

Pharmaceuticals

Valuation wheel has turned

The Indian pharma sector has re-rated from the attractive February 2008 peer-based comps, and now seems to us fairly priced. We suggest focusing on stocks with good core earnings potential and attractive valuations.

Table 1 : Valuation comparables

Company	Reco	PE	EPS	EV/	P/sales	Core	NPV
		FY09F	growth	EBITDA	FY09F	business	contribution
		FY09F	FY09F	FY09F	FY09F	FY09F PE	FY09F
Cipla	Sell	19.3x	19%	16.3x	3.3x	19.3x	0%
Dr Reddy's	Buy	17.7x	50%	11.3x	2.0x	17.9x	6%
Glenmark	Sell	24.9xx	10%	17.6x	6.3x	22.8x	37%
Lupin	Buy	14.8x	26%	11.4x	2.0x	14.8x	0%
Ranbaxy	Hold	25.2x	9%	26.5x	2.9x	21.9x	23%
Sun Pharma	Sell	17.2x	18%	15.5x	7.4x	27.3x	7%
Indian generics		18.8x	24%	16.2x	3.5x		
European generics		17.4x	36%	11.2x	2.4x		
US generics		18.7x	-9%	10.1x	1.6x		

Source: ABN AMRO estimates, Bloomberg consensus forecasts for European and US generics

India

Indian pharma sector appears fairly valued

Our one-year-forward PE forecast for the Indian pharma sector had contracted in February from the premium at which it traded in May 2007. It then looked attractively priced compared with the PE multiples and growth prospects of its global peers (Bloomberg consensus). We had therefore expected a re-rating (refer to our report, Limited downside as premiums fall, dated 15 February 2008). The re-rating has now happened in our view and the sector appears fairly valued. Going forward, we suggest focusing on stocks that offer good core earnings potential, have less dependence on one-offs and are attractively priced.

Dr Reddy's and Lupin are our top picks

There have been quite a few positive signals emanating from Dr Reddy's in recent quarterly results. Its Indian formulation business has registered strong growth (29%), the base US business is strong, Betapharm appears to be recovering and the Indian operations' contribution to custom pharma business is increasing (greater margins). One-offs contribute only 6% to our target price, and we expect core EPS to grow by 38%. We also like Lupin due to its strong Indian formulation growth (38%), no one-offs in our valuation, potential upside of 20% and scope for value unlocking from its R&D demerger.

Revising estimates and recommendations

We marginally increase our target price for Cipla but maintain our Sell recommendation as we still await its domestic recovery. We maintain our Buy rating on Lupin and increase our target price to Rs834 (from Rs604) after incorporating the consolidation impact of its acquisitions. We increase our target prices for Sun Pharma and Glenmark after the recent strong quarter and guidance but downgrade both to Sell as they appear expensive, in our view. We maintain our estimates and recommendations for Ranbaxy and Dr Reddy's.

Priced at close of business 9 June 2008.

Contents

INVESTMENT VIEW

Valuation wheel has turned **3**

The Indian pharma sector has seen a PE re-rating of 19% over the past three months, hence valuations are now at a premium to Europe and in line with the US. The Indian pharma also look fairly valued on a PEG basis.

COMPANY DYNAMICS

Performance analysis of Indian generics **7**

Below we analyse the Indian generics in terms of margins and valuations.

COMPANY PROFILES

Company profiles **13**

Cipla	14
Dr Reddy's Laboratories	18
Glenmark Pharmaceuticals	22
Lupin Ltd	26
Ranbaxy Laboratories	30
Sun Pharmaceutical	34

Valuation wheel has turned

The Indian pharma sector has seen a PE re-rating of 19% over the past three months, hence valuations are now at a premium to Europe and in line with the US. The Indian pharmas also look fairly valued on a PEG basis.

Limited upside potential after the recent rally

In our report *Limited downside as premium falls* (dated 15 February 2008), we analysed the Indian pharma sector and suggested a potential re-rating. At that time it appeared to us attractively valued compared with its global peers and also had stronger earnings growth expectations vis-à-vis the US and European sectors. In February, Indian generics traded at a PE discount of 12% to European and 15% to US generics, despite higher earnings growth expectations – 27% for India compared with 24% for Europe and -4% for the US.

The Indian pharma sector has seen a PE re-rating of 19% over the past three months vs our expectation of 10% and now trades at a premium of 8% to Europe and in line with US sector multiples. PEG, which is probably a better indicator when comparing valuations, suggests that the Indian pharma is marginally more expensive (0.8x) than Europe (0.5x), while the US appears very expensive considering the market’s negative earnings growth expectations.

PEs have re-rated by 19% over the past three months for Indian generics and are now at a premium to peers in Europe and in line with the US

Table 2 : Valuation comparison, FY09

	Sales (m local curr)	Op profit (m local curr)	OPM	PE (x)	EV/EBITDA (x)	P/Sales (x)	EPS growth
Indian generics (FY09F)			23%	18.8	16.2	3.5	24%
Dr Reddy’s	57,871	10,449	18%	17.7	11.3	2.0	50%
Sun Pharma	40,736	18,122	44%	17.2	15.5	7.4	18%
Cipla	48,162	9,972	21%	19.3	16.3	3.3	19%
Lupin	31,589	5,303	17%	14.8	11.4	2.0	26%
Ranbaxy	72,963	9,332	13%	25.2	26.5	2.9	9%
European generics (2008F)			26%	17.4	11.2	2.4	36%
Gedeon Richter	22,1317	65,385	30%	14.6	8.9	2.8	28%
Krka	947	285	30%	18.7	15.3	3.5	27%
Stada	1,772	367	21%	15.0	10.1	1.4	58%
Zentiva	20,426	4,726	23%	21.3	10.7	1.9	29%
US generics (2008F)			21%	18.7	10.1	1.6	-9%
Barr Labs	2,692	699	26%	15.2	9.7	1.7	-6%
Mylan	4,478	839	19%	26.2	12.2	0.9	-48%
Watson	2,525	529	21%	14.2	6.9	1.1	42%
Par	598	55	9%	21.5	9.6	1.0	-47%
Teva	11,029	3,147	29%	16.5	12.2	3.3	15%

Source: ABN AMRO forecasts for Indian generics; others are Bloomberg consensus forecasts

We therefore believe that Indian generics are now fairly valued with limited upside potential. Few stocks still offer upside potential, in our view. Dr Reddy’s and Lupin are our top picks.

Valuation methodology

We value the Indian generic companies using a sum-of-the-parts methodology, where businesses across different geographies are valued on a range of PE multiples derived from global peer comparables. This gives a blended PE multiple for the overall business. To this, we add the NPV of exclusive one-off opportunities and the NCE pipeline, if any.

We value Indian generics on a SOTP valuation, where we use blended PE multiples for the overall business

Table 3 : Valuation methodology

Region/business	Valuation (P/E range)	Comments
USA	16x	Commoditised market -> highly competitive -> low margins
Western Europe	16-18x	Mixed bag - > UK competitive while southern EU attractive
Russia/CIS/Romania	18-20x	Branded formulation market -> high margins
India	20-25x	Only Sun Pharma among covered companies valued at 25x
Bulk Business	13x	Lowest end of value chain
One-Off opportunities	NPV	Litigation, AG & R&D pipeline

Source: ABN AMRO

In February, we reduced our target FY09F PE to 20x for the domestic formulation business for all companies, except for Sun Pharma, for which we maintained a target PE at 25x. This was due to our analysis of the yoy sales growth trend of domestic formulations over the past seven quarters, which showed a downward trend for our coverage universe, except for Sun Pharma and Glenmark. Since Glenmark's growth was very volatile, we reduced the domestic formulation PE to 20x as well.

In the last reported quarter ending March 2008, Dr Reddy's, Lupin and Glenmark posted strong domestic formulation growth while Cipla and Ranbaxy disappointed with their continued slowdown in domestic growth. Sun pharma, the only company to have its domestic business valued at 25x, posted lower growth of 16%.

Table 4 : Domestic growth, yoy

	1Q08	2Q08	3Q08	4Q08
Sun	26%	31%	28%	16%
Cipla	7%	15%	19%	13%
Dr Reddy's	12%	-3%	12%	29%
Glenmark	49%	28%	22%	19%
Lupin	22%	22%	26%	38%
Ranbaxy	-1%	-5%	14%	6%

Source: Company data

We are currently not making changes to our domestic formulated business valuation methodology. We will monitor Sun's domestic formulation business performance in forthcoming quarters to ascertain if the slowdown continues before reviewing its PE multiple.

FY08 ends on a strong note

Table 5 : Indian generics - 4Q08A results snapshot

Rsm	Sales	% yoy	EBITDA	OPM	PAT	% yoy	EPS	Key observation
Cipla	11,075	19%	1,622	15%	1,795	43%	2.3	Domestic formulation sales slowing; weak FY09 guidance
Dr Reddy's	13,252	29%	1,725	13%	1,028	19%	6.2	Strong Indian formulation growth; Betapharm recovers
Lupin	7,504	41%	1,197	16%	961	57%	10.9	Consolidation impact of Kyowa acquisition
Ranbaxy *	16,137	4%	1,703	11%	1,368	6%	3.4	Affected by rupee appreciation; weak Indian formulations
Sun Pharma	12,389	133%	7,407	60%	7,228	241%	34.9	Windfall gains from exclusivity products
Glenmark	5,727	64%	2,233	39%	2,190	252%	8.5	US\$15m milestone payment received; FY09 guidance revised

*1QCY08 for Ranbaxy

Source: Company data

Sun Pharma and Glenmark recorded a strong quarter, driven by exclusivity product sales. Their earnings grew by 241% and 252% yoy respectively. Dr Reddy's top-line growth of 29% and earnings growth of 19% (on adjusted 4QFY07) was driven by strong North American generics business (43%) and Indian formulation growth (28%). Lupin's top line grew by 41% and, even after excluding the consolidation impact of its acquisitions, we expect it to have grown its top line by a respectable 25%. Cipla also surprised us with its top-line growth of 19%, but simultaneously disappointed with its slowing domestic formulation growth (13%). Ranbaxy's 1QCY08 was weak, in line with our estimates.

Summary of revision in estimates

Table 6 : Summary of forecast revision

Rs m (except EPS)	FY09F		FY10F		Comments
	Old	New	Old	New	
Glenmark					
Revenue	21,381	24,948	26,366	31,171	Increase in our US Generic & Indian formulation revenue expectations
EBITDA	7306	8,847	9,298	10,964	Increase in milestone receipt estimate from \$30mn to \$45mn
EPS	22.2	26.7	29.6	34.5	
Sun Pharma					
Revenue	35,458	40,736	38,426	38,998	Higher US revenues due to exclusivity products in FY09
EBITDA	16,617	18,122	16,065	15,833	Margin for Caraco lowered in line with Q4FY08 results
EPS	79.7	84.5	76.9	71.6	
Lupin					
Revenue	2,6011	31,589	28,957	35,575	Consolidation impact of acquisitions, higher revenue expectation from EU and India
EBITDA	3,613	5,303	4,210	6,323	
EPS	31.9	47.2	36.2	55.3	

Source: ABN AMRO forecasts

Outlook for FY09

Cipla: Our FY09 revenue estimate implies growth of 16%, marginally higher than management guidance of 12-15%. We have assumed flat technical know-how income but note that FY08 includes significantly higher lumpsum income of Rs750m in 3QFY08, which might result in a negative revenue surprise in FY09. We expect earnings to grow by 19% yoy (5% in FY08). We arrive at our target price using core blended FY09F PE of 15.7x, while the stock currently trades at 19.3x.

Cipla: 16% yoy revenue growth and 19% yoy earnings growth for FY09F

Dr Reddy's: We expect FY09 revenues to grow by 16%, significantly lower than management guidance of 25%, leaving room for positive revenue surprises. We expect core revenue (excluding gImitrex) growth of 14%. Our amortisation/write-down charge estimate for FY09 (Rs1,367m) is lower than the Rs4,194m recorded in FY08 but is in line with management guidance provided in the FY07 annual report. However, FY08 included an unanticipated writedown of Rs2,360m for Betapharm on account of a shortened product sourcing contract with Salutas, from five years to three years. We therefore expect the FY09 amortisation charge to be lower than our current estimates, providing upside potential to our earnings estimates. We expect EPS growth of 50% (core EPS growth of 38%).

Dr Reddy's: we forecast FY09 revenue growth of 16% yoy vs management guidance of 25%, leaving room for positive surprise

Glenmark: The revised guidance given in the last quarter now implies FY09 revenue and earnings growth of about 35%. Our FY09 revenue growth estimate of 24% and earnings growth estimate at 10% (core EPS growth of 35%) are conservative, primarily due to the difference in our expectation of a US\$45m milestone receipt compared with the US\$69m guided. FY08 included a one-off benefit from the exclusive launch of gTrileptal (launched in October 2007), which resulted in a higher PAT margin of 31.4% compared with the normal range of 16-20% in the absence of any milestone or exclusivity product sales. Our FY09 net profit margin estimate of 27% is lower than the guidance of 31% but in line with its past record and our assumption of a US\$45m milestone receipt. We use a core blended FY09F PE of 17.9x to arrive at our target price.

Glenmark: 24% yoy revenue growth and 10% yoy earnings growth for FY09F; core earnings growth however at 35% as we expect lower milestone receipts in FY09

Lupin: We incorporate the consolidation impact of Lupin's Kyowa and Rubamin's acquisitions in our FY09 estimates. If we exclude the windfall sales of Cefdinir in FY08 and exclude the acquisition impact, we expect base business revenues to grow by 15% in FY09. We expect the consolidated entity to record 17% top-line growth (over total FY08 sales) and 26% earnings growth. We use a core blended FY09F PE of 17.7x to arrive at our target price. The stock is currently trading at FY09F EPS of 14.8x.

Lupin: consolidated 17% top-line growth and 26% earnings growth for FY09F

Ranbaxy: Management has guided for FY09 top-line growth of 18-20% vs our FY09 estimate of 16%. We derive our SOTP-based target price using a blended PE of 20.6x core CY08F earnings. The NPV of its Para IV pipeline contributes 24% to our target price. Ranbaxy is demerging its NDDR division but we have not considered its valuation due to a lack of adequate information on its pipeline. Valuing of a portion of FTFs as sustainable earnings instead of NPV or disclosure of new additions to its Para IV pipeline could provide upside potential to our target price.

Ranbaxy: if we value a portion of FTFs as sustainable earnings instead of NPV

Sun Pharma: We believe inventory build up had significantly driven sales growth of exclusivity products in 4QFY08. Caraco distributed US\$162m worth of products, comprising gTrileptal and gProtonix, in 4QFY08. We expect US\$120m sales of gProtonix, which is very high compared with actual sales of branded Wyeth (US\$83m) and its authorised generic (US\$76m). We therefore expect Caraco to grow by 16% compared with the guidance of 25% due to inventory correction. Our non-Caraco business's top-line growth (excluding gEffexor) estimate of 19% is in line with the guidance of 18-20%. Overall, we expect 24% sales growth and 18% earnings growth (23% core earnings growth). We arrive at our target price using core blended FY09F PE of 22.8x. The stock is currently trading at 27.3x core earnings and appears expensive.

Sun: inventory buildups for exclusivity products suggest slower growth in Caraco; overall we expect 23% core earnings growth

Table 7 : Sector outlook for FY09F

	Revenue growth	EPS growth	NPV contribution	Core business PE	Core EPS growth	Comments
Cipla	16%	19%	0%	19.3x	19%	Top-line guidance of 12-15%; assumed flat technical know-how income which could negatively surprise us
Dr Reddy's	16%	50%	6%	17.9x	38%	Top-line growth lower than guidance of 25%; actual amortisation charge might be lower than our estimate
Glenmark	24%	10%	37%	22.8x	35%	Top-line and earnings guidance of 35%; our milestone expectation of US\$45m vs guidance of US\$60m
Lupin	17%	26%	0%	14.8x	26%	FY08 sales boosted by Cefdinir sale; almost equivalent impact in FY09 due to consolidation of Kyowa
Ranbaxy	16%	9%	23%	21.9x	14%	Top-line growth guidance of 18-20%; NPV contributes 24% to TP; R&D division valuation not incorporated
Sun Pharma	24%	18%	7%	27.3x	23%	Guidance of 25% for Caraco and 18-20% for the remaining businesses; exclusivity products in both FY08 & FY09

Source: ABN AMRO forecasts

In the current volatile markets, when the Indian pharma sector appears fairly valued we suggest cherry picking stocks. We favour those that we expect to have strong core earnings growth, a lower contribution of one-offs and which seem attractively priced.

We expect Dr Reddy's (38%), Glenmark (35%), Lupin (26%) and Sun Pharma (23%) to post strong core earnings growth. Glenmark has a relatively higher contribution of NPV (R&D pipeline) – 37% compared with 0-7% for Dr Reddy's, Lupin and Sun Pharma. Sun Pharma is currently trading at 27.3x on core FY09F EPS and appears expensive compared with 17.9x for Dr Reddy's and 14.8x for Lupin.

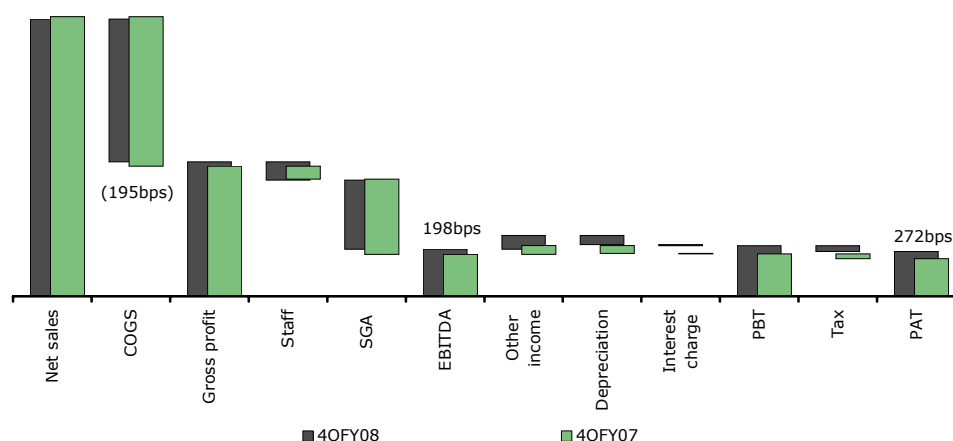
Lupin might see further value unlocking from the proposed demerger of its R&D division. Our revenue estimates for Dr Reddy's might see a positive surprise as our FY09 revenue growth estimate of 16% is conservative compared with management guidance of 25%. The actual amortisation charge might also be lower than our current estimates, leading to a further earnings surprise. Dr Reddy's and Lupin are therefore our top picks.

Performance analysis of Indian generics

Below we analyse the Indian generics in terms of margins and valuations.

