

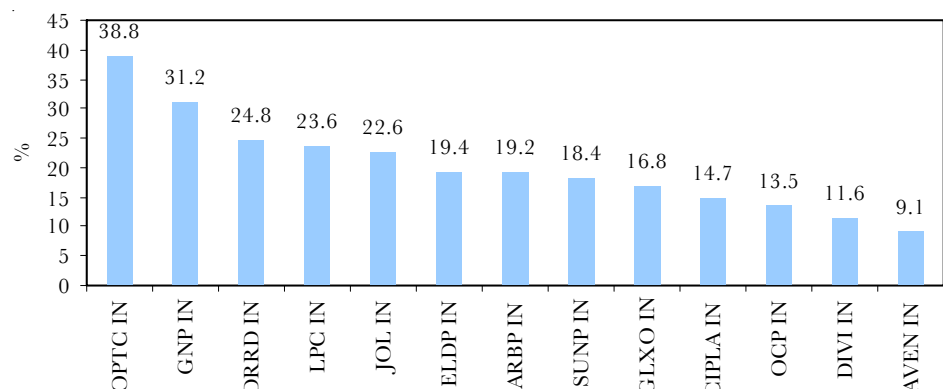
### Share Data

(%)	Absolute price performance		
	1M	3M	12M
<b>Sensex</b>	<b>(9.8)</b>	<b>(10.1)</b>	<b>(8.8)</b>
<b>BSE Healthcare</b>	<b>(8.5)</b>	<b>(4.3)</b>	<b>6.1</b>
<b>Indian Co's</b>			
Alembic	(14.5)	(2.1)	(69.5)
Apollo	0.8	9.7	31.5
Aurobindo	(24.8)	(22.5)	(36.5)
Biocon	(9.1)	(1.5)	(1.0)
Cadila	(5.7)	(5.2)	35.3
Cipla	(9.0)	(12.5)	(7.6)
Dishman	(23.5)	(27.3)	(65.4)
Divi's	(14.0)	(5.5)	(4.8)
Dr Reddy's	(7.5)	(5.9)	10.5
Elder Pharma	(0.0)	11.0	(0.2)
Fortis	(9.3)	(6.0)	(1.4)
Glenmark	(0.9)	12.2	12.4
Jubilant	(16.3)	12.8	(47.9)
Lupin	1.1	3.2	23.2
Natco	(10.6)	(10.9)	(3.9)
Orchid	(5.9)	(32.7)	3.7
Panacea	(10.8)	(20.0)	(24.2)
Piramal Healthcare	(6.8)	(2.9)	(25.7)
Ranbaxy Lab	(15.8)	(11.3)	(5.4)
Shasun	(7.8)	(7.9)	(10.8)
Sterling	(14.6)	(18.0)	(30.8)
Sun Pharma	(10.0)	4.8	31.4
Suven	(14.6)	(26.7)	(45.4)
Torrent	(9.9)	(3.5)	9.8
Unichem	(1.0)	(9.9)	(17.5)
Vimta Labs	(27.9)	(14.4)	(38.8)
Wockhardt	(14.6)	12.6	76.0
Opto	(8.3)	(5.5)	(6.7)
<b>MNC Co's</b>			
Aventis	2.1	11.4	20.0
GSK Pharma	(10.1)	(9.8)	12.6
Novartis India	(4.4)	17.6	31.1
Pfizer	(11.3)	7.8	19.4
Wyeth	(1.1)	14.2	26.4

### Key highlights

- Aventis acquires nutraceutical brands of Universal Medicare in India for more than US\$ 110 mn, acquisition to strengthen Aventis's OTC portfolio.
- Lupin ties up with Eli-Lilly (India) to market Lilly's range of Human-Insulin products in India and Nepal.
- Wockhardt sells its nutritional business to Danone for Euro 250 mn (Rs 15.8 bn).
- Media reports again speculate about Takeda eyeing domestic business of Cipla and Lupin. Any outright sale or strategic tie-up/JV can boost valuations.
- USFDA inspected Divi's unit-I manufacturing facility located at Hyderabad with some minor observations made.
- WHO delists certain DTP based vaccines of Panacea Biotec from its pre-qualified list.
- JB Chem announces special dividend of Rs 40 per share, this is part of the sale proceeds that it got from J&J and Dr Reddy's.
- Media sources say that Ranbaxy could be looking at selling rights of generic Lipitor in case USFDA approval does not come on time (November 2011).
- Merck/MSD and Serum Institute of India enters into a collaboration to develop pneumococcal conjugate vaccine (PCV) for emerging markets.
- Media sources point out that Pfizer Inc. plans to introduce OTC version of Lipitor in the US.
- Piramal Healthcare acquires 5.5% stake in Vodafone Essar Limited (VEL) for a consideration of US\$ 640 mn (Rs 28.6 bn).
- Pfizer recalls Citalopram tablets in the US (manufactured and supplied by Aurobindo Pharma) due to wrong labeling.
- DRL ties-up with Fujifilm Holdings Corp. to develop and produce generic drugs for Japanese markets.
- Zydus Cadila acquires Germany-based Bremer Pharma GmbH from ICICI ventures.
- Par Pharma US acquires privately held Anchen Pharma for US\$ 410 mn in cash.

