigroup Global Markets Mauritius	B	1,980,000	184.95
14-Jun	Gitanjali Ge	GSM2 Buysell GSM1	S	2,030,000	184.96
14-Jun	IFL Prmoter	Deepa Talwar	B	16,500	21.04
14-Jun	Intern Diamo	BDS Share Brokers Pvt Ltd	S	27,661	3.98
14-Jun	Kalptaru	Hemendra Metha	B	35,000	86.80
14-Jun	Koff Br Pict	Vasant M Chheda	S	104,232	26.86
14-Jun	Mohit Indust	Arvindkumar Babulal Almal	S	27,983	27.60
14-Jun	Nitco Tiles	HSBC Financial Services Middle East	B	148,624	185.00
14-Jun	Nitco Tiles	UBS Securities Asia Ltd	S	147,818	185.00
14-Jun	Peerles Ab F	Prism Impex Pvt Ltd	S	61,141	41.70
14-Jun	ProtoInfosy	Newgen International Pvt Ltd	B	957,449	4.63
14-Jun	ProtoInfosy	Sunil Rawat	S	576,066	4.59
14-Jun	ProtoInfosy	Sudhir Jain	S	200,000	4.64
14-Jun	Pruden Pharm	Sunil Talwar	B	60,000	18.50
14-Jun	Rama Pul Pap	Anil Ram Vohra	B	39,000	71.95
14-Jun	Sandur Man	IDBI Ltd	S	60,000	82.80
14-Jun	Tripex Over	Shivkuma Agarwal	S	83,300	29.74
14-Jun	United Brew	Crown Capital Ltd	B	2,378,225	279.99
14-Jun	United Brew	Fidelity Mgmt And Research Co	S	2,370,178	280.00
14-Jun	Yashraj Secr	Farid Rajabali Surti	S	6,669	644.96

Source: BSE

## Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
ONGC	879.5	2.1	7.5	0.3
Bharti Airtel	817.9	2.4	7.2	0.5
Reliance Ind	1,696.1	1.2	5.6	2.0
<b>Losers</b>				
ICICI Bank	906	(0.9)	(1.4)	0.9
Hero Honda Motors	683	(1.7)	(0.5)	0.5
GlaxoSmithkline	1,280	(1.8)	(0.4)	0.02

Source: Bloomberg

## Forthcoming events

COMPANY/MARKET	
Date	Event
15-Jun	Shipping Corporation of India to announce earnings; EIH Ltd to announce earnings and dividend; Yes Bank and Reuters jointly holds press conference; ICICI Bank holds press conference to announce public issue; HOV Services to consider funds raising plans
17-Jun	Cadila Healthcare to consider raising of fund overseas
18-22 Jun	Initial Public Offer of Celestial Labs opens
18-Jun	Tata Motors holds press conference in Pune to launch vehicles
21-Jun	Abbott India to announce 2nd quarter earnings
22-Jun	Amara Raja Batteries to announce earnings and dividend; Infosys Technologies holds share holders meeting in Bangalore
25-Jun	Annual General Meeting of SBI
26-Jun	Apollo Hospitals enterprise to announce earnings and dividend
27-Jun	ITC holds annual shareholders meeting
29-Jun	TCS holds annual shareholders meeting
30-Jun	Tata Tele Services, Colgate Palmolive to announce earnings and dividend; Tata Coffee and Castrol earnings expected

Source: Bloomberg

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