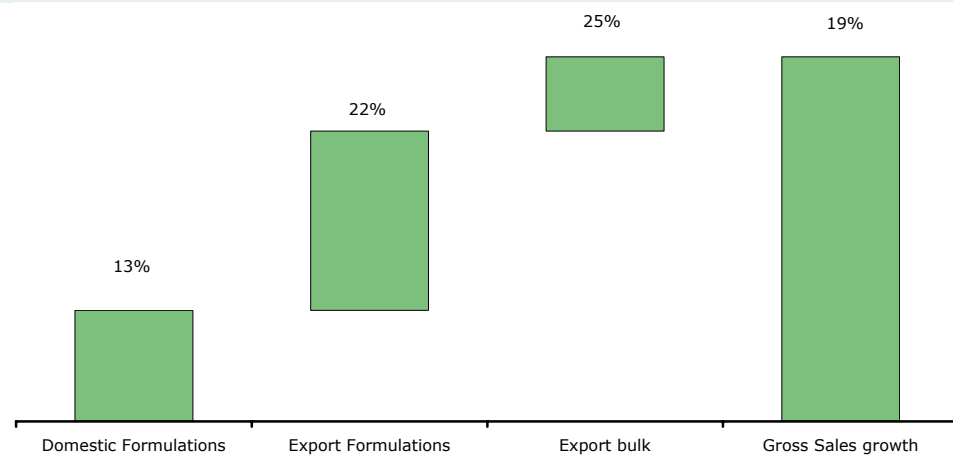
Cipla

Chart 1 : Cipla – Margins



Source: Company data

Chart 2 : Cipla – revenue growth from individual businesses, 4QFY08



Source: Company data

Table 8 : Cipla quarterly results

Rsm	4Q08	4Q07	% yoy
Net sales	11,075	9,313	18.90%
COGS	-5,700	-4,975	
Gross profit	5,375	4,338	23.90%
Staff	-730	-433	
SGA and other	-2,764	-2,507	
EBITDA	1,881	1,398	34.60%
Other income	552	292	
Depreciation	-367	-261	
Interest charge	-46	-13	
PBT	2,021	1,416	42.70%
Tax	-227	-160	
PAT	1,795	1,256	42.90%

Source: Company data, ABN AMRO

Table 9 : Cipla – concise valuation, FY09F (US\$m)

	Value	Contribution	Comments
India formulations	2,253	68%	Valued at 20x PE; contribution to sales is reducing and below the usual 50%
Anti-retrovirals (ARVs)	239	7%	Valued at 13x PE given strong competition and declining prices
Export – formulations	485	15%	Valued on a blended PE of 16x
Export – bulk	124	4%	In line with our sector bulk business valuations
Technical Know-how Income	194	6%	Valued at 5x PE
Total	3,295	100%	

Source: Company data, ABN AMRO forecasts

Core EBITDA margin at 15% was +225bps higher than comparable quarter but lower than the ~16% witnessed in the first three quarters of FY08 due to unfavourable sales mix.

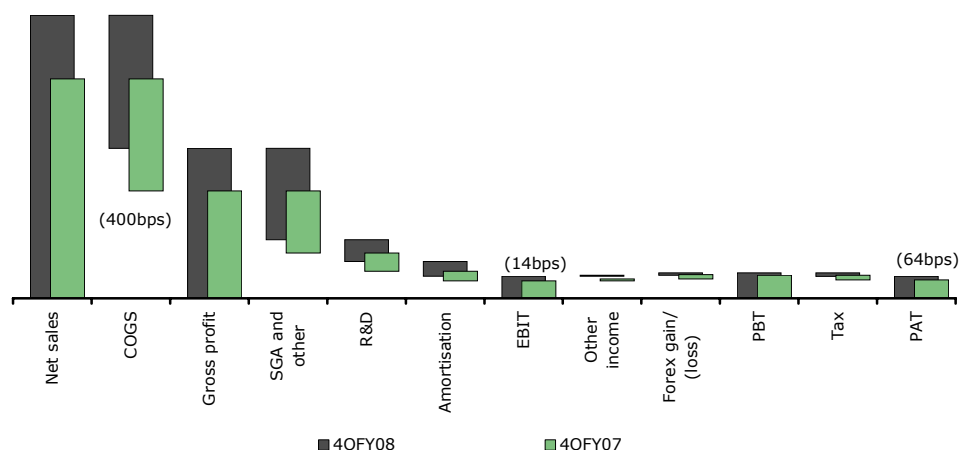
Technical know-how income at Rs259m was in line with our estimate and lower than the abnormal income recorded in the previous two quarters. It vindicates our belief that high technical know-how income is not sustainable.

Strong export formulation sales (+22% yoy) positively surprised us but we are concerned by the slowing domestic formulation sales (13% yoy) since it enjoys high margins.

We have marginally raised our earnings for FY09 by 5% on which the stock would trade at 15.7x.

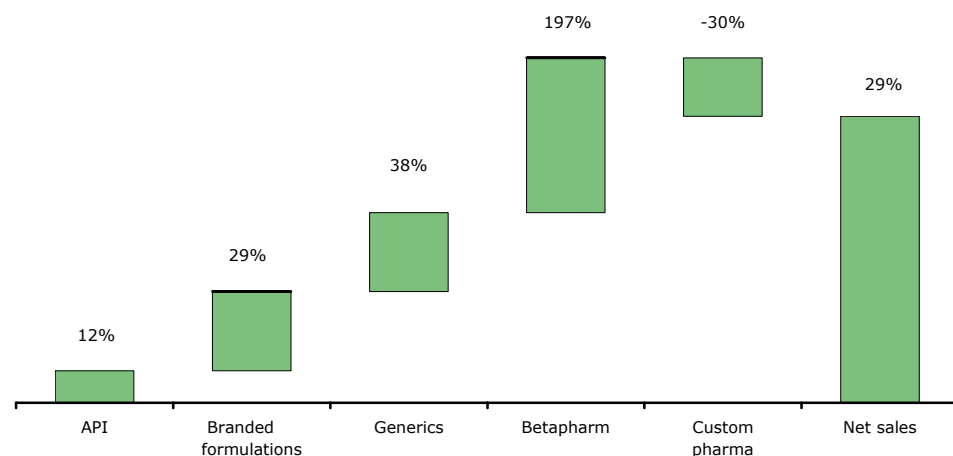
Dr Reddy's

Chart 3 : Dr Reddy's – Margins



Source: Company data

Chart 4 : Dr Reddy's – Revenue growth from individual businesses, 4QFY08



Source: Company data

Strong gross margin at 53% in 4QFY08 (+400bp) was due to higher than expected exclusivity product sales and better realisations on API (increasing from 27%-28% to 37%).

However EBIT margin (prior to amortisation) at 13% improved only 70bp due to higher SGA expenses, up by 387bp

North American Generic business (+43% yoy) and the Indian formulation business (+29%) showed impressive growth, while Betapharm sales of Rs2.4bn were marginally above our expectation.

We maintain our current estimates. Potential upside exists due to our FY09 revenue growth estimate of 16% being lower than guidance of 25%. Amortisation charge could also be lower than our estimate.

Table 10 : Dr Reddy's quarterly results

Rsm	4Q08	4Q07 (adj)	% yoy
Net sales	13,252	10,278	28.9%
COGS	-6,229	-5,242	
Gross profit	7,023	5,036	39.5%
SGA and other	-4,275	-2,918	
R&D	-1,023	-852	
Amortisation	-693	-451	
EBIT	1,032	815	26.7%
Other income	44	88	
Forex gain/ (loss)	118	205	
Associate income	0	-29	
PBT	1,194	1,079	10.7%
Tax	-168	-216	
Minority	2	0	
PAT	1,028	863	19.1%

Source: Company data, ABN AMRO

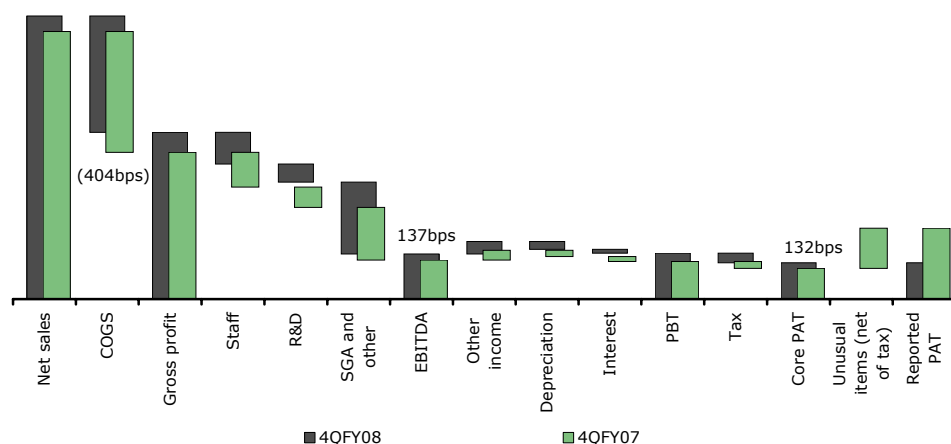
Table 11 : Dr Reddy's – concise valuation, FY09F (US\$m)

	Value	Contribution	Comments
India formulations	951	31%	Valued at 20x FY09F PE; Domestic growth in Q4FY08 is encouraging
Betapharm	222	7%	Valued at 1x FY09F sales; showing signs of revival
RoW formulations	716	23%	Valued at 18x; strong growth in Russia CIS and high margins in formulations
US generics	438	14%	Valued on a PE of 16x
Contract pharma	170	6%	20% premium to bulk valuations
Balaglitazone	102	3%	NPV valuation; US\$200m peak sales in the third year of launch
Bulk	368	12%	In line with the sector's bulk valuation
NPV of one-offs	80	3%	Includes one-off NPV of Imitrex & other Para IV opportunities
Western Europe, ex-Betapharm	42	1%	Valued at 1x FY09F sales
Total	3,088	100%	

Source: Company data, ABN AMRO forecasts

Lupin

Chart 5 : Lupin – Margins



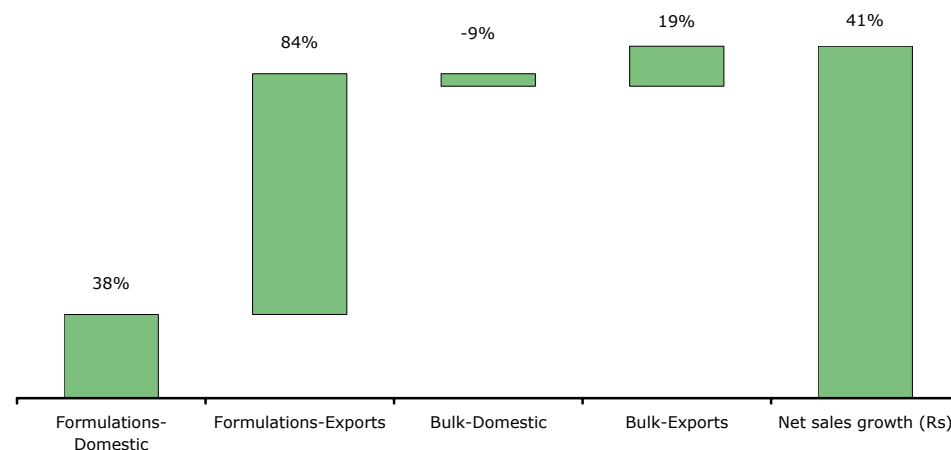
Source: Company data

Lupin's gross margin at 59% showed an improvement of 404bps. This was partly driven by strong domestic formulation growth, which has higher margins.

EBITDA margin at 16%, however, improved only by 137bps due to higher SGA expenses up by 568bps.

Strong Revenue growth at 41% was due to consolidation impact of Kyowa and Rubamin acquisition and impressive growth of US formulations (+84%) and Indian formulations (+38%).

Chart 6 : Lupin – Revenue growth from individual businesses, 4QFY08



Source: Company data

We have increased our FY09 & FY10 revenue and earnings estimates to incorporate the consolidation impact of its recent acquisitions.

At our revised target price, the stock would trade at 17.7x FY09F EPS

Table 12 : Lupin Quarterly Results

Rsm	4Q08	4Q07	% yoy
Net sales	7,504	5,318	41.1%
COGS	-3,080	-2,398	
Gross profit	4,424	2,920	51.5%
Staff	-840	-691	
R&D	-482	-405	
SGA and other	-1,905	-1,048	
EBITDA	1,197	776	54.3%
Other income	328	195	
Depreciation	-206	-126	
Interest	-104	-98	
PBT	1,216	747	62.8%
Tax	-255	-136	
Core PAT	961	611	57.3%
Unusual items (net of tax)	0	800	
Reported PAT	961	1,411	-31.9%

Source: Company data, ABN AMRO

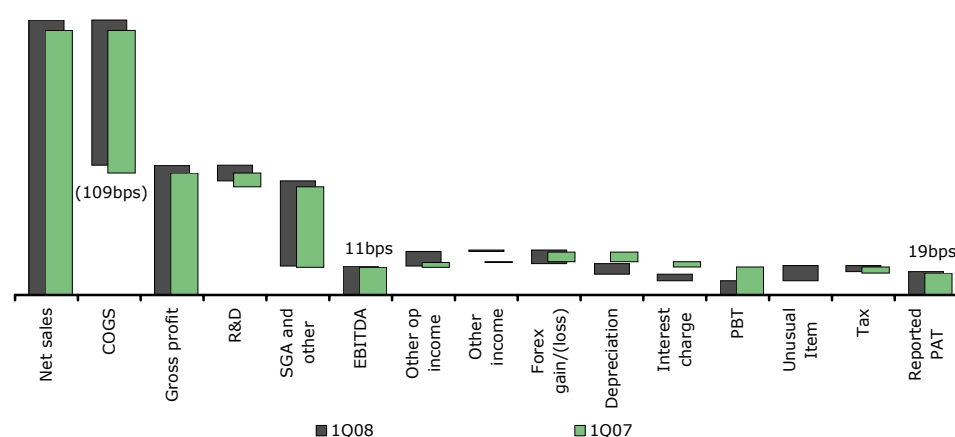
Table 13 : Lupin – concise valuation, FY09F (US\$m)

	Value	Contribution	Comments
India formulations	985	53%	Valued at 20x PE
US generics	437	23%	Valued on 16x PE; higher NPM on account of branded product Suprax and presence in products with limited competition
Bulk	235	13%	In line with the sector bulk business valuation of 13x
RoW formulations	210	11%	Valued on a blended PE of 18x
Total	1,866	100%	

Source: Company data, ABN AMRO forecasts

Ranbaxy

Chart 7 : Ranbaxy – Margins



Source: Company data, ABN AMRO

EBITDA margin of 10.6% (+11bp) was better than our estimate of 9.1%

Recorded extraordinary income of Rs895m from sale of land but was offset by forex loss of Rs798m

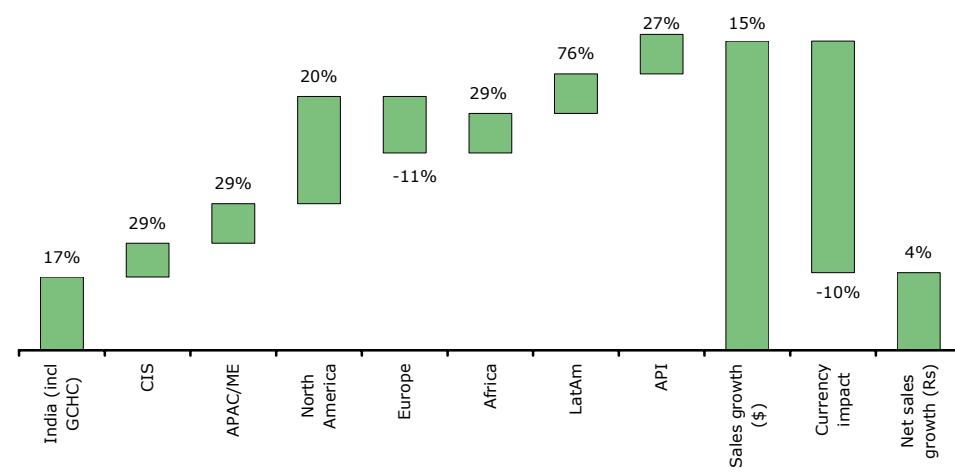
Total revenue grew by 15% in dollar terms but only 4% in rupee terms due to rupee appreciation.

Good performance in US & Semi-regulated markets. But 11% decline in Western Europe and single digit growth in India concern us.

FTF pipeline currently appears priced in. Our target price is derived using a blended PE of 20.6x core CY08F EPS

Our valuation doesn't include the value of the proposed demerged NDDR division for lack of adequate pipeline information

Chart 8 : Ranbaxy – Revenue growth from individual businesses, 4QFY08



Note: The size of bar chart indicates contribution to the total revenue growth from individual businesses
Source: Company data, ABN AMRO

Table 14 : Ranbaxy quarterly results

Rsm	1QCY07	1QCY08	% yoy
Net sales	15,535	16,137	3.9%
COGS	-8,367	-8,516	
Gross profit	7,168	7,621	6.3%
R&D	-811	-920	
SGA and other	-4,735	-4,998	
EBITDA	1,622	1,703	5.0%
Other op income	286	849	
Other income	45	85	
Forex gain/(loss)	559	-798	
Depreciation	-557	-621	
Interest charge	-313	-384	
PBT	1,642	834	-49.2%
Unusual Item	0	895	
Tax	-355	-361	
Reported PAT	1,287	1,368	6.3%

Source: Company data, ABN AMRO

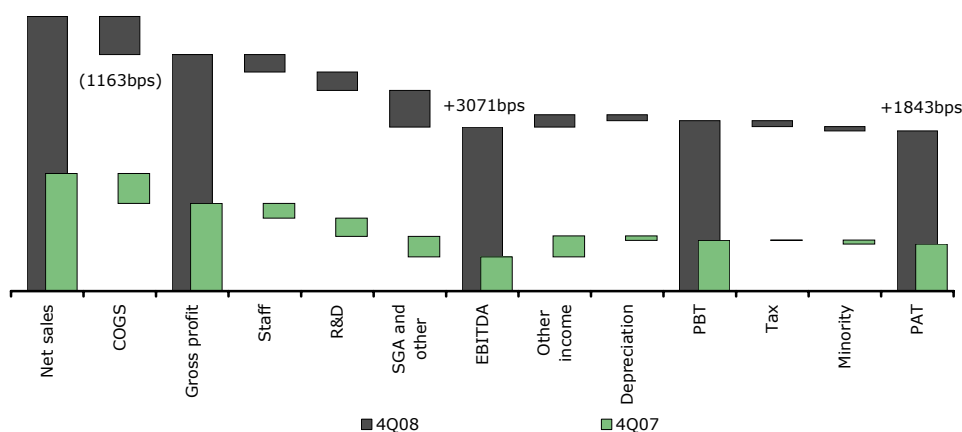
Table 15 : Ranbaxy – concise valuation, CY08F (US\$m)

	Value	Contribution	Comments
India formulations	1,445	28%	Valued at 20x CY08F PE in line with other domestic peers
US generics	442	9%	Valued at 16x PE
Lipitor NPV	580	11%	NPV valuation
Europe - ex Terapia	351	7%	Valued at 1x CY09F sales
Terapia	682	13%	Valued at 20x PE; Romania is operating in our preferred business region
Emerging regions	913	18%	Valued at 18x PE; Russia/CIS are in our preferred business regions
NPV of one-offs	610	12%	NPV of Para IV FTF excluding Lipitor (Total branded sales including Lipitor US\$27bn of branded sales)
Bulk	69	1%	In line with sector bulk business valuations
Total	5,091	100%	

Source: Company data, ABN AMRO forecasts

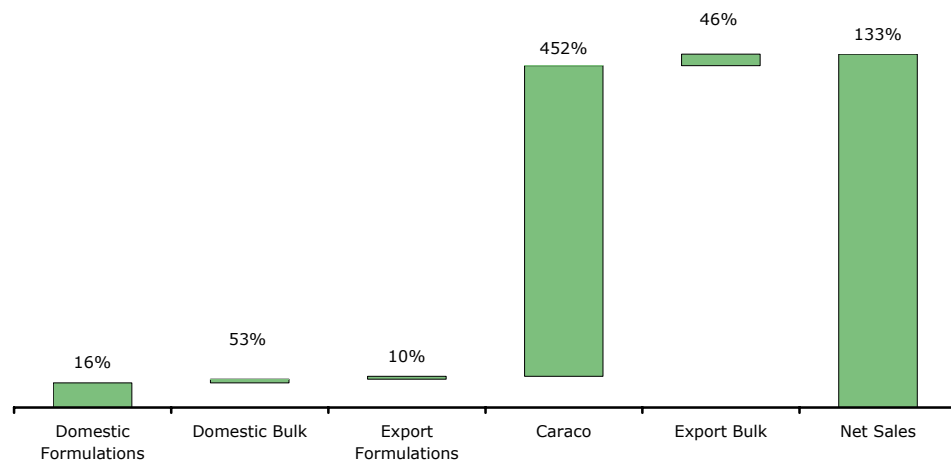
Sun Pharma

Chart 9 : Sun Pharma – Margins



Source: Company data

Chart 10 : Sun Pharma – Revenue growth from individual businesses, 4QFY08



Source: Company data

EBITDA margin of 59.8% (+3071bps yoy) benefited from windfall gains from exclusivity product launches – gProtonix, spillover gains from gTrileptal and also possible gains from gEthyl.