### Prominent FII Holdings (%) – Jun 11

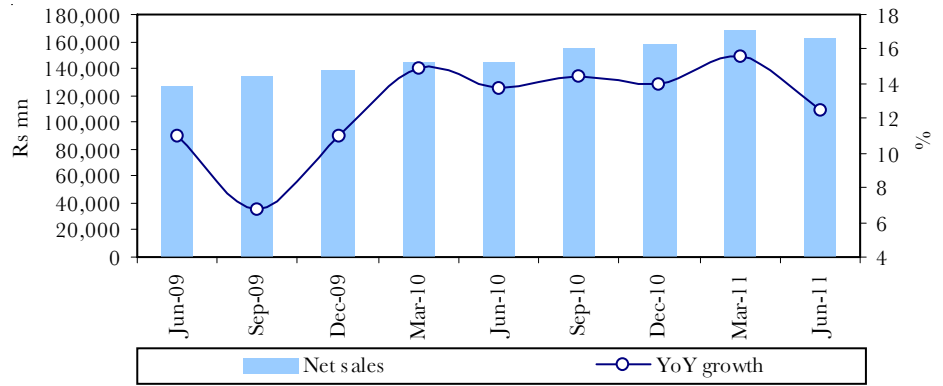


Source: B&K Research

### Quarterly performance – in line...domestic slowdown seen in June 2011

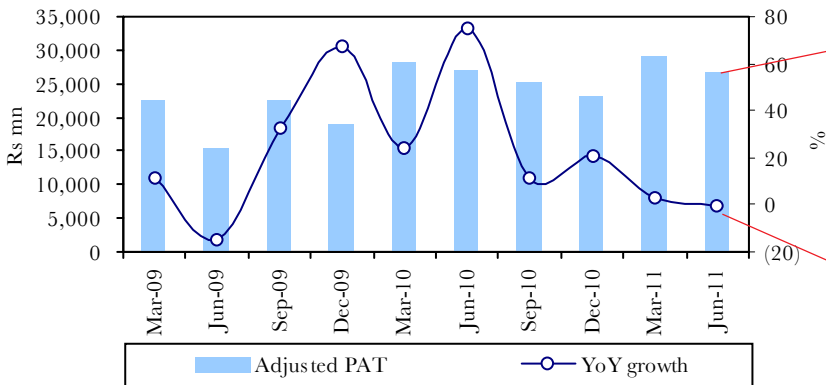
No major surprise were seen from quarterly results for most players like Cadila, Sun Pharma, Dr Reddy's, Biocon, Aventis, GSK, etc. Only disappointment came from Ranbaxy where we had expected a decline in profits but the actual results came in worse than our expectations (PAT adjusted for exceptional stood at Rs 1.6 bn as compared to our estimates of Rs 2.3 bn).