Revenues up 133% driven mainly by exclusivity product launches and partly by inventory build up as admitted by Caraco.

Indian formulation growth to be closely observed due to indications of slowdown (16% in 4QFY08)

Management has guided to FY09 revenue growth of 25% for Caraco and 18%-20% for rest of business.

The stock trades at core FY09F PE of 27.3x and appears expensive

Table 16 : Sun Pharma quarterly results

Rsm	4Q08	4Q07	% yoy
Net sales	12,389	5,313	133.2%
COGS	-1,717	-1,355	
Gross profit	10,672	3,959	169.6%
Staff	-786	-664	
R&D	-826	-824	
SGA and other	-1,652	-925	
EBITDA	7,407	1,545	379.4%
Other income	556	942	
Depreciation	-268	-201	
PBT	7,695	2,286	236.6%
Tax	-270	18	
Minority	-197	-183	
PAT	7,228	2,121	240.8%

Source: Company data, ABN AMRO

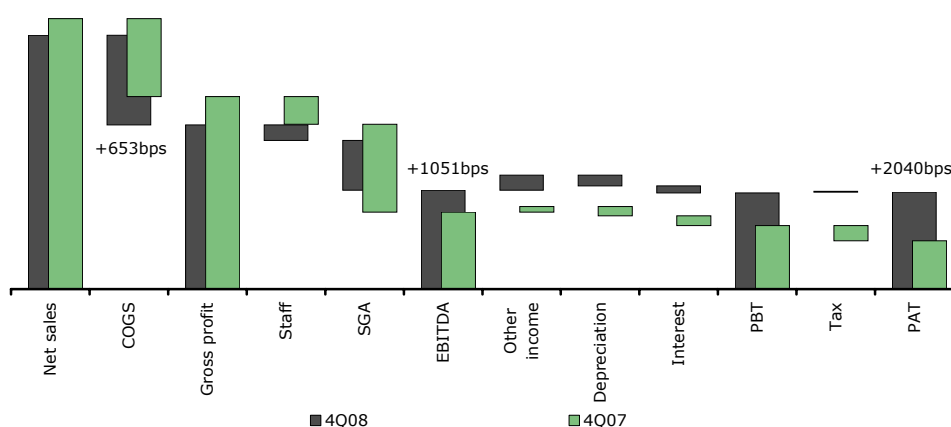
Table 17 : Sun Pharma – concise valuation, FY09F (US\$m)

	Value	Contribution	Comments
India formulations	4,966	78%	The only company in our coverage to continue being valued at PE of 25x due to its strong domestic growth
US generics	340	5%	Valued at Caraco's current market cap
RoW formulations	488	8%	Valued at 18x PE to reflect the presence in high-growth regions and branded formulations nature of the business
Bulk	114	2%	In line with our sector bulk business valuations
NPV of one-offs	436	7%	NPV of Pantoprazole and five other FTF opportunities. Sun is targeting the branded sales opportunity of US\$3bn
Total	6,343	100%	

Source: Company data, ABN AMRO forecasts

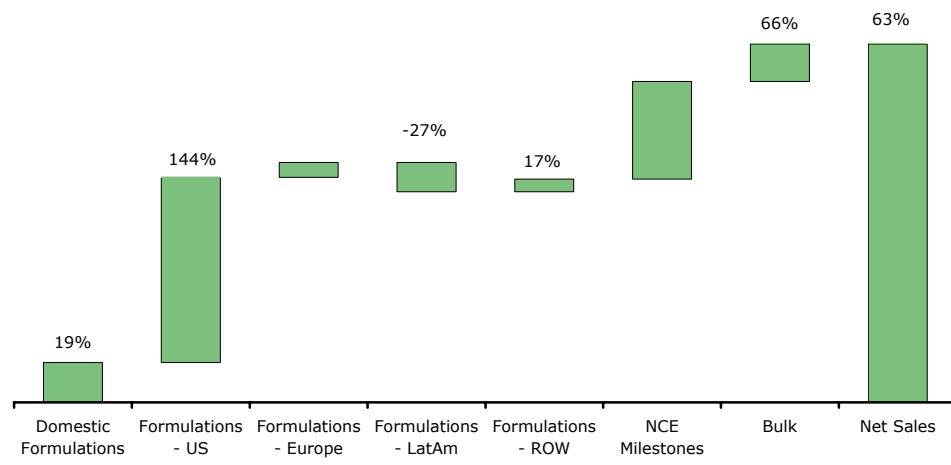
Glenmark

Chart 11 : Glenmark – Margins



Source: Company data

Chart 12 : Glenmark – Revenue growth from individual businesses, 4QFY08



Note: The size of bar chart indicates contribution to the total revenue growth from individual businesses
Source: Company data, ABN AMRO

Table 18 : Glenmark quarterly results

Rsm	4Q08	4Q07	% yoy
Net sales	5,727	3,486	64.3%
COGS	-2,022	-1,003	
Gross profit	3,705	2,483	49.2%
Staff	-349	-358	
SGA	-1,123	-1,132	
EBITDA	2,233	993	124.9%
Other income	341	73	
Depreciation	-242	-120	
Interest	-160	-127	
PBT	2,172	819	165.2%
Tax	17	-197	
PAT	2,190	622	252.0%

Source: Company data, ABN AMRO

Table 19 : Glenmark – concise valuation, FY09F (US\$m)

	Value	Contribution	Comments
GRC-3886	679	18%	Balance 50% of milestone payment expected in FY09
GRC-8200	194	5%	Search for new outlicensing partner after molecule being returned by Merck KgaA
GRC-6211	515	14%	Unchanged
Core Generic business	2,323	63%	17.9x FY09 based on blended PE
Residual R&D Pipeline	0	0%	Positive newsflow would provide upside to our estimates
Total	3,711	100%	

Source: Company data, ABN AMRO forecasts

EBITDA margin of 39% was marginally higher than our estimate of 37% but improved by 1052bp yoy due to absence of milestone receipt during the comparable quarter.

Top-line growth was 63% yoy and 16% above our expectation, due to strong US generic sales and receipt of US\$15m milestone payment from Forest.

Management has revised its FY09 guidance which now implies ~35% revenue and earnings growth.

Our revised FY09 estimates imply revenue growth of 24% and earnings growth of 10% (core earnings growth of 35%) as our milestone assumption for FY09 is US\$45m vs guidance of US\$69m

Our revised target price is derived using a core blended PE of 17.9x FY09F EPS

Company profiles

The following are the latest reports published on these companies:

C O M P A N Y P R O F I L E S

Cipla	14
Dr Reddy's Laboratories	18
Glenmark Pharmaceuticals	22
Lupin Ltd	26
Ranbaxy Laboratories	30
Sun Pharmaceutical	34

Awaiting domestic recovery

Cipla's 4QFY08 results surprised us due to strong export formulation sales. However, this could not overshadow the signals of a slowdown in domestic sales growth or the weak management guidance. We maintain our Sell rating.

Key forecasts

	FY06A	FY07A	FY08F	FY09F	FY10F
Revenue (Rsm)	29443.1	35146.3	41597.3	48161.7	55681.4
EBITDA (Rsm)	6321.9	7641.4	7825.7	9971.9	11284.7
Reported net profit (Rsm)	6076.6	6678.8	7004.9	8308.3	9196.8
Normalised net profit (Rsm) ¹	6076.6	6678.8	7004.9	8308.3	9196.8
Normalised EPS (Rs)	8.11	8.60	9.02	10.7	11.8
Dividend per share (Rs)	2.07	2.07	2.62	2.55	3.07
Dividend yield (%)	1.00	1.00	1.27	1.23	1.49
Normalised PE (x)	25.5	24.0	22.9	19.3	17.4
EV/EBITDA (x)	26.0	21.0	20.9	16.3	14.1
Price/book value (x)	7.80	4.95	4.33	3.72	3.23
ROIC (%)	19.2	16.7	12.3	13.1	12.9

1. Post-goodwill amortisation and pre-exceptional items
Accounting Standard: Local GAAP
Source: Company data, ABN AMRO forecasts

year to Mar, fully diluted

Quarter performance

Net sales of Rs10.8bn (+19% yoy) were better than our estimates mainly because of strong export formulation sales (+22% yoy). Weak comparables also helped this quarter. Technical know-how income of Rs259m was in line with our estimate and significantly lower than the Rs748m recorded in the previous quarter, supporting our position that such high income is not sustainable. Core EBITDA margins (excluding the volatile technical know-how income) stand at 15%, marginally below the 16% seen in the first three quarters of FY08 and also significantly lower than the 20% level of last year. Net income of Rs1.8bn (+43% yoy, 5% above expectations) was boosted by 'Other Income' of Rs552m (+89% yoy).

Bleak outlook

Our outlook for Cipla remains bleak. The growth in the high-margin domestic sales business, which used to compensate for the low margins associated with ARV sales, appears to be slowing down (13% in 4QFY08). The overall decline in EBITDA margin from around 20% last year to 16% in the first three quarters of FY08 and 15% in 4Q underlines the margin pressure from the ARV business's increasing contribution. Weak FY09 revenue guidance of 12-15% adds to our concern.

Valuation and target price

We have marginally revised our estimates to factor in management guidance. Our revised FY09 estimates imply revenue and earnings growth of 16% and 19% respectively. Our revised estimates are marginally higher than guidance, given FY08 revenues grew 16% vs guidance of 12%. Our FY09 revenue forecasts also assume flat technical know-how income, which we fear could even show a yoy decline. We arrive at our SOTP target price by valuing each division or region on its FY09F PE (as we explain fully in our sector note, *Valuation wheel has turned*, published alongside this note). The stock is trading at 19.3x FY09F earnings and appears expensive to us. Maintain Sell.

Priced at close of business 9 June 2008.
This note should be read along with our sector report (*Valuation wheel has turned*, 12 June 2008) for a better understanding of the investment argument.

Mafatal Chambers – C Wing, Ground Floor, N.M. Joshi Marg, Lower Parel (E),
Mumbai 400 013, India. Tel : +91 022 6754 8411 Fax : +91 022 6754 8420

Sell

Absolute performance

n/a

Short term (0-60 days)

Overweight

Market relative to region

Pharmaceuticals & Biotechnology

India

Price

Rs206.45

Target price

Rs168.00

Market capitalisation

Rs160.34bn (US\$3.74bn)

Avg (12mth) daily turnover

Rs133.03m (US\$3.29m)

Reuters

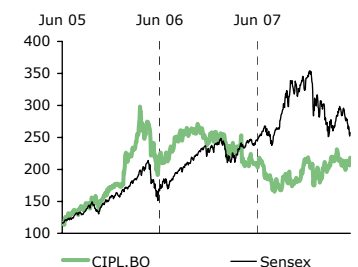
CIPL.BO

Bloomberg

CIPLA IN

Price performance (1M) (3M) (12M)

Price (Rs)	205.9	199.9	211.6
Absolute %	0.2	3.3	-2.4
Rel market %	10.5	9.6	-9.5
Rel sector %	-1.7	3.0	8.3



Stock borrowing: Moderate

Volatility (30-day): 26.51%

Volatility (6-month trend): ↑

52-week range: 233.40-160.00

Sensex: 15185.32

BBG AP Pharm & Biotech: 146.85

Source: ABN AMRO, Bloomberg

Researched by

ABN AMRO Institutional
Equities Team

www.abnamrobroking.co.in

CIPLA: KEY FINANCIAL DATA

Income statement

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Revenue	29443.1	35146.3	41597.3	48161.7	55681.4
Cost of sales	-23121	-27505	-33772	-38190	-44397
Operating costs	n/a	n/a	n/a	n/a	n/a
EBITDA	6321.9	7641.4	7825.7	9971.9	11284.7
DDA & Impairment (ex gw)	-801.8	-1033.7	-1326.3	-1319.8	-1619.8
EBITA	5520.1	6607.7	6499.4	8652.0	9664.9
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	5520.1	6607.7	6499.4	8652.0	9664.9
Net interest	-114.2	-69.5	-115.9	-182.0	-294.5
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	1692.7	1540.1	1923.2	1540.0	1710.0
Reported PTP	7098.6	8078.3	8306.7	10010.0	11080.4
Taxation	-1022.0	-1399.5	-1301.8	-1701.7	-1883.7
Minority interests	n/a	n/a	n/a	n/a	n/a
Exceptionals (post-tax)	0.00	0.00	0.00	0.00	0.00
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	6076.6	6678.8	7004.9	8308.3	9196.8
Normalised Items Excl. GW	0.00	0.00	0.00	0.00	0.00
Normalised net profit	6076.6	6678.8	7004.9	8308.3	9196.8

Source: Company data, ABN AMRO forecasts

year to Mar

Balance sheet

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Cash & market secs (1)	444.8	1314.9	-2336.1	560.8	6270.8
Other current assets	22478.0	27031.9	32112.0	36976.7	42880.1
Tangible fixed assets	11436.2	14612.6	17487.8	21168.0	20548.1
Intang assets (incl gw)	n/a	n/a	n/a	n/a	n/a
Oth non-curr assets	224.3	1178.0	4000.0	2000.0	2000.0
Total assets	34583.3	44137.4	51263.6	60705.5	71699.0
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	9082.0	9412.6	11721.0	12895.2	15081.9
Long term debt (3)	4689.1	1235.6	1235.6	3235.6	5235.6
Oth non-current liab	979.5	1126.5	1235.5	1430.5	1730.5
Total liabilities	14750.6	11774.7	14192.1	17561.3	22048.0
Total equity (incl min)	19832.9	32362.6	37071.5	43144.2	49651.0
Total liab & sh equity	34583.5	44137.3	51263.6	60705.5	71699.0
Net debt (2+3-1)	4244.3	-79.3	3571.7	2674.8	-1035.2

Source: Company data, ABN AMRO forecasts

year ended Mar

Cash flow statement

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
EBITDA	6321.9	7641.4	7825.7	9971.9	11284.7
Change in working capital	-4377.8	-4269.5	-3249.6	-3631.5	-4171.0
Net interest (pd) / rec	1578.5	1470.6	1807.3	1358.0	1415.5
Taxes paid	-1022.0	-1399.5	-1301.8	-1701.7	-1883.7
Other oper cash items	-183.8	-17.9	-201.5	0.00	0.00
Cash flow from ops (1)	2316.9	3425.1	4880.2	5996.6	6645.6
Capex (2)	-3800.0	-4330.4	-4000.0	-5000.0	-1000.0
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	148.3	-815.5	-2822.0	2000.0	0.00
Cash flow from invest (3)	-3651.8	-5145.9	-6822.0	-3000.0	-1000.0
Incr / (decr) in equity	0.02	7670.4	0.00	0.00	0.00
Incr / (decr) in debt	2777.1	-3453.5	0.00	2000.0	-2000.0
Ordinary dividend paid	-1199.1	-1772.6	-1818.8	-2294.7	-2235.7
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	90.0	147.0	109.0	195.0	300.0
Cash flow from fin (5)	1668.1	2591.3	-1709.8	-99.7	64.3
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	333.2	870.5	-3651.6	2896.9	5709.9
Equity FCF (1+2+4)	-1483.2	-905.3	880.2	996.6	5645.6

Lines in bold can be derived from the immediately preceding lines.

Source: Company data, ABN AMRO forecasts

year to Mar

CIPLA: PERFORMANCE AND VALUATION

Standard ratios	Cipla					Lupin Ltd			Wockhardt		
Performance	FY06A	FY07A	FY08F	FY09F	FY10F	FY08F	FY09F	FY10F	FY07F	FY08F	FY09F
Sales growth (%)	32.8	18.7	16.5	16.4	15.8	34.4	16.7	12.6	50.1	25.8	13.8
EBITDA growth (%)	36.4	20.9	2.41	27.4	13.2	49.1	21.7	19.2	33.1	25.5	14.4
EBIT growth (%)	35.2	19.7	-1.64	33.1	11.7	51.1	24.4	18.8	35.9	26.7	15.7
Normalised EPS growth (%)	48.3	6.09	4.88	18.6	10.7	44.8	25.8	17.0	8.09	16.7	23.0
EBITDA margin (%)	21.8	22.2	19.5	21.4	20.9	16.1	16.8	17.8	20.5	20.5	20.6
EBIT margin (%)	19.1	19.2	16.2	18.6	17.9	13.7	14.6	15.4	17.7	17.8	18.2
Net profit margin (%)	21.0	19.4	17.5	17.8	17.0	12.2	13.2	13.7	11.1	10.3	11.1
Return on avg assets (%)	20.3	17.1	14.8	15.0	14.2	12.0	12.9	13.3	13.2	14.4	15.3
Return on avg equity (%)	34.4	25.6	20.2	20.7	19.8	31.0	29.1	26.7	25.6	24.7	25.1
ROIC (%)	19.2	16.7	12.3	13.1	12.9	18.7	20.4	23.0	22.2	24.8	26.2
ROIC - WACC (%)	8.75	4.50	0.12	0.88	0.75	6.49	8.21	10.8	10.7	13.3	14.7
				<i>year to Mar</i>			<i>year to Mar</i>			<i>year to Dec</i>	
Valuation											
EV/sales (x)	5.68	4.66	4.09	3.50	2.95	2.33	1.91	1.59	1.22	0.94	0.77
EV/EBITDA (x)	26.0	21.0	20.9	16.3	14.1	14.5	11.4	8.96	5.96	4.59	3.73
EV/EBITDA @ tgt price (x)	21.3	17.1	17.1	13.4	11.5	17.2	13.6	10.8	11.3	8.86	7.46
EV/EBIT (x)	29.8	24.3	25.2	18.8	16.5	17.0	13.0	10.3	6.91	5.27	4.23
EV/invested capital (x)	6.57	4.80	3.91	3.45	3.16	4.28	3.89	3.50	2.08	1.83	1.61
Price/book value (x)	7.80	4.95	4.33	3.72	3.23	4.95	3.84	3.03	2.34	1.94	1.60
Equity FCF yield (%)	-0.96	-0.56	0.55	0.62	3.52	3.83	5.48	6.75	3.63	6.48	10.7
Normalised PE (x)	25.5	24.0	22.9	19.3	17.4	18.7	14.8	12.7	10.0	8.59	6.99
Norm PE @tgt price (x)	20.7	19.5	18.6	15.7	14.2	22.2	17.7	15.1	19.9	17.1	13.9
Dividend yield (%)	1.00	1.00	1.27	1.23	1.49	0.76	0.89	0.89	2.06	2.48	2.89
				<i>year to Mar</i>			<i>year to Mar</i>			<i>year to Dec</i>	
Per share data	FY06A	FY07A	FY08F	FY09F	FY10F	Solvency	FY06A	FY07A	FY08F	FY09F	FY10F
Tot adj dil sh, ave (m)	749.7	776.7	776.7	776.7	776.7	Net debt to equity (%)	21.4	-0.25	9.63	6.20	-2.08
Reported EPS (INR)	8.11	8.60	9.02	10.7	11.8	Net debt to tot ass (%)	12.3	-0.18	6.97	4.41	-1.44
Normalised EPS (INR)	8.11	8.60	9.02	10.7	11.8	Net debt to EBITDA	0.67	-0.01	0.46	0.27	-0.09
Dividend per share (INR)	2.07	2.07	2.62	2.55	3.07	Current ratio (x)	2.52	3.01	2.54	2.91	3.26
Equity FCF per share (INR)	-1.98	-1.17	1.13	1.28	7.27	Operating CF int cov (x)	-1.12	-2.28	-2.42	-4.67	-5.03
Book value per sh (INR)	26.5	41.7	47.7	55.6	63.9	Dividend cover (x)	3.91	4.30	3.57	4.35	4.00
				<i>year to Mar</i>						<i>year to Mar</i>	

Priced as follows: CIPL.BO - Rs206.45; LUPN.BO - Rs700.80; WCKH.BO - Rs247.95
Source: Company data, ABN AMRO forecasts

CIPLA: VALUATION METHODOLOGY

Table 1 : SOTP valuation

Business	Export - formulations	ARVs	Export - Bulk	Domestic
Sales	216	230	198	563
Net profit	30	18	10	113
Technical know how income	39			
Net revenue from segments	1,207			
Net profit from segments	171			
Total profit	210			
	Value (US\$ m)	PER	Implied P/sales	
Export formulations at blended PER of 16x	485	16	2.2	
ARVs at a PER of 13x	239	13	1.0	
Export Bulk at PER of 13x	124	13	0.6	
Technical know how income	194	5		
Total Ex-India formulations value	1,042			
Fair PER for India formulations value	20			
Fair India formulations value	2,253			
Total value	3,295			
Target price	Rs168			

Source: ABN AMRO forecasts

Cipla

Company description

Cipla is one of the premier Indian pharmaceutical companies. It is headed by Dr Hamied, who owns 41% of the company and is the driving force behind its success. Cipla has strong R&D capabilities and supplies bulk drugs and formulations to several generic companies in Europe and the US. It is well known for its drug-delivery capabilities in anti-asthma research.

Sell

Price relative to country



Strategic analysis

Average SWOT company score: 3

Geographical b'down, FY09F

Strengths

Wide range of products with strength in its anti-infective and anti-asthma franchise. Strong research and development. **4**

Weaknesses

Management depth. No initiative as yet to increase its presence in the advanced markets. Succession an issue. **2**

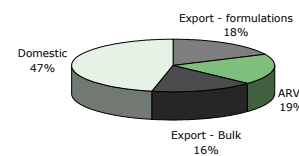
Opportunities

The huge US market for generics, the South African AIDS market and the anti-asthma market in Europe. **4**

Threats

Increasing competition from other players. A lot of smaller companies are emerging with business models similar to Cipla's. Pressure on margins is likely. **3**

Scoring range is 1-5 (high score is good)



Source: ABN AMRO estimates

Market data

Headquarters

Mumbai Central, Mumbai-400 008. India.

Website

www.cipla.com

Shares in issue

776.7m

Freefloat

59%

Majority shareholders

Dr. Hamied & associates (40%)

India

Country view

Overweight

Country rel to Asia Pacific

We expect Indian growth to remain robust in 2008, driven by domestic demand due to the rise in wages and farm incomes. We see a structural growth story emerging in real estate and agriculture, in line with the government's 11th five-year development plan of redistributing income beyond the city centres. We remain selective buyers of consumer discretionary and consumer staples, especially in upstream industries such as cold chain, agri-businesses and organised retail. We think the IT sector is also worth a fresh look as valuations look increasingly undemanding at present levels and major players have demonstrated an ability to protect their margins.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



Competitive position

Average competitive score: 2+

Broker recommendations

Supplier power

Fully backward integrated. Strength in R&D helps produce complex products in the anti-asthma range. **3+**

Barriers to entry

Historically, Cipla's research in asthma and anti-infective products has been strong. Its drug-delivery technology in anti-asthma products is difficult to replicate, in our view. **3+**

Customer power

Customers have a wide range of products to choose from, given the stiff competition in the anti-infective segment in the domestic market. **2-**

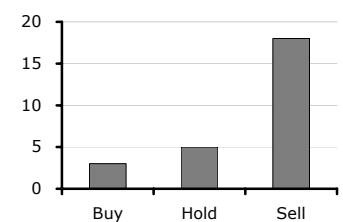
Substitute products

Some therapeutic groups like anti-histamines, antibiotics and pain-management products are substitutable. However, Cipla's different technology in asthma means it has pricing power. **2+**

Rivalry

Intense competition from various players, mainly in the domestic market. Some of these companies compete with Cipla overseas as well. **2-**

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse



Source: Bloomberg

Dr Reddy's Laboratories

Positive signals

We upgrade Dr Reddy's to Buy with an increased target price of Rs729. This is primarily on the back of strong 4QFY08 results, indications of Betapharm recovering and strong management guidance for FY09.

Key forecasts

	FY06A	FY07A	FY08F	FY09F	FY10F
Revenue (Rsm)	24266	65029	50006	57871	63133
EBITDA (Rsm)	2187	15617	7963	10449▲	11125▲
Reported net profit (Rsm)	1949	9691	4363▲	6527▲	7222▲
Normalised net profit (Rsm) ¹	1629	9691	4363	6527	7222
Normalised EPS (Rs)	10.6	58.2	26.2▲	39.2▲	43.4▲
Dividend per share (Rs)	2.85	2.63	2.62▲	3.92▲	4.34▲
Dividend yield (%)	0.43	0.40	0.40	0.60	0.66
Normalised PE (x)	61.8	11.3	25.1▼	16.8▼	15.2▼
EV/EBITDA (x)	59.8	7.41	15.2	10.8	9.39
Price/book value (x)	4.52	2.64	2.41	2.13	1.89
ROIC (%)	5.61	14.6	2.99	7.73	8.77

1. Post-goodwill amortisation and pre-exceptional items
Accounting Standard: US GAAP
Source: Company data, ABN AMRO forecasts

year to Mar, fully diluted

4QFY08 - strong show

Dr Reddy's recorded sales of Rs13.3bn posting growth of 29% yoy. North American generics (+43% yoy) and the Indian formulation business (+29%) showed impressive growth, while Betapharm sales of Rs2.4bn were marginally above our expectation. Gross margin improved 400bps to 53%, but higher SGA expenses eroded the gross margin gains significantly. EBIT (excluding amortisation), at 13%, was, therefore, marginally below our expectation of 13.9%. PAT of Rs1bn (+19% yoy) was in line with our estimate.

Positive signals

There were several positive signals in the results and the post-result conference call. Key among them was the strong sales growth, significant improvement in gross profit margin, indications of Betapharm recovering and strong management guidance. Management guided for 25% revenue growth and 50% gross margin in FY09. It also indicated that Betapharm's supply problems had improved significantly with stockouts reducing to 10% in March 2008 from a peak of 30% in April 2007, at the same time as its market share rose to 2.96% from 1.74%.

Upgrade to Buy, target price Rs728 (from Rs615)

We have increased our FY09 revenue estimate by 10.5%, mainly because of higher US generic revenue expectations. However, our revenue growth estimate is lower than management's guidance of 25%, as we do not have complete visibility on the business segment that management believes will propel it. To value generic stocks, we use a blended PE methodology in which we assign different PE valuations to different businesses in different regions. For Dr Reddy's, we maintain our NPV valuation of the R&D pipeline of first to files (FTFs) and new chemical entities (NCEs). Based on these valuations, and on our increased revenue estimates, we arrive at a blended PE multiple of 18.9x on core earnings and an NPV of Rs43/share on R&D/Para IV pipeline. This increases our target price to Rs728 (from Rs615). We upgrade our rating to Buy.

Priced at close of business 21 May 2008. Use of ▲ ▼ indicates that the line item has changed by at least 5%.

Buy (from Hold)

Absolute performance

n/a

Short term (0-60 days)

Overweight

Market relative to region

Pharmaceuticals & Biotechnology

India

Price

Rs658.20

Target price

Rs728.00 (from Rs615.00)

Market capitalisation

Rs109.61bn (US\$2.57bn)

Avg (12mth) daily turnover

Rs64.05m (US\$1.59m)

Reuters

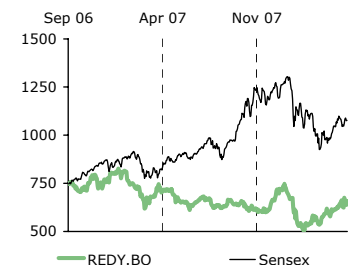
REDY.BO

Bloomberg

DRRD IN

Price performance (1M) (3M) (12M)

Price (Rs)	611.8	535.3	658.3
Absolute %	7.6	23.0	-0.0
Rel market %	4.4	26.5	-16.4
Rel sector %	3.7	21.9	12.6



Stock borrowing: n/a

Volatility (30-day): 38.14%

Volatility (6-month trend): ↑

52-week range: 760.00-501.00

Sensex: 17243.16

BBG AP Pharm & Biotech: 147.48

Source: ABN AMRO, Bloomberg

Researched by

**ABN AMRO Institutional
Equities Team**

www.abnamrobroking.co.in

DR REDDY'S LABORATORIES: KEY FINANCIAL DATA

Income statement

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Revenue	24266	65029	50006	57871	63133
Cost of sales	-12416	-34153	-24598	-28180	-30832
Operating costs	-9662	-15258	-17445	-19242	-21175
EBITDA	2187	15617	7963	10449	11125
DDA & Impairment (ex gw)	-939.6	-4597	-5457	-3008	-2924
EBITA	1248	11020	2506	7441	8202
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	1248	11020	2506	7441	8202
Net interest	0.00	-308.3	-372.1	-232.6	60.1
Associates (pre-tax)	-88.2	-62.7	2.00	10.0	15.0
Forex gain / (loss)	-126.3	136.8	745.0	200.0	50.0
Exceptionals (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	854.0	78.0	194.0	261.0	170.0
Reported PTP	1887	10864	3075	7679	8497
Taxation	-258.4	-1177	1279	-1152	-1274
Minority interests	-0.08	3.50	9.00	0.00	0.00
Exceptionals (post-tax)	320.0	n/a	n/a	n/a	n/a
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	1949	9691	4363	6527	7222
Normalised Items Excl. GW	320.0	0.00	0.00	0.00	0.00
Normalised net profit	1629	9691	4363	6527	7222

Source: Company data, ABN AMRO forecasts

year to Mar

Balance sheet

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Cash & market secs (1)	9802	18603	7796	11634	14726
Other current assets	14756	18863	22691	24468	26699
Tangible fixed assets	9086	12428	16765	16724	16575
Intang assets (incl gw)	33669	34429	32005	33217	32043
Oth non-curr assets	1454	1596	4644	1800	1900
Total assets	68768	85919	83901	87843	91943
Short term debt (2)	9132	3213	1001	1000	1000
Trade & oth current liab	9612	15321	15934	17815	19117
Long term debt (3)	20937	17871	14871	9871	4871
Oth non-current liab	6814	7926	6582	7768	9065
Total liabilities	46496	44330	38387	36454	34053
Total equity (incl min)	22271	41589	45514	51389	57889
Total liab & sh equity	68768	85919	83901	87843	91943
Net debt (2+3-1)	21193	6151	11746	2907	-5184

Source: Company data, ABN AMRO forecasts

year ended Mar

Cash flow statement

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
EBITDA	2187	15617	7963	10449	11125
Change in working capital	-1981	-860.4	-3293	166.1	-861.5
Net interest (pd) / rec	854.0	-594.4	-178.1	28.4	230.1
Taxes paid	-258.4	-1177	1279	-1152	-1274
Other oper cash items	-387.0	-205.2	835.3	148.6	-3.49
Cash flow from ops (1)	415.2	12780	6606	9640	9216
Capex (2)	-34048	-8698	-7370	-4179	-1600
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-5886	5326	-2802	2844	-99.6
Cash flow from invest (3)	-39934	-3372	-10172	-1335	-1700
Incr / (decr) in equity	173.5	10103	0.00	0.00	0.00
Incr / (decr) in debt	28168	-6241	-5212	-5001	-4999
Ordinary dividend paid	-436.4	-437.5	-436.3	-652.7	-722.2
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	6039	1436	-1345	1186	1297
Cash flow from fin (5)	33944	4860	-6994	-4468	-4424
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	-5575	14268	-10560	3837	3093
Equity FCF (1+2+4)	-33633	4082	-764.5	5461	7616

Lines in bold can be derived from the immediately preceding lines.

Source: Company data, ABN AMRO forecasts

year to Mar

DR REDDY'S LABORATORIES: PERFORMANCE AND VALUATION

Standard ratios	Dr Reddy's					Ranbaxy Laboratories			Sun Pharmaceutical		
Performance	FY06A	FY07A	FY08F	FY09F	FY10F	FY07F	FY08F	FY09F	FY08F	FY09F	FY10F
Sales growth (%)	24.6	168.0	-23.1	15.7	9.09	9.53	10.7	11.0	33.0	28.2	8.37
EBITDA growth (%)	58.7	613.9	-49.0	31.2	6.48	-14.5	56.8	7.00	69.1	46.2	-3.32
EBIT growth (%)	923.3	783.1	-77.3	196.9	10.2	-25.9	75.7	5.39	73.6	50.0	-4.34
Normalised EPS growth (%)	672.6	446.7	-55.0	49.6	10.6	49.9	9.47	7.18	50.5	39.9	-3.58
EBITDA margin (%)	9.01	24.0	15.9	18.1	17.6	9.80	13.9	13.4	41.1	46.9	41.8
EBIT margin (%)	5.14	16.9	5.01	12.9	13.0	6.42	10.2	9.67	37.1	43.4	38.3
Net profit margin (%)	6.71	14.9	8.72	11.3	11.4	11.6	11.5	11.1	42.7	46.6	41.4
Return on avg assets (%)	2.17	12.8	5.35	7.74	7.95	9.67	9.71	9.57	27.1	31.3	24.8
Return on avg equity (%)	7.54	30.4	10.0	13.5	13.2	27.5	26.1	24.3	36.4	37.8	28.1
ROIC (%)	5.61	14.6	2.99	7.73	8.77	4.21	6.77	6.88	38.9	50.2	44.0
ROIC - WACC (%)	-4.79	2.42	-9.19	-4.45	-3.41	0.00	0.00	0.00	26.7	38.0	31.8
				<i>year to Mar</i>			<i>year to Dec</i>			<i>year to Mar</i>	
Valuation											
EV/sales (x)	5.39	1.78	2.43	1.94	1.65	3.69	3.31	2.95	9.83	7.35	6.50
EV/EBITDA (x)	59.8	7.41	15.2	10.8	9.39	37.7	23.9	22.0	23.9	15.7	15.5
EV/EBITDA @ tgt price (x)	65.1	8.16	16.7	11.9	10.4	37.2	23.5	21.7	21.0	13.7	13.5
EV/EBIT (x)	104.8	10.5	48.4	15.1	12.7	57.5	32.5	30.5	26.5	16.9	17.0
EV/invested capital (x)	2.63	2.09	1.91	1.82	1.70	3.46	3.31	3.19	8.88	7.79	6.84
Price/book value (x)	4.52	2.64	2.41	2.13	1.89	6.87	5.94	5.21	7.57	5.59	4.45
Equity FCF yield (%)	-33.4	3.72	-0.70	4.98	6.95	1.09	2.14	2.86	2.83	5.03	4.72
Normalised PE (x)	61.8	11.3	25.1	16.8	15.2	26.8	24.5	22.8	23.8	17.0	17.6
Norm PE @tgt price (x)	68.4	12.5	27.8	18.6	16.8	26.3	24.1	22.5	21.0	15.0	15.5
Dividend yield (%)	0.43	0.40	0.40	0.60	0.66	1.85	1.96	1.96	0.84	1.18	1.14
				<i>year to Mar</i>			<i>year to Dec</i>			<i>year to Mar</i>	
Per share data	FY06A	FY07A	FY08F	FY09F	FY10F	Solvency	FY06A	FY07A	FY08F	FY09F	FY10F
Tot adj dil sh, ave (m)	153.0	166.5	166.5	166.5	166.5	Net debt to equity (%)	95.2	14.8	25.8	5.66	-8.96
Reported EPS (INR)	12.7	58.2	26.2	39.2	43.4	Net debt to tot ass (%)	30.8	7.16	14.0	3.31	-5.64
Normalised EPS (INR)	10.6	58.2	26.2	39.2	43.4	Net debt to EBITDA	9.69	0.39	1.48	0.28	-0.47
Dividend per share (INR)	2.85	2.63	2.62	3.92	4.34	Current ratio (x)	1.31	2.02	1.80	1.92	2.06
Equity FCF per share (INR)	-219.8	24.5	-4.59	32.8	45.7	Operating CF int cov (x)	0.21	24.5	30.9	-379.4	-44.6
Book value per sh (INR)	145.5	249.7	273.2	308.5	347.6	Dividend cover (x)	3.73	22.2	10.0	10.0	10.0
				<i>year to Mar</i>						<i>year to Mar</i>	

Priced as follows: REDY.BO - Rs658.20; RANB.BO - Rs504.25; SUN.BO - Rs1322.20
Source: Company data, ABN AMRO forecasts

DR REDDY'S LABORATORIES: VALUATION METHODOLOGY

Business	US generics			Betapharm		W europe		Formulations		India		Cpharma &	
	Value	PER	Implied P/sales	Value	PER	Value	PER	API	formulations	other	Value	PER	Implied P/sales
Sales	249	222	42	221	363	238	137						
PAT	27	0	0	40	28	48	11						
less: Imitrex PAT	12												
Total sales	1,471												
Net profit	166												
	Value	PER	Implied P/sales										
US generics at PER of 16x	438	16.0	1.8										
Betapharm at P/sales of 1x	222	NA	1.0										
W Europe at P/sales of 1x	42	NA	1.0										
Formulations RoW (Russia/CIS) at PER of 18x	716	18.0	3.2										
API at PER of 13x	368	13.0	1.0										
Cpharma at 20% premium to API at PER of 15.5x	170	15.5	1.2										
Total ex-India formulations value	1,955												
Add: R&D valuation	102												
Add: Imitrex one-off Value	12												
Add: NPV of disclosed Para IV exclusivities	68												
Subtotal	2,138												
Fair PER for Indian formulations business	20												
Fair valuation of Indian formulations	951												
Target market value	3,088												
Target price	728												
Core business blended FY09 P/E	18.9 x												
Core business value	2,906												

Source: ABN AMRO forecasts

Dr Reddy's Laboratories

Company description

Established in 1984, Dr Reddy's Laboratories (NYSE:RDY) is an emerging global pharmaceutical company with proven basic research capabilities. The company develops, manufactures and markets a wide range of pharmaceutical products in India and overseas. Dr Reddy's produces finished dosage forms, active pharmaceutical ingredients, diagnostic kits, critical care and biotechnology products. Its basic research programme focuses on diabetes, cancer, bacterial infections and pain management.