#### Sector revenue trend



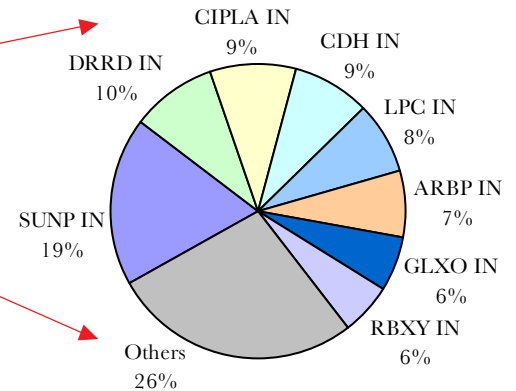
Source: B&K Research

#### Bottom line flat in June 2011 (YoY)%



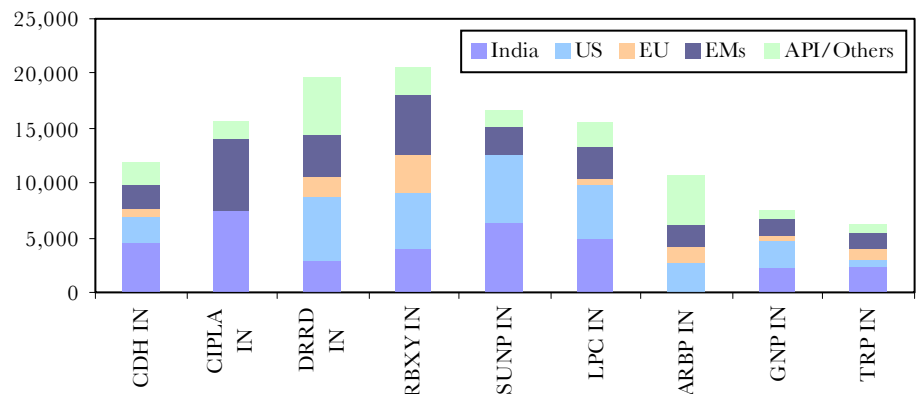
Source: B&K Research

#### Top contributors to the Bottom line



On the positive side, Cipla's results were better than our expectations (reported PAT of Rs 2.5 bn as compared to our expectations of Rs 2.2 bn). Cadila's results also came in ahead of our estimates at Rs 2.3 bn (our estimate was Rs 2.17 bn) due to dossier income from Abbott.

#### Revenue mix for key companies – June 2011



Source: B&K Research

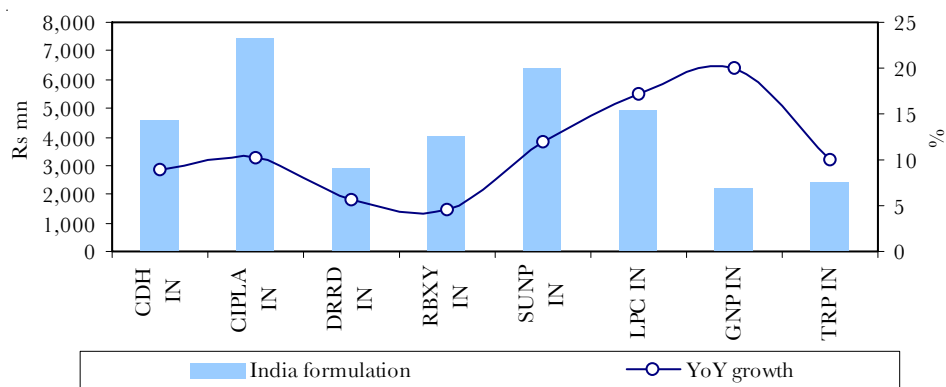
## Key takeaways from June 2011 quarter results are

**1). Domestic growth has slowed down in this quarter to 12% (as compared to 14% earlier)** primarily on account of anti-infective (which recorded growth of just 8.5%; and is the largest segment). Most companies also witnessed a slowdown (must be the post-March year end phenomenon) or some slackness seen in demand across players.

Major disappointments were Cadila (9% growth), Dr Reddy's (6% YoY; on account of decline in NISE and other brands), Sun (reported 12% growth), Ranbaxy (5%; primarily skewed towards acute therapy; i.e. anti-infective), FDC (5%), Unichem revenues declined primarily due to decline in Ampoxin sales and few other brands.

Companies which continued to show sustained above industry average growth were Lupin (17% growth), Sun Pharma (adjusted growth of 18% after excluding 3<sup>rd</sup> party contract manufacturing) and Glenmark (20%). As we enter peak season for pharma demand (July-September quarter), we expect domestic growth rates to climb back upwards. We expect better July-September season for most domestic players.

### Domestic formulation business of key players – Jun 11



Source: B&K Research

Coming to MNC stocks (which are primarily domestic plays), April-June 2011 quarter was quite good as impact from branded generic launches have been favorable apart from robust volume growth they achieved in their key brands.

Aventis (12% growth), Pfizer (10% in pharma and 14% in animal health – to be divested soon), Wyeth (20% growth, against a low base last year due to Pfizer integration), Merck (25% growth), and GSK (13%) witnessed a revival in growth.

Almost all MNC's have turned aggressive on India and have been actively launching new products (from various avenues like parent's pipeline, me-too branded generics, in-licensing, M&A, co-marketing) besides expanding sales and marketing activity (Field-force) to enter new regions/territories (tier-II towns and rural markets) which should help them achieve growth in-line or ahead of industry growth.

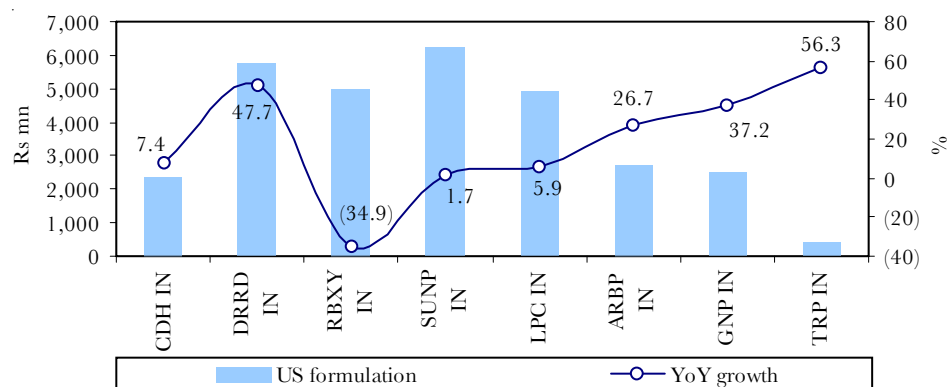
Most MNC's have very strong balance sheet with huge cash surplus and are thus actively looking to increase market share through M&A or joining hands with local players to expand their reach. Recently Aventis acquired Universal Medicare brands putting its excess cash into good use. We expect other MNCs to pursue growth in-organically and put its excess cash into good use (which is currently invested in FDs and other MFs). We remain positive MNC's especially Aventis, GSK and Wyeth.

*Domestic growth has slowed down, expected to pick up in peak season*

*MNC's have turned aggressive in new launches of "Branded Generics"*

**2). US continues to be the key market for Indian co's:** Despite the US downgrade and global meltdown in stocks, the US continues to be a key market for most Indian pharma companies due to the huge generic opportunity (over US\$ 75 bn worth drugs coming off patents in the next four-five years in both US and EU).

#### US formulation business of Key Players



Source: B&K Research

Although there is a significant emphasis in the US towards reducing cost of healthcare (which could keep generic competition high resulting in competitive drug prices), generic drugs are likely to be given preference which would augur well for Indian companies.

We believe Indian generic companies (especially large ones such as Sun, DRL, Lupin, etc.) would continue to do well on account of strong manufacturing (most of them are vertically integrated and hence can manufacture the drugs at efficient/competitive rates) and strong chemistry skills.

But the roadmap to benefit from US generics business is getting tougher by the day due to constraints like FDA approvals (delays are common, average time for approval has gone up to more than 20 months), FDA scrutiny of plants and processes have become stringent, litigation with innovators have increased, constant pressure on margins due to competition from peers and demands from trade/wholesalers/distributors/retail chains, etc.

In this scenario, companies with strong pipeline and launch visibility (either through settlements or patent victories) are likely to enjoy good growth from US opportunities. In light of the above, we prefer companies such as Sun, DRL, Lupin and Cadila.

Coming to this quarter performance, US markets have had a modest growth for most companies due to lack of new approvals, one-off's, etc. Only player to show good growth was Dr Reddy's with 48% YoY which should sustain due to launch of Arixtra (already launched), Zyprexa (to be launched in 2HFY12, tied-up with Teva) and other OTC launches.

Sun's growth was modest and not comparable due to Eloxatin launch last year and Taro consolidation this year (adjusting for the above growth in its base business would have been ~43%). Likewise Ranbaxy saw a 35% decline on account of one-off's (last year – Valtrex exclusivity), Lupin grew by just 6% (slowdown in branded generics and delays in approvals) and Cadila's US business grew by just 7%. Glenmark showed a healthy growth of 37%.

**3). FDA issues create uncertainty and hurt growth visibility:** With the USFDA becoming more and more vigilant we see a number of plants/facilities coming under FDA

*Sun garners highest revenues from US generics US\$ 500 mn in FY11. Strong pipeline in place >150 ANDA's pending*

*Dr Reddy's US growth outlook has improved considerably.... Arixtra, Zyprexa, OTC (Allegra, Prevacid)*

***USFDA compliance is the key concern for investors***

scrutiny. Last quarter saw Dr Reddy's Mexico API plant getting an import alert and warning letter was issued to Cadila for pre-inspection approval for its Moraiya Gujarat facility.