Buy Price relative to country



Strategic analysis

Average SWOT company score: **4**

FY09F sales

Strengths

Drug discovery research, emerging strength in biotechnology, USFDA-approved manufacturing facility.

4

Weaknesses

A lack of marketing presence in the US. DRL is building critical mass in its US and European operations, which will address this weakness, in our view.

2

Opportunities

Large US market for generics. Other non-regulated markets such as China, Brazil, CIS, Russia and India.

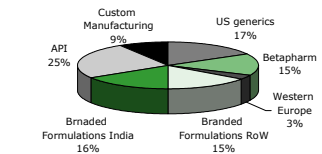
5

Threats

Increasing competition in the generics segment in the US. Slowdown in the number of drugs going off-patent in the future.

3

Scoring range is 1-5 (high score is good)



Source: ABN AMRO forecasts

Market data

Headquarters

7-1-27, Amerpeet, Hyderabad-500 016, India.

Website

www.drreddys.com

Shares in issue

166.5m

Freefloat

74%

Majority shareholders

Dr. Anji Reddy and associates (26%)

India

Country view

Overweight

Country rel to Asia Pacific

We expect Indian growth to remain robust in 2008, driven by domestic demand due to the rise in wages and farm incomes. We see a structural growth story emerging in real estate and agriculture, in line with the government's 11th five-year development plan of redistributing income beyond the city centres. We remain selective buyers of consumer discretionary and consumer staples, especially in upstream industries such as cold chain, agri-businesses and organised retail. We think the IT sector is also worth a fresh look as valuations look increasingly undemanding at present levels and major players have demonstrated an ability to protect their margins.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



Competitive position

Average competitive score: **4+**

Broker recommendations

Supplier power

Superior backward-integrated manufacturing facilities approved by the FDA. Hence, no problem with raw-material supplies.

5+

Barriers to entry

Strong R&D background focusing on new drug discoveries, legal expertise. Strength in chemical synthesis difficult to replicate.

5+

Customer power

Key products have pricing power. In the generics market in countries like the US, the lower the price, the higher the market share.

3+

Substitute products

Older products are substitutable. Hence, there is a need to innovate constantly to launch complex products in the market.

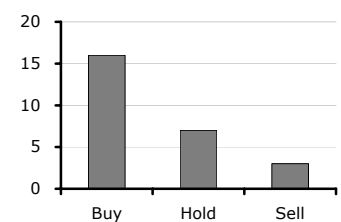
2+

Rivalry

Strong competition from various players that are well entrenched in the advanced markets that Dr Reddy's Labs is targeting.

3+

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse



Source: Bloomberg

Glenmark Pharmaceuticals

Risk reward not in favour

The stock appears expensive, trading at core FY09F PE of 22.8x. We believe the market is overvaluing Glenmark's R&D pipeline, ignoring the company's recent setbacks. The US generics business also appears fairly valued. Downgrade to Sell.

Key forecasts

	FY06A	FY07A	FY08F	FY09F	FY10F
Revenue (Rsm)	7575.8	12420.0	20106.8	24947.7	31170.8
EBITDA (Rsm)	1372.0	4280.3	8030.6▲	8847.4▲	10963.8▲
Reported net profit (Rsm)	867.6	3103.2	6303.7▲	6920.3▲	8948.0▲
Normalised net profit (Rsm) ¹	867.6	3103.2	6303.7	6920.3	8948.0
Normalised EPS (Rs)	3.35	12.0	24.3▲	26.7▲	34.5▲
Dividend per share (Rs)	0.35	0.40	0.84	0.84	0.84
Dividend yield (%)	0.05	0.06	0.13	0.13	0.13
Normalised PE (x)	198.7	55.6	27.3▼	24.9▼	19.3▼
EV/EBITDA (x)	119.9	38.9	19.9	17.6	13.6
Price/book value (x)	43.9	25.1	13.3	8.77	6.08
ROIC (%)	17.0	36.2	46.0	52.7	57.4

1. Post-goodwill amortisation and pre-exceptional items
Accounting Standard: Local GAAP
Source: Company data, ABN AMRO forecasts

year to Mar, fully diluted

A strong 4Q08

Glenmark's 4Q top line result of Rs5.73bn (up 64% yoy) was 16% above our forecast, driven by stronger-than-expected US generic and Indian formulation sales. The quarter also included the delayed US\$15m milestone payment received from Forest Pharma for GRC-3886. The EBITDA margin was therefore 210bp higher than we expected at 39%. Net income came in at Rs2.2bn (up 252% yoy), translating into EPS of Rs8.5.

Aggressive guidance

Glenmark has revised its FY09 revenue and earnings estimates by ~10%. It has increased its FY10 revenue guidance by 19% and earnings guidance by 15%. The revised guidance implies yoy revenue and earnings growth of ~35% in FY09. Our revised estimates assume 24% revenue growth but just 10% earnings growth for FY09 (core earnings growth of 35%) due to the absence of any exclusivity sales in FY09 and our lower expectation of NCE milestone receipts - US\$45m vs an aggressive management estimate of US\$69m.

Downgrade to Sell

We arrive at our SOTP-based target price by valuing each division or region on its FY09F PE (as we explain fully in our sector note, Valuation wheel has turned, published alongside this note). Our revised target price of Rs584 (up from Rs532) is based on the value of all the outlicensed NCEs (using a probabilistic option model) and the core business (at 17.9x FY09F blended PE). We find the stock expensive at 22.8x its core FY09F earnings. We believe the current market price implies an aggressive valuation of the US generics business, which, in our view is still not seasoned. The R&D pipeline could provide upside but we highlight the company's recent setbacks - receipt of only half the much delayed milestone payment from Forest and the search for a new partner for its GRC8200, which was returned by Merck. We acknowledge Glenmark's success in outlicensing, but believe the current valuations appear stretched. Downgrade to Sell.

Priced at close of business 9 June 2008. Use of ▲ ▼ indicates that the line item has changed by at least 5%. This note should be read along with our sector report (Valuation wheel has turned, 12 June 2008) for a better understanding of the investment argument.

Mafatlat Chambers – C Wing, Ground Floor, N.M. Joshi Marg, Lower Parel (E), Mumbai 400 013, India. Tel : +91 022 6754 8411 Fax : +91 022 6754 8420

Sell

(from Buy)

Absolute performance

n/a

Short term (0-60 days)

Overweight

Market relative to region

Pharmaceuticals

India

Price

Rs664.85

Target price

Rs584.00 (from Rs532.00)

Market capitalisation

Rs158.23bn (US\$3.69bn)

Avg (12mth) daily turnover

Rs132.18m (US\$3.29m)

Reuters

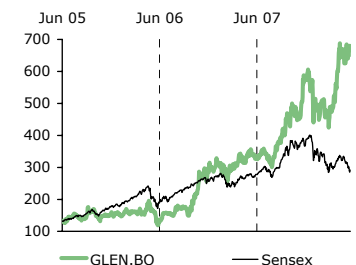
GLEN.BO

Bloomberg

GNP IN

Price performance (1M) (3M) (12M)

	1M	3M	12M
Price (Rs)	647.2	476.9	337.9
Absolute %	2.7	39.4	96.8
Rel market %	13.2	48.0	82.5
Rel sector %	0.8	39.1	118.4



Stock borrowing: Moderate

Volatility (30-day): 44.09%

Volatility (6-month trend): ↓

52-week range: 698.70-285.00

Sensex: 15185.32

BBG AP Pharm & Biotech: 146.85

Source: ABN AMRO, Bloomberg

Researched by

ABN AMRO Institutional
Equities Team

www.abnamrobroking.co.in

GLENMARK PHARMACEUTICALS: KEY FINANCIAL DATA

Income statement

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Revenue	7575.8	12420.0	20106.8	24947.7	31170.8
Cost of sales	-3817.3	-5086.0	-7301.2	-9522.0	-12097
Operating costs	-2386.5	-3053.7	-4775.0	-6578.3	-8109.9
EBITDA	1372.0	4280.3	8030.6	8847.4	10963.8
DDA & Impairment (ex gw)	-232.3	-426.3	-715.8	-826.9	-940.5
EBITA	1139.6	3854.0	7314.8	8020.6	10023.3
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	1139.6	3854.0	7314.8	8020.6	10023.3
Net interest	-181.7	-403.9	-637.1	-502.2	-328.1
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	162.7	160.7	445.6	354.4	480.8
Reported PTP	1120.6	3610.9	7123.3	7872.8	10176.0
Taxation	-241.0	-499.7	-810.9	-944.7	-1221.1
Minority interests	0.00	0.00	0.00	0.00	0.00
Exceptionals (post-tax)	n/a	n/a	n/a	n/a	n/a
Other post-tax items	-12.0	-7.92	-8.60	-7.74	-6.88
Reported net profit	867.6	3103.2	6303.7	6920.3	8948.0
Normalised Items Excl. GW	0.00	0.00	0.00	0.00	0.00
Normalised net profit	867.6	3103.2	6303.7	6920.3	8948.0

Source: Company data, ABN AMRO forecasts

year to Mar

Balance sheet

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Cash & market secs (1)	1056.0	1057.5	5994.4	9594.0	14681.4
Other current assets	6358.9	9996.8	11591.4	14470.9	18118.9
Tangible fixed assets	5804.7	8104.3	7444.4	7867.6	7927.1
Intang assets (incl gw)	n/a	n/a	n/a	n/a	n/a
Oth non-curr assets	213.1	187.2	250.0	300.0	300.0
Total assets	13432.6	19345.9	25280.2	32232.4	41027.4
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	1727.5	2395.1	4060.8	5184.3	6625.9
Long term debt (3)	7354.0	9367.1	7672.4	6726.1	5351.5
Oth non-current liab	420.0	720.0	600.0	675.0	675.0
Total liabilities	9501.5	12482.2	12333.2	12585.4	12652.4
Total equity (incl min)	3931.1	6863.6	12947.0	19647.0	28375.0
Total liab & sh equity	13432.6	19345.8	25280.2	32232.4	41027.4
Net debt (2+3-1)	6298.1	8309.5	1678.0	-2867.9	-9329.9

Source: Company data, ABN AMRO forecasts

year ended Mar

Cash flow statement

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
EBITDA	1372.0	4280.3	8030.6	8847.4	10963.8
Change in working capital	-1605.1	-2970.3	71.1	-1756.0	-2206.5
Net interest (pd) / rec	-181.7	-403.9	-637.1	-502.2	-328.1
Taxes paid	-241.0	-499.7	-810.9	-944.7	-1221.1
Other oper cash items	273.5	460.7	325.6	429.4	480.8
Cash flow from ops (1)	-382.3	867.2	6979.2	6074.0	7689.0
Capex (2)	-1409.2	-1796.0	-2000.0	-1250.0	-1000.0
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-1187.7	-890.7	1861.1	-50.0	0.00
Cash flow from invest (3)	-2596.9	-2686.7	-138.9	-1300.0	-1000.0
Incr / (decr) in equity	0.29	-197.4	0.00	0.00	0.00
Incr / (decr) in debt	2979.4	2013.0	-1694.6	-946.4	-1374.6
Ordinary dividend paid	-94.8	-109.2	-228.1	-228.1	-226.9
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	-122.5	113.6	0.00	0.00	0.00
Cash flow from fin (5)	2762.5	1820.1	-1922.7	-1174.4	-1601.5
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	-216.7	0.60	4917.7	3599.6	5087.5
Equity FCF (1+2+4)	-1791.5	-928.8	4979.2	4824.0	6689.0

Lines in bold can be derived from the immediately preceding lines.

Source: Company data, ABN AMRO forecasts

year to Mar

GLENMARK PHARMACEUTICALS: PERFORMANCE AND VALUATION

Standard ratios	Glenmark Pharma					Dr Reddy's Laboratories			Ranbaxy Laboratories		
Performance	FY06A	FY07A	FY08F	FY09F	FY10F	FY08F	FY09F	FY10F	FY07F	FY08F	FY09F
Sales growth (%)	23.8	63.9	61.9	24.1	24.9	-23.1	15.7	9.09	9.53	10.7	11.0
EBITDA growth (%)	-11.9	212.0	87.6	10.2	23.9	-49.0	31.2	6.48	-14.5	56.8	7.00
EBIT growth (%)	-18.2	238.2	89.8	9.65	25.0	-77.3	196.9	10.2	-25.9	75.7	5.39
Normalised EPS growth (%)	-18.6	257.7	103.1	9.78	29.3	-55.0	49.6	10.6	49.9	9.47	7.18
EBITDA margin (%)	18.1	34.5	39.9	35.5	35.2	15.9	18.1	17.6	9.80	13.9	13.4
EBIT margin (%)	15.0	31.0	36.4	32.1	32.2	5.01	12.9	13.0	6.42	10.2	9.67
Net profit margin (%)	11.5	25.0	31.4	27.7	28.7	8.72	11.3	11.4	11.6	11.5	11.1
Return on avg assets (%)	9.42	21.4	31.1	25.8	25.3	5.35	7.74	7.95	9.67	9.71	9.57
Return on avg equity (%)	24.0	57.5	63.6	42.5	37.3	10.0	13.5	13.2	27.5	26.1	24.3
ROIC (%)	17.0	36.2	46.0	52.7	57.4	2.99	7.73	8.77	4.21	6.77	6.88
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00	-9.19	-4.45	-3.41	0.00	0.00	0.00
				<i>year to Mar</i>			<i>year to Mar</i>			<i>year to Dec</i>	
Valuation											
EV/sales (x)	21.7	13.4	7.95	6.23	4.78	2.60	2.09	1.79	4.00	3.59	3.20
EV/EBITDA (x)	119.9	38.9	19.9	17.6	13.6	16.3	11.6	10.2	40.8	25.8	23.9
EV/EBITDA @ tgt price (x)	105.9	34.4	17.5	15.4	11.8	16.7	11.9	10.4	37.2	23.5	21.7
EV/EBIT (x)	144.4	43.2	21.9	19.4	14.9	51.8	16.3	13.8	62.3	35.2	33.0
EV/invested capital (x)	15.5	10.5	10.5	8.90	7.55	2.04	1.96	1.84	3.74	3.58	3.46
Price/book value (x)	43.9	25.1	13.3	8.77	6.08	2.60	2.30	2.04	7.54	6.52	5.71
Equity FCF yield (%)	-1.04	-0.54	2.89	2.80	3.88	-0.65	4.62	6.45	0.99	1.95	2.60
Normalised PE (x)	198.7	55.6	27.3	24.9	19.3	27.1	18.1	16.4	29.4	26.8	25.0
Norm PE @tgt price (x)	174.5	48.8	24.0	21.9	16.9	27.8	18.6	16.8	26.3	24.1	22.5
Dividend yield (%)	0.05	0.06	0.13	0.13	0.13	0.37	0.55	0.61	1.68	1.78	1.78
				<i>year to Mar</i>			<i>year to Mar</i>			<i>year to Dec</i>	
Per share data	FY06A	FY07A	FY08F	FY09F	FY10F	Solvency	FY06A	FY07A	FY08F	FY09F	FY10F
Tot adj dil sh, ave (m)	259.3	259.3	259.3	259.3	259.3	Net debt to equity (%)	160.2	121.1	13.0	-14.6	-32.9
Reported EPS (INR)	3.35	12.0	24.3	26.7	34.5	Net debt to tot ass (%)	46.9	43.0	6.64	-8.90	-22.7
Normalised EPS (INR)	3.35	12.0	24.3	26.7	34.5	Net debt to EBITDA	4.59	1.94	0.21	-0.32	-0.85
Dividend per share (INR)	0.35	0.40	0.84	0.84	0.84	Current ratio (x)	4.29	4.62	4.33	4.64	4.95
Equity FCF per share (INR)	-6.91	-3.58	19.2	18.6	25.8	Operating CF int cov (x)	0.22	4.38	13.2	15.0	28.2
Book value per sh (INR)	15.2	26.5	49.9	75.8	109.4	Dividend cover (x)	12.1	37.7	36.7	40.2	52.3
				<i>year to Mar</i>						<i>year to Mar</i>	

Priced as follows: GLEN.BO - Rs664.85; REDY.BO - Rs692.65; RANB.BO - Rs525.85
Source: Company data, ABN AMRO forecasts

GLENMARK PHARMACEUTICALS: VALUATION METHODOLOGY

Table 1 : SOTP valuation

Business (US\$m)	US generics	EU generics	Brazil/Arg	Formulations			India formulations
				RoW	API		
Sales	190	24	73	72	60	147	
PAT	57	4	13	13	8	35	
Total sales	566						
Net profit	129						
	value	PER	Implied P/sales				
US generics at PER of 18x	1028	18	5.4				
Brazil at PER of 18x	237	18	3.2				
EU generic at a PER of 16x	58	16	2.4				
Formulations RoW (Russia/CIS) at PER of 16x	207	16	2.9				
API at PER of 13x	101	13	1.7				
Total ex-India formulations value	1631						
Add: R&D valuation for GRC 3886, GRC611 & GRC8200	1389						
Subtotal	3020						
Fair PER of India formulation	20						
Fair value of India formulation	691						
Total value	3711						
Target price	Rs584						

Source: ABN AMRO forecasts

Glenmark Pharmaceuticals

Company description

Glenmark is among the top 10 pharmaceutical companies in India in the formulations business. Its business model revolves around NCE research and sale of API and formulations in the domestic as well as international markets. The company last year entered regulated markets like the US for the sale of generic drugs. On the drugs discovery front, Glenmark has been able to outlicense three molecules from its NCE pipeline to companies like Eli Lilly, Forest Labs and Teijin Pharma.