Apart from these instances, other companies are struggling to resolve FDA issues like Ranbaxy's Paonta Sahib, Caraco's Detroit unit (consent decree signed but slow progress), Aurobindo's Unit VI import alert, Claris's injectible facility, etc. Though FDA action would affect short-term earnings and creates uncertainty in terms of time-line for resolution, it would benefit companies in the long-run as they invest more in being fully compliant with FDA protocol/procedures and would make them more efficient.

**4). Other markets – ROW and API business:** Most large pharma companies have limited exposure to other segments such as ROW, EU, APIs, consumer business, animal health, etc. (account for less than 30-40% of overall business). For Dr Reddy's, however, these segments account for nearly 56% of its revenues. On account of the same, DRL's financials appear to remain under pressure (has already made significant write-offs in terms of goodwill with respect to its German subsidiary, Betapharma). Cipla too has significant revenues coming from ROW markets like Africa, Latam, etc. which account for close to 40% of its revenues.

A key aspect of plans to tap ROW markets have been the formation of strategic alliances with MNC's viz. Dr Reddy's-GSK, Sun-MSD, Cadila-Abbott, Torrent-AstraZeneca, Pfizer-Aurobindo/Biocon/Strides, etc. Such alliances are vindication of Indian companies' strengths in rolling out pipeline with minimal time-lag and underline the success of their branded generics strategy

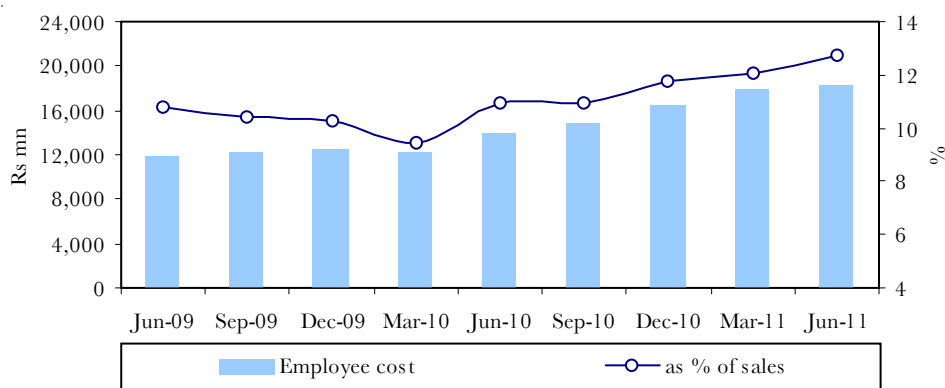
Companies with significant API revenues include players like Cipla (11% of revenue), Dr Reddy's (26%), Sun Pharma (9%), Cadila (9%), Lupin (14%), Glenmark (9%), etc. APIs are vital tools for companies to remain vertically integrated and cost-competitive in a price-sensitive environment. Most of the API capacity is largely reserved for internal or captive consumption. CRAMS players like Divi's, Dishman which are 100% into APIs/intermediates are focused players catering to global MNC clients (Innovators as well as global Generic players) through their mix of products/services.

**5). Staff costs have increased across the board:** Domestic focused companies are witnessing a colossal change. While domestic companies have started focusing on tier-II towns and rural markets and augmented focus towards high growth chronic therapies, MNCs have also increased their growth appetite by increasing pace of product launches and augmenting presence in branded generics. MNC's are also targeting territory expansion in a big way.

On account of the same, pharma companies have been expanding its field force to improve its market penetration and reach. Increasing sales force coupled with wage inflation has kept margins under pressure for most domestic focused companies. We expect margins to remain under pressure for the next three-four quarters or so as benefits from these investments are long-drawn.

***Employee costs have gone up due to field force expansion, wage inflation, international exposure, R&D recruits and consolidation (Taro)***

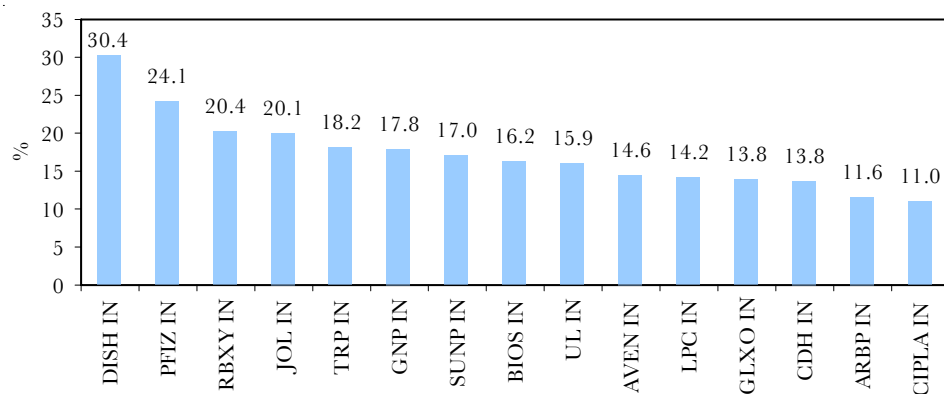
Employee cost...steady rise



Source: B&K Research

Apart from domestic markets, companies are increasing head count in emerging markets (renewed focus with influx of tie-ups with MNCs). Highest staff cost was seen in case of Dishman (~30% of sales, largely due to Carbogen Amcis) while the lowest was for Cipla (~11%).

Employee cost as % of sales



Source: B&K Research

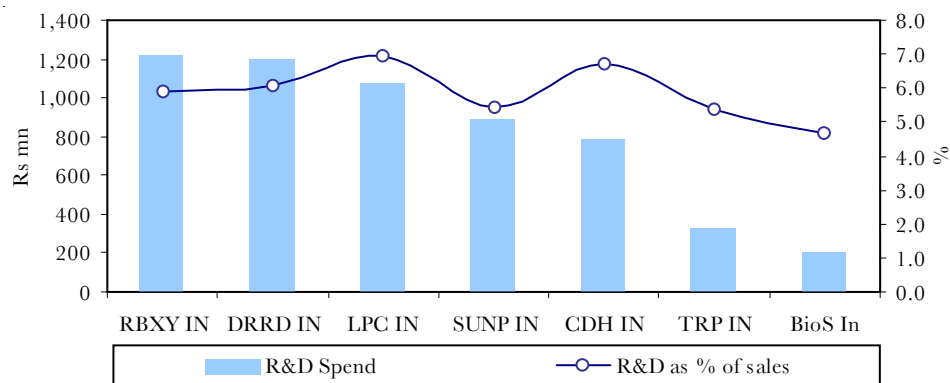
*Dishman has the highest wage bill – 30% of revenues due to Carbogen AMICS...*

*R&D spend stood at ~5-7% (as a % of revenues) for our set of universe, increasing by an average of 1% YoY.*

*Companies are developing strong pipeline for domestic as well as international market to drive long term growth*

**6). R&D costs are stabilising:** Primary focus is on innovating new products for domestic, US and other regulated markets like EU and Japan and emerging markets. Companies are also investing into biotech products (biosimilar pipeline, vaccines) besides creating novel dosage forms and delivery systems.

R&D as % of sales



Source: B&K Research

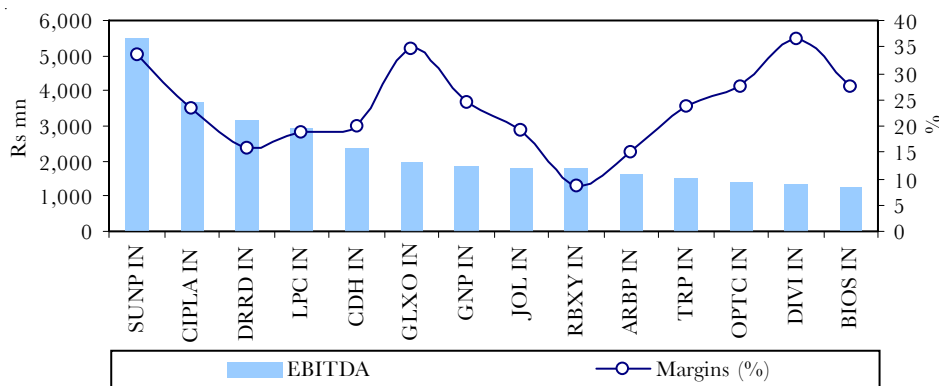
### Conclusion – Strong growth prospects both in the domestic and US markets

On account of the above factors, we continue to see significant opportunity both from the US as well as domestic markets. While Indian generic companies would continue to see an upward trend in growth for the next four-five years on account of patent expiries, expansion plans into other emerging markets and biotech offering, domestic focused companies would also see sustained growth driven by demographics. India presence for generic companies also offers a good hedge against any uncertainty in international markets (incl. a volatile currency). Our top picks are Sun, Dr Reddy’s, Cadila, Divi’s and Aventis.