Sell

Price relative to country



Strategic analysis

Average SWOT company score: **3**

Revenue split FY09F

Strengths

Ahead of the learning curve with respect to peers on drug-discovery-based R&D. A fully integrated player in the generic drugs space.

4

Weaknesses

Almost 50% of earnings come from milestone payments, given the R&D success. Still in a nascent stage in the US; needs to build up generic drug offerings.

2

Opportunities

R&D pipeline could translate into outlicensing deals. Glenmark still needs to venture into the regulated European markets.

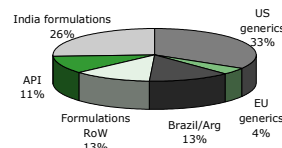
4

Threats

Early failure in R&D may put further projects on the backburner. Withdrawal by any licensing partner could also be a risk.

3

Scoring range is 1-5 (high score is good)



Source: ABN AMRO forecasts

Market data

Headquarters

B/2 Mahalaxmi Chambers, 22 Bhulabhai Desai Road, Mumbai 400 026, India

Website

www.glenmarkpharma.com

Shares in issue

238.0m

Freefloat

45%

Majority shareholders

Promoters (55%)

India

Country view

Overweight

Country rel to Asia Pacific

We expect Indian growth to remain robust in 2008, driven by domestic demand due to the rise in wages and farm incomes. We see a structural growth story emerging in real estate and agriculture, in line with the government's 11th five-year development plan of redistributing income beyond the city centres. We remain selective buyers of consumer discretionary and consumer staples, especially in upstream industries such as cold chain, agri-businesses and organised retail. We think the IT sector is also worth a fresh look as valuations look increasingly undemanding at present levels and major players have demonstrated an ability to protect their margins.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



Competitive position

Average competitive score: **3+**

Broker recommendations

Supplier power

Backward integration and manufacturing facilities approved by the FDA pose no problem with raw-material supplies.

3+

Barriers to entry

R&D programme is fairly advanced, making it easy for the company to be ahead of peers in lead development in certain therapeutic areas. This should raise barriers for any fresh lead in the same.

4+

Customer power

A fairly old player in the domestic market. In the US generic market, the lower the price, the higher the market share generally.

2+

Substitute products

Mainly targeting off-patent generic products for regulated markets. Any generic company with an ANDA approval can create substitution pressure.

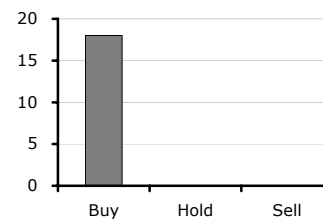
2-

Rivalry

Low competition on the R&D front. However, the US generic market continues to be highly competitive.

2+

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse



Source: Bloomberg

Lupin Ltd

Buy

Absolute performance

n/a

Short term (0-60 days)
Overweight
Market relative to region

Pharmaceuticals & Biotechnology

India
Price

Rs700.80

Target price

Rs834.00 (from Rs604.00)

Market capitalisation

Rs61.77bn (US\$1.44bn)

Avg (12mth) daily turnover

Rs62.69m (US\$1.53m)

Reuters

LUPN.BO

Bloomberg

LPC IN

Still some steam left

While most tier-I pharma stocks have re-rated in the past few weeks given the sector's defensive nature, Lupin still offers 19% potential upside from current levels, trading at only 14x FY09F PE for 30%+ core earnings growth. Buy, with a target price of Rs834.

Key forecasts

	FY06A	FY07A	FY08F	FY09F	FY10F
Revenue (Rsm)	16954.0	20137.1	27063.7	31589.0	35575.0
EBITDA (Rsm)	2235.6	2922.3	4358.5▲	5303.4▲	6323.2▲
Reported net profit (Rsm)	1729.9	3085.5	4099.1▲	4163.3▲	4870.2▲
Normalised net profit (Rsm) ¹	1729.9	2285.3	3310.2	4163.3	4870.2
Normalised EPS (Rs)	19.6	25.9	37.6▲	47.2▲	55.3▲
Dividend per share (Rs)	3.26	4.69	5.31	6.25	6.24
Dividend yield (%)	0.47	0.67	0.76	0.89	0.89
Normalised PE (x)	35.7	27.0	18.7▼	14.8▼	12.7▼
EV/EBITDA (x)	29.6	22.2	14.5	11.4	8.96
Price/book value (x)	9.91	6.95	4.95	3.84	3.03
ROIC (%)	11.7	13.7	18.7	20.4	23.0

1. Post-goodwill amortisation and pre-exceptional items
Accounting Standard: Indian GAAP
Source: Company data, ABN AMRO forecasts

year to Mar, fully diluted

4Q08: strong performance

Lupin's 4Q08 sales jumped 41.1% yoy to Rs7.5bn, as it benefitted from the consolidation of the Kyowa and Novodigm (erstwhile Rubamin) acquisitions. Hence, the results are not strictly comparable. Excluding the acquisition impact (US\$20m-22m contribution), sales grew about 25% yoy. Formulation exports sales growth of 84% drove the impressive sales performance. We believe Lupin generated significant benefits from its anti-infective brand Suprax, with the quarter coinciding with the US flu season. Gross margins expanded 404bp to 59%, on the back of strong domestic growth (+38% yoy) and higher Cefdinir sales. EBITDA of Rs1.2bn was up 54% yoy, while core PAT of Rs961m was up 57%. Reported EPS was Rs11.67.

Consolidation impact from the acquisitions

Lupin acquired Novodigm in India (September 2007) to gain entry into the CRAM (contract research and manufacturing services) segment, and also entered the Japanese generic market (the second-largest pharma market after the US) with the Kyowa acquisition (80% stake in October 2007). Kyowa recorded sales of US\$63m in FY07, and has recently received approvals for 10 new generic products, which are to be launched soon in Japan. Incorporating the consolidation impact from Kyowa, we assume the company will contribute US\$75m to Lupin's top line in FY09.

Valuation and target price

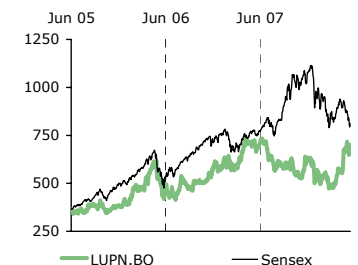
We now forecast revenue growth of 16.7% and core earnings growth of 26.4% for FY09, vs corresponding 34.4% and 44.1% growth in FY08. Hence, our SOTP-based target price increases to Rs834 (from Rs604), using an unchanged blended PE of 17.6x on core FY09F earnings (for valuation details refer to our sector note, *Valuation wheel has turned*, published alongside this note). The share price has rallied 40% since February 2008, but we still see 19% upside potential from current levels. Besides, Lupin is one of the few tier-1 pharma companies which is yet to propose a demerger of its innovative R&D programme. Any such move should provide further upside. We maintain our Buy rating.

Priced at close of business 9 June 2008. Use of ▲ ▼ indicates that the line item has changed by at least 5%. This note should be read along with our sector report (*Valuation wheel has turned*, 12 June 2008) for a better understanding of the investment argument.

Mafatlat Chambers – C Wing, Ground Floor, N.M. Joshi Marg, Lower Parel (E), Mumbai 400 013, India. Tel : +91 022 6754 8411 Fax : +91 022 6754 8420

Price performance (1M) (3M) (12M)

	1M	3M	12M
Price (Rs)	559.6	518.0	686.4
Absolute %	25.2	35.3	2.1
Rel market %	38.0	43.7	-5.3
Rel sector %	22.9	35.0	13.3



Stock borrowing: Difficult

Volatility (30-day): 51.14%

Volatility (6-month trend): ↑

52-week range: 745.00-429.90

Sensex: 15185.32

BBG AP Pharm & Biotech: 146.85

Source: ABN AMRO, Bloomberg

Researched by

**ABN AMRO Institutional
Equities Team**
www.abnamrobroking.co.in

LUPIN LTD: KEY FINANCIAL DATA

Income statement

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Revenue	16954.0	20137.1	27063.7	31589.0	35575.0
Cost of sales	-11586	-13434	-17420	-20503	-22891
Operating costs	-3132.7	-3781.1	-5284.8	-5782.4	-6360.6
EBITDA	2235.6	2922.3	4358.5	5303.4	6323.2
DDA & Impairment (ex gw)	-408.8	-466.1	-647.4	-686.2	-837.2
EBITA	1826.8	2456.2	3711.1	4617.2	5486.0
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	1826.8	2456.2	3711.1	4617.2	5486.0
Net interest	-240.8	-299.1	-287.3	-167.1	-128.9
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	0.00	800.2	788.9	0.00	0.00
Other pre-tax items	669.0	774.0	868.0	890.0	890.0
Reported PTP	2255.0	3731.3	5080.7	5340.1	6247.1
Taxation	-521.3	-645.0	-980.0	-1174.8	-1374.4
Minority interests	-3.80	-0.80	-1.60	-2.00	-2.50
Exceptionals (post-tax)	n/a	n/a	n/a	n/a	n/a
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	1729.9	3085.5	4099.1	4163.3	4870.2
Normalised Items Excl. GW	0.00	800.2	788.9	0.00	0.00
Normalised net profit	1729.9	2285.3	3310.2	4163.3	4870.2

Source: Company data, ABN AMRO forecasts

year to Mar

Balance sheet

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Cash & market secs (1)	4774.2	4849.4	5723.0	7891.8	11041.8
Other current assets	8900.2	10393.1	13538.3	15570.0	17480.1
Tangible fixed assets	6717.8	7204.7	7342.2	7156.0	6818.8
Intang assets (incl gw)	n/a	n/a	n/a	n/a	n/a
Oth non-curr assets	28.0	28.0	28.0	28.0	28.0
Total assets	20420.2	22475.2	26631.4	30645.8	35368.7
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	3983.6	4691.3	6174.7	7242.1	8115.0
Long term debt (3)	9249.0	7926.1	7000.2	6352.0	5898.2
Oth non-current liab	954.8	966.6	968.2	970.2	972.7
Total liabilities	14187.4	13584.1	14143.0	14564.2	14985.9
Total equity (incl min)	6233.2	8891.1	12488.4	16081.5	20382.8
Total liab & sh equity	20420.6	22475.2	26631.4	30645.8	35368.7
Net debt (2+3-1)	4474.8	3076.7	1277.2	-1539.8	-5143.5

Source: Company data, ABN AMRO forecasts

year ended Mar

Cash flow statement

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
EBITDA	2235.6	2922.3	4358.5	5303.4	6323.2
Change in working capital	-1128.2	-785.2	-1661.8	-964.4	-1037.2
Net interest (pd) / rec	428.2	474.9	563.5	722.9	761.1
Taxes paid	-521.3	-645.0	-980.0	-1174.8	-1374.4
Other oper cash items	0.60	810.4	787.3	-2.00	-2.50
Cash flow from ops (1)	1014.9	2777.5	3067.5	3885.1	4670.2
Capex (2)	-1214.7	-1000.0	-700.0	-500.0	-500.0
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	444.4	52.1	0.00	0.00	0.00
Cash flow from invest (3)	-770.3	-947.9	-700.0	-500.0	-500.0
Incr / (decr) in equity	3.80	0.80	1.60	2.00	2.50
Incr / (decr) in debt	4676.9	-1322.8	-926.0	-648.2	-453.7
Ordinary dividend paid	-297.5	-427.6	-484.6	-570.1	-569.0
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	-93.0	0.00	0.00	0.00	0.00
Cash flow from fin (5)	4290.2	-1749.7	-1409.0	-1216.3	-1020.2
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	4534.8	79.9	958.5	2168.8	3150.0
Equity FCF (1+2+4)	-199.8	1777.5	2367.5	3385.1	4170.2

Lines in bold can be derived from the immediately preceding lines.

Source: Company data, ABN AMRO forecasts

year to Mar

LUPIN LTD: PERFORMANCE AND VALUATION

Standard ratios	Lupin					Cipla			Wockhardt		
Performance	FY06A	FY07A	FY08F	FY09F	FY10F	FY08F	FY09F	FY10F	FY07F	FY08F	FY09F
Sales growth (%)	34.4	18.8	34.4	16.7	12.6	16.5	16.4	15.8	50.1	25.8	13.8
EBITDA growth (%)	67.6	30.7	49.1	21.7	19.2	2.41	27.4	13.2	33.1	25.5	14.4
EBIT growth (%)	83.0	34.5	51.1	24.4	18.8	-1.64	33.1	11.7	35.9	26.7	15.7
Normalised EPS growth (%)	71.5	32.1	44.8	25.8	17.0	4.88	18.6	10.7	8.09	16.7	23.0
EBITDA margin (%)	13.2	14.5	16.1	16.8	17.8	19.5	21.4	20.9	20.5	20.5	20.6
EBIT margin (%)	10.8	12.2	13.7	14.6	15.4	16.2	18.6	17.9	17.7	17.8	18.2
Net profit margin (%)	10.2	11.3	12.2	13.2	13.7	17.5	17.8	17.0	11.1	10.3	11.1
Return on avg assets (%)	8.57	9.22	12.0	12.9	13.3	14.8	15.0	14.2	13.2	14.4	15.3
Return on avg equity (%)	31.1	30.2	31.0	29.1	26.7	20.2	20.7	19.8	25.6	24.7	25.1
ROIC (%)	11.7	13.7	18.7	20.4	23.0	12.3	13.1	12.9	22.2	24.8	26.2
ROIC - WACC (%)	1.32	1.52	6.49	8.21	10.8	0.12	0.88	0.75	10.7	13.3	14.7
				<i>year to Mar</i>			<i>year to Mar</i>			<i>year to Dec</i>	
Valuation											
EV/sales (x)	3.91	3.22	2.33	1.91	1.59	4.09	3.50	2.95	1.22	0.94	0.77
EV/EBITDA (x)	29.6	22.2	14.5	11.4	8.96	20.9	16.3	14.1	5.96	4.59	3.73
EV/EBITDA @ tgt price (x)	34.9	26.2	17.2	13.6	10.8	17.1	13.4	11.5	11.3	8.86	7.46
EV/EBIT (x)	36.3	26.4	17.0	13.0	10.3	25.2	18.8	16.5	6.91	5.27	4.23
EV/invested capital (x)	5.69	5.02	4.28	3.89	3.50	3.91	3.45	3.16	2.08	1.83	1.61
Price/book value (x)	9.91	6.95	4.95	3.84	3.03	4.33	3.72	3.23	2.34	1.94	1.60
Equity FCF yield (%)	-0.32	2.88	3.83	5.48	6.75	0.55	0.62	3.52	3.63	6.48	10.7
Normalised PE (x)	35.7	27.0	18.7	14.8	12.7	22.9	19.3	17.4	10.0	8.59	6.99
Norm PE @tgt price (x)	42.5	32.2	22.2	17.7	15.1	18.6	15.7	14.2	19.9	17.1	13.9
Dividend yield (%)	0.47	0.67	0.76	0.89	0.89	1.27	1.23	1.49	2.06	2.48	2.89
				<i>year to Mar</i>			<i>year to Mar</i>			<i>year to Dec</i>	
Per share data	FY06A	FY07A	FY08F	FY09F	FY10F	Solvency	FY06A	FY07A	FY08F	FY09F	FY10F
Tot adj dil sh, ave (m)	88.1	88.1	88.1	88.1	88.1	Net debt to equity (%)	71.8	34.6	10.2	-9.58	-25.2
Reported EPS (INR)	19.6	35.0	46.5	47.2	55.3	Net debt to tot ass (%)	21.9	13.7	4.80	-5.02	-14.5
Normalised EPS (INR)	19.6	25.9	37.6	47.2	55.3	Net debt to EBITDA	2.00	1.05	0.29	-0.29	-0.81
Dividend per share (INR)	3.26	4.69	5.31	6.25	6.24	Current ratio (x)	3.43	3.25	3.12	3.24	3.51
Equity FCF per share (INR)	-2.27	20.2	26.9	38.4	47.3	Operating CF int cov (x)	-2.59	-6.21	-6.18	-6.00	-6.94
Book value per sh (INR)	70.7	100.9	141.7	182.5	231.3	Dividend cover (x)	6.63	6.09	7.79	8.33	9.76
				<i>year to Mar</i>						<i>year to Mar</i>	

Priced as follows: LUPN.BO - Rs700.80; CIPL.BO - Rs206.45; WCKH.BO - Rs247.95
Source: Company data, ABN AMRO forecasts

LUPIN LTD: VALUATION METHODOLOGY

Table 1 : SOTP valuation

Business (US\$m)	US generics	RoW formulations	Bulk	Domestic
Total sales	210	78	226	290
Total net profit	27	12	18	49
Net revenue from segments	803			
Net profit from segments	106			
	Value	FY09F PER (x)	Implied P/Sales (x)	
US generics	437	16.0	2.1	
RoW formulations	210	18.0	2.7	
API	235	13.0	1.0	
Total ex-India formulations value	881			
Fair PER of Indian Formulations business	20x			
Fair value of Indian formulations business	985			
Total value	1,866			
Target price (Rs)	834			

Source: ABN AMRO forecasts

Lupin Ltd

Company description

Lupin is among the top 10 pharmaceutical companies in India, with a strong R&D capability focused on process chemistry, fermentation, new drug delivery systems and new chemical entities. It has a wide product basket across anti-TB, cephalosporin and cardiovascular therapeutic segments in addition to a recent entry in the growing diabetes and CNS segments. Lupin is fully integrated from the intermediate stage to finished dosages, with strong abilities in chemical fermentation technologies. Most of its plants are approved by the USFDA, UK MHRA and WHO. The company has established itself in the US market with a sizeable generics product basket accompanied by branded product - Suprax. With the recent Kyowa acquisition, the company has ventured in geographies like Japan and intends to grow in EU as well.