Profit margins for most players have been stable despite increasing employee costs (wage inflation) & higher R&D costs. This is achieved due to strong revenue growth in key markets like India, US & ROW which should sustain at 15-20% driven by triggers discussed above.

#### EBITDA margins

*Margins for some companies such as Ranbaxy, Unichem, Dishman, etc. are under pressure on account of substantial investments to pursue growth, increasing MR base, newer therapies, etc.*

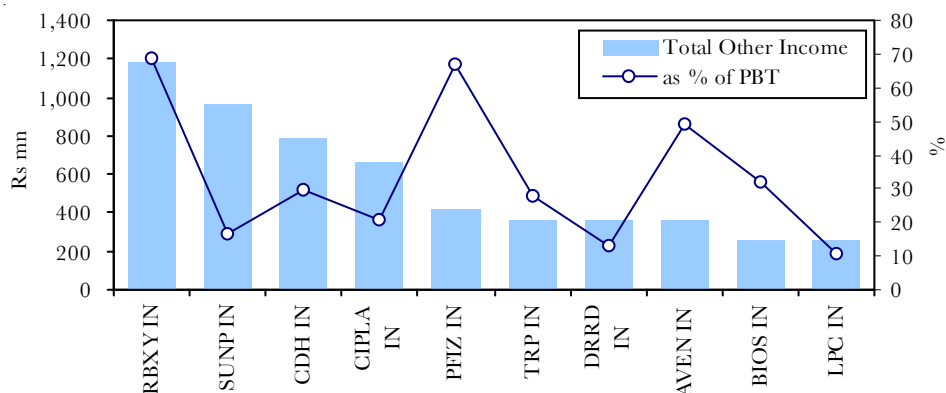


Source: B&K Research

Companies relying heavily on other income (service income, dossier income, technology transfer, export incentives, interest income on cash surplus) like Ranbaxy, Pfizer and Aventis will need to focus on improving their profit margins from operations (OPM) to be able to report sustained growth in earnings.

#### Other operating income + Other income as % of PBT

*A number of companies are facing slowdown in other income especially technology fees, milestone payments, etc.*



Source: B&K Research

## Major news analysis – Indian pharma companies

News	Impact	B&K's view
WHO delists certain DTP based vaccines of Panacea Biotec	Negative	<ul style="list-style-type: none"> <li>• WHO delists Panacea Biotech's diphtheria-pertussis-tetanus based combination vaccines namely, 1) Easy five (STwP-Hep B-Hib), 2) Ecovac 4 (DTwP-Hep B), 3) Enivac HB (Hepatitis B) from its pre-qualified list of vaccines.</li> <li>• WHO also stated that there is no need to recall batches of the above vaccines in the market (based on testing done by WHO's contracted laboratories on batch samples already supplied).</li> <li>• Panacea's other four oral polio vaccines (tOPV, mOPV1, mOPV3 and bOPV) would continue to remain in the pre-qualified list.</li> </ul> <p><b>Reason:</b> During WHO's recent site audit at Panacea's Lalru facility (where formulations for the above mentioned vaccines are manufactured), specific deficiencies in the Quality Management System was found (not meeting the basic quality requirement of WHO).</p> <p><b>Panacea's response</b></p> <ul style="list-style-type: none"> <li>• Panacea has already initiated corrected measures and would soon discuss its corrective action plan with WHO.</li> <li>• The company is confident on resolving issues relating to this facility at the earliest.</li> </ul> <p><b><u>B&amp;K's view - Significant impact on financials</u></b></p> <p><b>The above delisted vaccines contribute around 45-50% of Panacea's overall revenues (and similar proportion to its PAT). We expect earnings in the forthcoming quarters to see substantial contraction on account of the same.</b></p>
Media sources point out that Pfizer Inc plans to introduce OTC version of Lipitor in the US	Positive (unlikely)	<ul style="list-style-type: none"> <li>• Likelihood of Lipitor going from prescription based to OTC is remote as FDA has not allowed other statins to go OTC in the past.</li> <li>• Pfizer and other MNC's need to be able to convince the FDA relating to patient compliance and safety aspect of statins, only then it would be allowed.</li> <li>• With just three months to go before Ranbaxy enters with its generic version of Lipitor can create doubts in minds of investors.</li> <li>• But, such an event happening seems remote at this point of time</li> <li>• If Lipitor turns OTC in the medium to long-term, beneficiaries would be Pfizer's Lipitor itself which would still be able to hold to a lion's share of revenues besides other OTC companies like Perrigo and Dr Reddy's which has a small OTC franchise (current OTC sales are around US\$ 100 mn).</li> <li>• Dr Reddy's is also among other generic companies which is trying to win approval for Lipitor (generic version).</li> <li>• US FDA decision of allowing statin to go OTC is important and this will have to be monitored.</li> <li>• FDA will have to weigh potential benefits of OTC vs. patient compliance or potential abuse of statin if it goes OTC.</li> </ul>