Buy Price relative to country



Strategic analysis

Average SWOT company score: **3**

Sales breakdown, FY09F

Strengths

Strong process development skills in cephalosporins, fermentation technology, USFDA approved facilities for both API and finished dosages, including injectables. **4**

Weaknesses

Lack of marketing and distribution presence in the US, still dependent on APIs, which are subject to pricing pressure. **1**

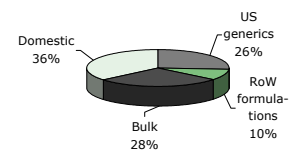
Opportunities

Japan and European market for generics, especially those which have high entry barriers. **4**

Threats

Increasing competition in the generics segment in the US and a decline in the number of drugs going off-patent in the future. **3**

Scoring range is 1-5 (high score is good)



Source: ABN AMRO estimates

Market data

Headquarters

159 CST Road, Kalina, Santacruz E
Mumbai 400 098, India

Website

www.lupinworld.com

Shares in issue

88.1m

Freefloat

49%

Majority shareholders

Promoter Group (51%), Citicorp (13%)

India

Country view

Overweight

Country rel to Asia Pacific

We expect Indian growth to remain robust in 2008, driven by domestic demand due to the rise in wages and farm incomes. We see a structural growth story emerging in real estate and agriculture, in line with the government's 11th five-year development plan of redistributing income beyond the city centres. We remain selective buyers of consumer discretionary and consumer staples, especially in upstream industries such as cold chain, agri-businesses and organised retail. We think the IT sector is also worth a fresh look as valuations look increasingly undemanding at present levels and major players have demonstrated an ability to protect their margins.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



Competitive position

Average competitive score: **3+**

Broker recommendations

Supplier power

Backward integration and enhanced economies of scale, manufacturing facilities approved by the USFDA. Hence, no problem with raw-material supplies. **3+**

Barriers to entry

Strength in fermentation technology difficult to replicate. Creating powerful position in value-added cephalosporins, statins and prils. **4+**

Customer power

Key products have pricing power. In the US and Western European generics market, the lower the price, the higher the market share. **2+**

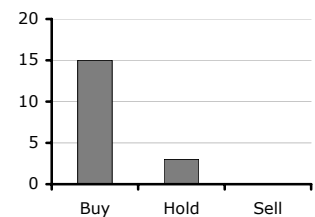
Substitute products

Older products in the anti-TB and anti-infective range are substitutable. Hence, the need to innovate constantly in order to launch complex products in the market. **2-**

Rivalry

Strong competition from a number of players who are well entrenched in the advanced markets that Lupin is targeting. **2-**

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse



Source: Bloomberg

Ranbaxy Laboratories

FTF pipeline priced in

Ranbaxy's current FTF pipeline appears fairly monetised after the Nexium settlement and the recent rally. We see limited upside from current levels. Downgrade to Hold on valuation.

Key forecasts

	FY05A	FY06A	FY07F	FY08F	FY09F
Revenue (Rsm)	51019.5	60170.5	65904.0	72963.4	80962.4
EBITDA (Rsm)	1314.7	7551.7	6458.0	10128.8	10837.5
Reported net profit (Rsm)	2617.1	5093.5	7901.4	8357.3	8958.8
Normalised net profit (Rsm) ¹	2283.9	5093.5	7634.4	8357.3	8958.8
Normalised EPS (Rs)	6.14	12.7	19.1	20.9	22.4
Dividend per share (Rs)	8.52	8.52	9.44	10.0	10.0
Dividend yield (%)	1.77	1.77	1.96	2.08	2.08
Normalised PE (x)	78.4	37.8	25.2 ▲	23.1 ▲	21.5 ▲
EV/EBITDA (x)	160.0	30.4	35.9	22.7	21.0
Price/book value (x)	7.32	7.45	6.47	5.60	4.91
ROIC (%)	-0.24	8.15	4.21	6.77	6.88

1. Post-goodwill amortisation and pre-exceptional items
Accounting Standard: Local GAAP
Source: Company data, ABN AMRO forecasts

year to Dec, fully diluted

Nexium litigation settled; benefits accrue in three separate structures

Ranbaxy has settled its Nexium patent litigation with AstraZeneca. As per the settlement, Ranbaxy is to supply API/formulations to AstraZeneca from 2009, receive authorised generic distribution rights for Prilosec and Plendil, besides the 180-day exclusivity (sans authorised generic) for Nexium in 2014. Ranbaxy was the first-to-file (FTF) on Nexium, earning the 180-day exclusivity, and expected to receive a final approval for the same after 14 April 2007. This would have enabled an 'at risk' launch, which was reflected in our NPV estimate of Rs23/share. The latest settlement has pushed the launch of the generic to 2014, but the additional benefits thrown in by AstraZeneca push up our NPV to Rs41/share. We raise our target price to Rs503 to incorporate this.

FTF pipeline looks reasonably monetised (24% of our target valuation)

Ranbaxy has, over the past few months, announced settlement deals for Imitrex, Valtrex, Flomax and now Nexium. Lipitor, which forms a significant chunk of the company's FTF pipeline, is also a near certainty with Ranbaxy expecting its launch in 2010-11. That leaves Ranbaxy with ~US\$7bn-8bn of targeted FTF opportunities, which are largely uncertain, small in size, with shared exclusivities, and we believe are reasonably represented by our current NPV. Consequently, we expect limited upside surprise from the existing pipeline. In our view, NPV upgrades could only come from any announcement of a fresh pipeline of Para IV filings.

Target price met; downgrade to Hold

The stock has been an outperformer over the past three months and has reached our earlier target price. Upward revision of the target price on the back of the Nexium settlement offers limited upside, in our view, prompting our downgrade to Hold. Moreover, even on a core earnings basis (excluding FTF opportunities) the stock trades at 19.3x CY08F EPS, which we believe is fair. Valuation of a portion of FTFs as sustainable earnings instead of NPV could provide upside potential to our target price.

Priced at close of business 15 April 2008.

Mafatlal Chambers – C Wing, Ground Floor, N.M. Joshi Marg, Lower Parel (E), Mumbai 400 013, India. Tel : +91 022 6754 8411 Fax : +91 022 6754 8420

Hold (from Buy)

Absolute performance

n/a

Short term (0-60 days)

Overweight

Market relative to region

Pharmaceuticals & Biotechnology

India

Price

Rs481.80

Target price

Rs503.00 (from Rs485.00)

Market capitalisation

Rs192.69bn (US\$4.82bn)

Avg (12mth) daily turnover

Rs158.03m (US\$3.95m)

Reuters

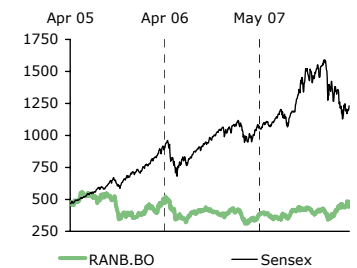
Bloomberg

RANB.BO

RBXY IN

Price performance (1M) (3M) (12M)

Price (Rs)	464.1	389.9	334.7
Absolute %	3.8	23.6	43.9
Rel market %	1.3	54.9	19.3
Rel sector %	3.6	39.6	71.4



Stock borrowing: n/a

Volatility (30-day): 45.58%

Volatility (6-month trend): ↑

52-week range: 499.65-299.90

Sensex: 16153.66

BBG AP Pharm & Biotech: 142.79

Source: ABN AMRO, Bloomberg

Researched by

ABN AMRO Institutional
Equities Team

www.abnamrobroking.co.in

RANBAXY LABORATORIES: KEY FINANCIAL DATA

Income statement

Rsm	FY05A	FY06A	FY07F	FY08F	FY09F
Revenue	51019.5	60170.5	65904.0	72963.4	80962.4
Cost of sales	-31548	-31056	-35731	-37576	-42505
Operating costs	-18157	-21563	-23715	-25258	-27620
EBITDA	1314.7	7551.7	6458.0	10128.8	10837.5
DDA & Impairment (ex gw)	-1444.5	-1842.9	-2228.0	-2698.5	-3006.5
EBITA	-129.8	5708.9	4230.0	7430.3	7831.0
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	-129.8	5708.9	4230.0	7430.3	7831.0
Net interest	-671.2	-1036.3	-1443.0	-1515.2	-1590.9
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	333.1	0.00	267.0	0.00	0.00
Other pre-tax items	2412.7	1827.9	6917.4	4276.7	4685.3
Reported PTP	1944.8	6500.4	9971.4	10191.8	10925.3
Taxation	697.6	-1356.7	-2070.0	-1834.5	-1966.6
Minority interests	-25.4	-50.2	0.00	0.00	0.00
Exceptionals (post-tax)	n/a	n/a	n/a	n/a	n/a
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	2617.1	5093.5	7901.4	8357.3	8958.8
Normalised Items Excl. GW	333.1	0.00	267.0	0.00	0.00
Normalised net profit	2283.9	5093.5	7634.4	8357.3	8958.8

Source: Company data, ABN AMRO forecasts

year to Dec

Balance sheet

Rsm	FY05A	FY06A	FY07F	FY08F	FY09F
Cash & market secs (1)	2430.1	2951.2	4338.4	8204.4	13382.4
Other current assets	30848.7	38152.9	40836.7	43773.0	47246.6
Tangible fixed assets	26186.9	42533.4	43696.2	44698.6	44556.6
Intang assets (incl gw)	n/a	n/a	n/a	n/a	n/a
Oth non-curr assets	2920.1	1343.5	3250.0	3350.0	3350.0
Total assets	62385.7	84981.0	92121.4	100026	108536
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	15007.9	17596.6	17348.9	18745.6	20407.0
Long term debt (3)	20042.6	39556.2	43343.3	45510.5	47786.0
Oth non-current liab	2699.3	1636.0	1336.0	1036.0	736.0
Total liabilities	37749.8	58788.8	62028.2	65292.1	68929.0
Total equity (incl min)	24636.1	26192.0	30093.1	34734.0	39606.6
Total liab & sh equity	62385.9	84980.8	92121.4	100026	108536
Net debt (2+3-1)	17612.5	36605.0	39004.9	37306.1	34403.6

Source: Company data, ABN AMRO forecasts

year ended Dec

Cash flow statement

Rsm	FY05A	FY06A	FY07F	FY08F	FY09F
EBITDA	1314.7	7551.7	6458.0	10128.8	10837.5
Change in working capital	-648.4	-4715.6	-2931.5	-1539.6	-1812.1
Net interest (pd) / rec	1741.5	791.6	5474.4	2761.5	3094.4
Taxes paid	697.6	-1356.7	-2070.0	-1834.5	-1966.6
Other oper cash items	302.0	0.00	267.0	0.00	0.00
Cash flow from ops (1)	3407.4	2271.0	7197.9	9516.2	10153.1
Capex (2)	-9508.1	-19238	-4977.0	-5150.9	-4314.6
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	160.4	1210.1	934.9	1577.3	1426.7
Cash flow from invest (3)	-9347.7	-18028	-4042.1	-3573.6	-2887.8
Incr / (decr) in equity	3.30	1.22	0.00	0.00	0.00
Incr / (decr) in debt	11515.3	19513.6	3787.1	2167.2	2275.5
Ordinary dividend paid	-3614.5	-3613.4	-4000.3	-3716.5	-4086.1
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	-872.9	376.5	-1555.8	-527.2	-277.0
Cash flow from fin (5)	7031.3	16277.9	-1769.0	-2076.5	-2087.6
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Incr/(decr) cash (1+3+5+6)	1091.0	520.8	1386.9	3866.2	5177.7
Equity FCF (1+2+4)	-6100.7	-16967	2220.9	4365.3	5838.6

Lines in bold can be derived from the immediately preceding lines.

Source: Company data, ABN AMRO forecasts

year to Dec

RANBAXY LABORATORIES: PERFORMANCE AND VALUATION

Standard ratios	Ranbaxy Lab					Dr Reddy's Laboratories			Sun Pharmaceutical		
Performance	FY05A	FY06A	FY07F	FY08F	FY09F	FY08F	FY09F	FY10F	FY08F	FY09F	FY10F
Sales growth (%)	-2.73	17.9	9.53	10.7	11.0	-26.7	9.97	7.39	33.0	28.2	8.37
EBITDA growth (%)	-83.4	474.4	-14.5	56.8	7.00	-48.2	16.2	10.7	69.1	46.2	-3.32
EBIT growth (%)	n/a	n/a	-25.9	75.7	5.39	-75.7	133.1	14.8	73.6	50.0	-4.34
Normalised EPS growth (%)	-69.0	107.3	49.9	9.47	7.18	-67.1	75.6	17.7	50.5	39.9	-3.58
EBITDA margin (%)	2.58	12.6	9.80	13.9	13.4	17.0	17.9	18.5	41.1	46.9	41.8
EBIT margin (%)	-0.25	9.49	6.42	10.2	9.67	5.62	11.9	12.7	37.1	43.4	38.3
Net profit margin (%)	4.48	8.47	11.6	11.5	11.1	6.69	10.7	11.7	42.7	46.6	41.4
Return on avg assets (%)	4.70	7.88	9.67	9.71	9.57	3.72	6.66	7.39	27.1	31.3	24.8
Return on avg equity (%)	9.21	20.2	27.5	26.1	24.3	7.41	11.9	12.6	36.4	37.8	28.1
ROIC (%)	-0.24	8.15	4.21	6.77	6.88	3.19	7.42	8.27	38.9	50.2	44.0
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00	-8.99	-4.76	-3.92	26.7	38.0	31.8
				<i>year to Dec</i>			<i>year to Mar</i>			<i>year to Mar</i>	
Valuation											
EV/sales (x)	4.12	3.81	3.52	3.15	2.80	2.13	1.86	1.60	9.23	6.88	6.06
EV/EBITDA (x)	160.0	30.4	35.9	22.7	21.0	12.6	10.4	8.63	22.5	14.7	14.5
EV/EBITDA @ tgt price (x)	166.4	31.5	37.2	23.5	21.7	13.0	10.8	9.02	21.0	13.7	13.5
EV/EBIT (x)	n/m	40.2	54.8	31.0	29.0	38.0	15.6	12.5	24.9	15.8	15.8
EV/invested capital (x)	4.68	3.56	3.29	3.15	3.04	1.83	1.71	1.60	8.33	7.29	6.38
Price/book value (x)	7.32	7.45	6.47	5.60	4.91	2.21	1.99	1.78	7.11	5.26	4.18
Equity FCF yield (%)	-3.41	-8.81	1.15	2.27	3.03	3.27	4.00	7.65	3.00	5.35	5.02
Normalised PE (x)	78.4	37.8	25.2	23.1	21.5	30.9	17.6	14.9	22.4	16.0	16.6
Norm PE @tgt price (x)	81.9	39.5	26.3	24.1	22.5	32.1	18.3	15.5	21.0	15.0	15.5
Dividend yield (%)	1.77	1.77	1.96	2.08	2.08	0.32	0.57	0.67	0.90	1.26	1.21
				<i>year to Dec</i>			<i>year to Mar</i>			<i>year to Mar</i>	
Per share data											
Tot adj dil sh, ave (m)	371.8	399.9	399.9	399.9	400.0						
Reported EPS (INR)	7.04	12.7	19.8	20.9	22.4						
Normalised EPS (INR)	6.14	12.7	19.1	20.9	22.4						
Dividend per share (INR)	8.52	8.52	9.44	10.0	10.0						
Equity FCF per share (INR)	-16.4	-42.4	5.55	10.9	14.6						
Book value per sh (INR)	65.8	64.7	74.4	86.0	98.2						
				<i>year to Dec</i>							
Solvency											
Net debt to equity (%)						71.5	139.8	129.6	107.4	86.9	
Net debt to tot ass (%)						28.2	43.1	42.3	37.3	31.7	
Net debt to EBITDA						13.4	4.85	6.04	3.68	3.17	
Current ratio (x)						2.22	2.34	2.60	2.77	2.97	
Operating CF int cov (x)						-0.56	-3.58	-0.69	-3.11	-2.92	
Dividend cover (x)						0.72	1.61	2.18	2.56	2.50	
										<i>year to Dec</i>	

Priced as follows: RANB.BO - Rs481.80; REDY.BO - Rs615.35; SUN.BO - Rs1275.25
Source: Company data, ABN AMRO forecasts

RANBAXY LABORATORIES: VALUATION METHODOLOGY

Table 3 : SOTP valuation 2008

US \$m	US generics	Europe - ex Terapia	Terapia	Asia/ LatAm/ M East	API	India
Base sales (excluding FTFs)	395	351	196	423	106	361
Base net profit	28	0	34	51	5	72
Net revenue from segments	1831					
Net profit from segments ex-forex gains	189					
	Value	PER	Implied P/Sales			
US generics at PER of 16x	442	16	1.1			
Europe at 1x sales	351	NA	1.0			
Terapia at PER of 20x	682	20	3.5			
Asia/LatAm and M East at PER of 18.x	913	18	2.2			
API at PER of 13x	69	13	0.7			
Total Ex-India formulations value	2456					
Add: NPV of Para IV exclusivities	1190					
Sub total	3646					
India formulations fair PER	20					
Fair value of Indian formulations	1445					
Company value	5091					
Target price (Rs/share)	503					

Source: ABN AMRO estimates

Ranbaxy Laboratories

Company description

Ranbaxy is the largest domestic pharmaceutical company in India in terms of sales. It is recognised for its research-based approach and accent on exports. It is now rapidly making significant inroads in the advanced markets. The company is ramping up its filings and registrations and is making a push into the US, which is the world's largest generics market. Ranbaxy is also bringing out novel drug-delivery systems and was the first Indian company to licence a product in this field to Bayer AG.

Hold

Price relative to country



Strategic analysis

Average SWOT company score: 4

CY08F revenues

Strengths

Drug-discovery research. US FDA-approved manufacturing facilities. Strong pipeline of generic drugs in advanced markets. **4**

Weaknesses

The company's high exposure to mature anti-infective segments in the domestic market is affecting growth. **2**

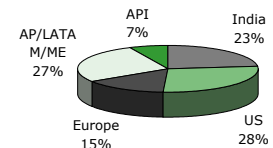
Opportunities

The substantial US market for generics; other non-regulated markets such as Brazil, Russia, CIS, China and India. **5**

Threats

Increased competition in the generics segment in the US. A fall in the number of drugs going off-patent in the future. **3**

Scoring range is 1-5 (high score is good)



Source: ABN AMRO forecasts

Market data

Headquarters

19, Nehru Place, New Delhi - 110 019, India.

Website

ranbaxy.com

Shares in issue

399.9m

Freefloat

68%

Majority shareholders

Promoters and Associates (32%)

India

Country view

Overweight

Country rel to Asia Pacific

We expect Indian growth to remain robust in 2008, driven by domestic demand due to the rise in wages and farm incomes. We see a structural growth story emerging in real estate and agriculture, in line with the government's 11th five-year development plan of redistributing income beyond the city centres. As monetary policy will likely be less tight, we look for consumer spending to rebound. We remain selective buyers of consumer discretionary and consumer staples, especially in upstream industries such as cold chain, agri-businesses and organised retail. We think the IT sector is also worth a fresh look as valuations look increasingly undemanding at present levels and major players have demonstrated an ability to protect their margins.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



Competitive position

Average competitive score: 4+

Broker recommendations

Supplier power

Strong backward integration, FDA-approved manufacturing facilities, hence no problems in raw material supplies. **5+**

Barriers to entry

Strong R&D background focusing on new drug-delivery technology. Strength in chemical synthesis and distribution network difficult to replicate. **4+**

Customer power

Key products have pricing power. But in the generics market of the West, "the lower the price, the better the market share". **3+**

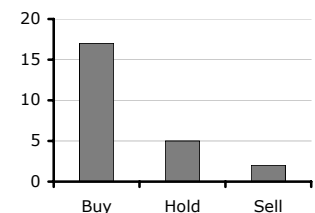
Substitute products

Older products are substitutes. Hence, company needs to innovate constantly to bring complex products to market. **3+**

Rivalry

Strong competition from several players who are well entrenched in the advanced markets Ranbaxy targets. **3+**

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse



Source: Bloomberg

Sun Pharmaceutical

Expensive proposition

Sun had a strong 4Q08, as we expected, due to exclusivity product launches and inventory build-up at distributors. The stock looks expensive, trading at 27.3x core FY09F EPS. We downgrade from Hold to Sell with a revised target price of Rs1,250.

Key forecasts

	FY06A	FY07A	FY08F	FY09F	FY10F
Revenue (Rsm)	15931.4	20792.2	32909.3	40736.4	38998.4
EBITDA (Rsm)	4974.6	6723.6	15511.2▲	18122.1▲	15833.4
Reported net profit (Rsm)	5731.0	7842.0	14868.2▲	17508.3▲	14828.2▼
Normalised net profit (Rsm) ¹	5731.0	7842.0	14868.2	17508.3	14828.2
Normalised EPS (Rs)	27.7	37.9	71.8▲	84.5▲	71.6▼
Dividend per share (Rs)	5.95	7.01	14.4▲	17.0▲	14.4▼
Dividend yield (%)	0.41	0.48	0.99	1.17	0.99
Normalised PE (x)	52.6	38.5	20.3▼	17.2	20.3▲
EV/EBITDA (x)	61.3	44.5	18.9	15.5	17.0
Price/book value (x)	19.0	10.9	7.62	5.64	4.61
ROIC (%)	23.2	28.5	55.1	51.3	40.3

1. Post-goodwill amortisation and pre-exceptional items
Accounting Standard: Local GAAP
Source: Company data, ABN AMRO forecasts

year to Mar, fully diluted

4Q08 result: windfall gains from exclusive product launches

Sun Pharma recorded windfall gains from its exclusivity Para IV launches: generic Protonix, spillover gains from generic Trileptal and minor gains from generic Ethyol. 4Q08 sales were impressive at Rs12.4bn (+133% yoy). The EBITDA margin was also high at 60% due to the higher-margin exclusivity products. However, the company's domestic formulation growth of 16% in 4Q08 might indicate a slowdown. Management has provided FY09 revenue growth guidance of 25% for the US formulation business and 18-20% for the other businesses.

FY09 exclusivity one-off estimate unchanged; Taro not yet factored in

We note that Wyeth's branded Protonix sales in January-March 2008 were US\$83m while its authorised generic sales were US\$76m. Based on its market share by volume, Teva also appears to have shipped a significant quantity in its initial launch, which it subsequently halted. Therefore, we estimate Sun Pharma sold US\$120m in February-March 2008, driven partly by inventory build-up. Sun's US subsidiary Caraco's admission of inventory build-up supports our belief. Hence, we maintain our full-year FY09 estimate for exclusivity sales. We believe the market valuation of Sun had included the potential Taro acquisition. However, following Taro's recent termination of the proposed merger agreement, Sun's attempt to acquire the company could become a prolonged and hostile battle, and we could see the acquisition price rise. Hence, we do not factor in a Taro acquisition just yet.

Valuation and target price

We value profits driven by exclusivity product sales on an NPV basis since they are not sustainable. However, we continue to value the domestic formulation business at 25x (against the 20x we apply across the sector, given Sun's higher margins and top-line growth record). We believe the market overvalues Caraco's contribution to Sun by using the latter's high PE multiple despite Caraco's much lower market cap. To us the stock appears expensive, trading at a core FY09F PE of 27.3x. We downgrade our recommendation from Hold to Sell with a revised SOTP-based target price of Rs1,250 (previously Rs1,194) on changes to our earnings forecasts.

Priced at close of business 9 June 2008. Use of ▲ ▼ indicates that the line item has changed by at least 5%. This note should be read along with our sector report (*Valuation wheel has turned*, 12 June 2008) for a better understanding of the investment argument.

Mafatal Chambers – C Wing, Ground Floor, N.M. Joshi Marg, Lower Parel (E), Mumbai 400 013, India. Tel : +91 022 6754 8411 Fax : +91 022 6754 8420

Sell

(from Hold)

Absolute performance

n/a

Short term (0-60 days)

Overweight

Market relative to region

Pharmaceuticals & Biotechnology

India

Price

Rs1456.15

Target price

Rs1250.00 (from Rs1194.00)

Market capitalisation

Rs301.58bn (US\$7.04bn)

Avg (12mth) daily turnover

Rs119.74m (US\$2.93m)

Reuters

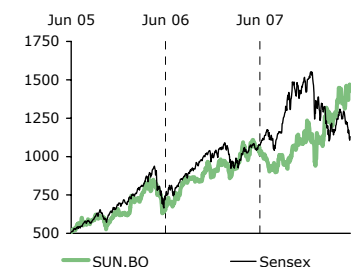
SUN.BO

Bloomberg

SUNP IN

Price performance (1M) (3M) (12M)

	1M	3M	12M
Price (Rs)	1394	1308	1060
Absolute %	4.5	11.3	37.4
Rel market %	15.1	18.2	27.4
Rel sector %	2.5	11.1	52.5



Stock borrowing: Difficult

Volatility (30-day): 41.48%

Volatility (6-month trend): ↑

52-week range: 1520.15-885.90

Sensex: 15185.32

BBG AP Pharm & Biotech: 146.85

Source: ABN AMRO, Bloomberg

Researched by

ABN AMRO Institutional
Equities Team

www.abnamrobroking.co.in

SUN PHARMACEUTICAL: KEY FINANCIAL DATA

Income statement

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Revenue	15931.4	20792.2	32909.3	40736.4	38998.4
Cost of sales	-4935.1	-5767.2	-7221.7	-8663.4	-10147
Operating costs	-6021.7	-8301.4	-10176	-13951	-13018
EBITDA	4974.6	6723.6	15511.2	18122.1	15833.4
DDA & Impairment (ex gw)	-614.5	-813.3	-968.6	-1223.3	-1339.8
EBITA	4360.1	5910.3	14542.6	16898.8	14493.5
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	4360.1	5910.3	14542.6	16898.8	14493.5
Net interest	869.3	0.00	0.00	0.00	0.00
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	738.9	2424.5	1451.3	1796.5	1719.8
Reported PTP	5968.3	8334.8	15993.9	18695.3	16213.4
Taxation	-239.3	66.8	-484.8	-560.9	-486.4
Minority interests	2.80	-558.8	-640.1	-625.3	-897.8
Exceptionals (post-tax)	n/a	n/a	n/a	n/a	n/a
Other post-tax items	-0.84	-0.84	-0.84	-0.84	-0.90
Reported net profit	5731.0	7842.0	14868.2	17508.3	14828.2
Normalised Items Excl. GW	0.00	0.00	0.00	0.00	0.00
Normalised net profit	5731.0	7842.0	14868.2	17508.3	14828.2

Source: Company data, ABN AMRO forecasts

year to Mar

Balance sheet

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Cash & market secs (1)	15324.4	13802.1	14923.3	23620.8	34175.9
Other current assets	11197.6	16086.4	23186.7	26722.4	27359.4
Tangible fixed assets	8562.8	9514.3	9907.5	10184.1	10344.3
Intang assets (incl gw)	506.9	697.1	697.1	697.1	697.1
Oth non-curr assets	3955.6	3150.5	3504.6	3733.3	3682.5
Total assets	39547.3	43250.4	52219.1	64957.8	76259.2
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	3514.5	3045.5	4369.1	5351.6	5504.0
Long term debt (3)	18389.0	10748.9	5748.9	2748.9	748.9
Oth non-current liab	1410.6	1290.5	1469.5	1684.3	1942.1
Total liabilities	23314.1	15084.9	11587.5	9784.8	8195.1
Total equity (incl min)	16233.2	28165.6	40631.6	55173.0	68064.1
Total liab & sh equity	39547.3	43250.5	52219.1	64957.8	76259.2
Net debt (2+3-1)	3422.5	-2657.8	-8779.0	-20476	-33032

Source: Company data, ABN AMRO forecasts

year ended Mar

Cash flow statement

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
EBITDA	4974.6	6723.6	15511.2	18122.1	15833.4
Change in working capital	-3132.2	-5357.8	-5776.7	-2553.3	-484.5
Net interest (pd) / rec	869.3	0.00	0.00	0.00	0.00
Taxes paid	-239.3	66.8	-484.8	-560.9	-486.4
Other oper cash items	1975.8	1853.3	1128.5	1386.0	1079.8
Cash flow from ops (1)	4448.2	3285.9	10378.2	16394.0	15942.3
Capex (2)	-4535.5	-1910.0	-1500.0	-1500.0	-1500.0
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	4053.3	614.9	-354.1	-228.7	50.8
Cash flow from invest (3)	-482.2	-1295.1	-1854.1	-1728.7	-1449.2
Incr / (decr) in equity	171.6	144.1	640.6	626.3	1105.9
Incr / (decr) in debt	516.6	-7602.6	-5000.0	-3000.0	-2000.0
Ordinary dividend paid	-1167.4	-1483.4	-3043.6	-3594.1	-3043.9
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	28.5	5428.9	0.00	0.00	0.00
Cash flow from fin (5)	-450.8	-3513.0	-7403.0	-5967.8	-3938.0
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	3515.3	-1522.2	1121.1	8697.5	10555.1
Equity FCF (1+2+4)	-87.3	1375.9	8878.2	14894.0	14442.3

Lines in bold can be derived from the immediately preceding lines.

Source: Company data, ABN AMRO forecasts

year to Mar

SUN PHARMACEUTICAL: PERFORMANCE AND VALUATION

Standard ratios	Sun Pharma					Cipla			Ranbaxy Laboratories		
Performance	FY06A	FY07A	FY08F	FY09F	FY10F	FY08F	FY09F	FY10F	FY07F	FY08F	FY09F
Sales growth (%)	39.3	30.5	58.3	23.8	-4.27	16.5	16.4	15.8	9.53	10.7	11.0
EBITDA growth (%)	19.4	35.2	130.7	16.8	-12.6	2.41	27.4	13.2	-14.5	56.8	7.00
EBIT growth (%)	15.9	35.6	146.1	16.2	-14.2	-1.64	33.1	11.7	-25.9	75.7	5.39
Normalised EPS growth (%)	44.7	36.8	89.6	17.8	-15.3	4.88	18.6	10.7	49.9	9.47	7.18
EBITDA margin (%)	31.2	32.3	47.1	44.5	40.6	19.5	21.4	20.9	9.80	13.9	13.4
EBIT margin (%)	27.4	28.4	44.2	41.5	37.2	16.2	18.6	17.9	6.42	10.2	9.67
Net profit margin (%)	36.0	37.7	45.2	43.0	38.0	17.5	17.8	17.0	11.6	11.5	11.1
Return on avg assets (%)	13.4	20.3	32.5	31.0	22.3	14.8	15.0	14.2	9.67	9.71	9.57
Return on avg equity (%)	42.1	35.9	44.2	37.6	24.9	20.2	20.7	19.8	27.5	26.1	24.3
ROIC (%)	23.2	28.5	55.1	51.3	40.3	12.3	13.1	12.9	4.21	6.77	6.88
ROIC - WACC (%)	12.8	16.4	42.9	39.1	28.1	0.12	0.88	0.75	0.00	0.00	0.00
				<i>year to Mar</i>			<i>year to Mar</i>			<i>year to Dec</i>	
Valuation											
EV/sales (x)	19.1	14.4	8.90	6.90	6.89	4.09	3.50	2.95	4.00	3.59	3.20
EV/EBITDA (x)	61.3	44.5	18.9	15.5	17.0	20.9	16.3	14.1	40.8	25.8	23.9
EV/EBITDA @ tgt price (x)	52.7	38.1	16.1	13.2	14.3	17.1	13.4	11.5	37.2	23.5	21.7
EV/EBIT (x)	70.0	50.6	20.1	16.6	18.5	25.2	18.8	16.5	62.3	35.2	33.0
EV/invested capital (x)	14.7	11.3	8.89	7.81	7.34	3.91	3.45	3.16	3.74	3.58	3.46
Price/book value (x)	19.0	10.9	7.62	5.64	4.61	4.33	3.72	3.23	7.54	6.52	5.71
Equity FCF yield (%)	-0.03	0.46	2.94	4.94	4.79	0.55	0.62	3.52	0.99	1.95	2.60
Normalised PE (x)	52.6	38.5	20.3	17.2	20.3	22.9	19.3	17.4	29.4	26.8	25.0
Norm PE @tgt price (x)	45.2	33.0	17.4	14.8	17.5	18.6	15.7	14.2	26.3	24.1	22.5
Dividend yield (%)	0.41	0.48	0.99	1.17	0.99	1.27	1.23	1.49	1.68	1.78	1.78
				<i>year to Mar</i>			<i>year to Mar</i>			<i>year to Dec</i>	
Per share data	FY06A	FY07A	FY08F	FY09F	FY10F	Solvency	FY06A	FY07A	FY08F	FY09F	FY10F
Tot adj dil sh, ave (m)	207.1	207.1	207.1	207.1	207.1	Net debt to equity (%)	21.1	-9.44	-21.6	-37.1	-48.5
Reported EPS (INR)	27.7	37.9	71.8	84.5	71.6	Net debt to tot ass (%)	8.65	-6.15	-16.8	-31.5	-43.3
Normalised EPS (INR)	27.7	37.9	71.8	84.5	71.6	Net debt to EBITDA	0.69	-0.40	-0.57	-1.13	-2.09
Dividend per share (INR)	5.95	7.01	14.4	17.0	14.4	Current ratio (x)	7.55	9.81	8.72	9.41	11.2
Equity FCF per share (INR)	-0.42	6.64	42.9	71.9	69.7	Operating CF int cov (x)	-4.39	0.00	0.00	0.00	0.00
Book value per sh (INR)	76.8	133.9	191.0	258.2	316.1	Dividend cover (x)	5.60	6.03	5.57	5.56	5.56
				<i>year to Mar</i>						<i>year to Mar</i>	

Priced as follows: SUN.BO - Rs1456.15; CIPL.BO - Rs206.45; RANB.BO - Rs525.85
Source: Company data, ABN AMRO forecasts

SUN PHARMACEUTICAL: VALUATION METHODOLOGY

Table 1 : SOTP valuation

US\$ m	US generics	Export formulations	Bulk	India
Base sales	157	90	87	441
Base net profit	19	27	9	199
Exclusivity product sales	274			
Exclusivity product profits	192			
Total sales	1,050			
Net profit	445			
	Value	PER	Implied P/sales	
US generics at market	340			
Formulations RoW (Russia/CIS) at PER of 18x	488	18	1.1	
API at PER of 13x	114	13	1.3	
Total ex-India formulations value	942			
Add: NPV of para IV exclusivities	436			
Subtotal	1,377			
Fair valuation of Indian formulations	25			
India fair value	4,966			
Total Sun pharma value	6,343			
Target price	Rs1,250			

Source: ABN AMRO forecasts

Sun Pharmaceutical

Company description

Sun Pharma is ranked fifth among the Indian pharma companies based on prescriptions, with a 3.01% market share. However, in niche therapy areas such as psychiatry, neurology, cardiology, diabetology, gastroenterology and orthopedics, Sun Pharma ranks among the top-three in India. It holds a 67% equity stake in Detroit-based Caraco Pharma, which is a manufacturer and distributor of generic drugs.

Sell Price relative to country



Strategic analysis

Average SWOT company score: **3**

Strengths

Leader in complex and niche therapeutic areas in the domestic formulations business; these include psychiatry, neurology and cardiology. **4**

Weaknesses

Weak formulations export franchise in non-regulated markets; based predominantly in Asian markets. We also see lack of management depth. **2**

Opportunities

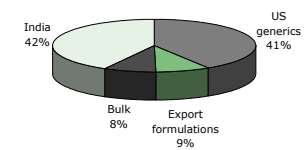
The US generics market is growing with a number of patent expiries. Also, European markets are opening up to generics. **4**

Threats

Increasing competition in the generics markets in the US and Europe. Slowdown in the number of drugs going off-patent in the future. **3**

Scoring range is 1-5 (high score is good)

Sales breakdown, FY09F



Source: ABN AMRO forecasts

Market data

Headquarters

Acme Plaza, Andheri Kurla Road, Andheri (E), Mumbai 400 059, India.

Website

sunpharma.com

Shares in issue

207.1m

Freefloat

29%

Majority shareholders

Indian Promoters (66%), Persons acting in concert (6%)

India

Country view

Overweight

Country rel to Asia Pacific

We expect Indian growth to remain robust in 2008, driven by domestic demand due to the rise in wages and farm incomes. We see a structural growth story emerging in real estate and agriculture, in line with the government's 11th five-year development plan of redistributing income beyond the city centres. We remain selective buyers of consumer discretionary and consumer staples, especially in upstream industries such as cold chain, agri-businesses and organised retail. We think the IT sector is also worth a fresh look as valuations look increasingly undemanding at present levels and major players have demonstrated an ability to protect their margins.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



Competitive position

Average competitive score: **3+**

Broker recommendations

Supplier power

Vertically integrated, not dependent on outside suppliers. Manufacturing facilities are approved by the USFDA, hence no problem in raw-material supplies. **4+**

Barriers to entry

Barriers exist in domestic neurology, psychotropic, cardiology and gastro products. Strength in chemical synthesis difficult to replicate. **3+**

Customer power

Pricing power in some therapeutic groups. However, in the advanced generics markets, the lower the price, the higher the market share. **3+**

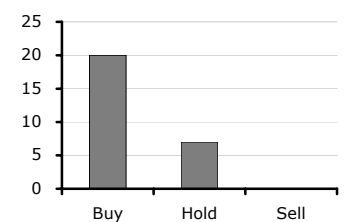
Substitute products

Older products are substitutable. Hence, the company needs to innovate constantly to bring complex products to the market. **3-**

Rivalry

Strong competition from a number of players who are well entrenched in the advanced markets that Sun Pharma is targeting. **2-**

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse



Source: Bloomberg

DISCLAIMER APPENDIX

This document is not for public distribution and has been furnished to you solely for your information only and must not be reproduced or re-distributed to any other person. Persons into whose possession this document may come are required to observe these restrictions. This material is for the personal information of the authorized recipient and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of ABN AMRO Asia Equities (India) Limited (AAAEIL). It does not constitute a personal recommendation or take into account the particular investment objectives, financial situation or needs of individual clients. We have reviewed the report and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed. Neither AAAEIL nor any person connected with it accepts any liability arising from the use of this document. The information contained in the said report should be construed as non-discretionary in nature and the recipient of this material should rely on their own investigations and take their own professional advice. Price and value of investments referred to in this material may go up or down. Past performance is not a guide for future performance. Opinions expressed are our current opinions as of the date appearing on this material only. Clients should not await such reports at regular intervals / frequency and should not hold AAAEIL responsible for failure to send such reports. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance or other reasons that prevent us from doing so. Prospective investors are cautioned that any forward looking statements are not predictions and may be subject to change without notice. Our proprietary trading may make investment decisions that are inconsistent with the recommendations expressed herein. AAAEIL has two independent equity research groups : Institutional Equities (IE) and Retail Broking Services (RBS). This report has been prepared by the IE and is being distributed to RBS clients after the report has been distributed to IE clients. We and our affiliates, officer, directors and employees worldwide may (a) from time to time have long or short positions in and buy or sell securities thereof, of company(ies) mentioned therein or (b) be engaged in any other transactions involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities and no part of his or her compensation was, is or will be directly related to specific recommendations and related information and opinions. No part of this material may be duplicated in any form and / or re-distributed without AAAEIL's prior written consent.