News	Impact	B&K's view
USFDA inspects Divi's Unit-I manufacturing facility at Hyderabad - Minor observation noted	Marginally	<ul style="list-style-type: none"> <li>• Divi's unit-I manufacturing facility located at Hyderabad was inspected by USFDA with some minor observations primarily relating to documentation improvement of existing records.</li> <li>• There is no serious or major observations from the USFDA and should not affect product approvals or production activity from this site.</li> <li>• We do not expect this news to have any major negative impact on the stock</li> <li>• We continue to maintain Buy on Divi's as it is key play on contract manufacturing for global MNC's across its main segments like CCS (custom chemical services), late-life cycle management products, API's and carotenoids.</li> <li>• At the current market price of Rs 709, the stock trades at 18x FY12E EPS of Rs 38 and 15x FY13E EPS of Rs 47. Maintain Buy.</li> </ul>
Piramal acquires 5.5% stake in Vodafone Essar Limited (VEL)	Positive	<ul style="list-style-type: none"> <li>• Piramal Healthcare acquires 5.5% stake in Indian JV Vodafone - Essar for US\$ 640 mn (~Rs 28.6 bn) in cash from ETHL Communication Holdings (Essar).</li> <li>• Piramal has made this acquisition from an investment perspective and expects around 18-20% return</li> <li>• Though not clearly mentioned, Piramal has built in various exit options in this deal (including IPO, Vodafone is looking at IPO sometime next year).</li> <li>• Piramal further would not involve in the day-to-day operation of Vodafone.</li> <li>• The company would continue to look at various options to deploy its excess cash (where it could get better returns).</li> </ul>

## Events - Partnership/JVs/Alliances/Licencing - Globally and Domestically

Company	Company	Comments
Lupin	Eli-Lilly (India)	<ul style="list-style-type: none"> <li>Lupin enters into a tie-up with Eli-Lilly (India) to market Lilly's range of Human Insulin products in India and Nepal.</li> <li>Key Human Insulin brands for Lilly include Huminsulin-R, Huminsulin NPH, Huminsulin 50/50, Huminsulin 70/30, Humapen Egro II.</li> <li>Lupin plans to deploy sales force of 300 MRs to market insulin/diabetes products.</li> <li>While Lilly would benefit from Lupin's strong distribution network and sales-force, Lupin would strengthen its presence in the fast growing diabetes segment (growing in excess of 25%).</li> <li>At the current market price of Rs 460, the stock trades at 21x FY12E EPS of Rs 22 and 17x FY13E EPS of Rs 27. Maintain Buy.</li> </ul>
Serum Institute (Pune)	Merck/MSD	<ul style="list-style-type: none"> <li>Merck/MSD and Serum Institute of India announce collaboration to develop Pneumococcal Conjugate Vaccine (PCV) in emerging and developing markets.</li> <li>Serum-MSD will be the 3rd player in Pneumococcal vaccines after Pfizer-Wyeth's Prevenar (already available in India) and GSK's Synflorix (not yet launched in India, expected launch in 3Q or 4Q in 2011).</li> <li>We expect competition to increase for Pfizer-Wyeth's Prevenar which is currently the only vaccine available in the market.</li> <li>This also implies that pricing pressure would increase for Pfizer-Wyeth's Prevenar (currently imported and sold at international prices, per dose priced at Rs 4,000, discount to doctors not known) – potential risk to Wyeth earnings.</li> <li>With three players present in the market - Pfizer-Wyeth, GSK and MSD, it would also help expand the market in India as more awareness is created about PCV.</li> <li>GSK will likely follow a tiered pricing strategy for Synflorix in India. Time-line for Serum-MSD PCV vaccine is not known or specified currently.</li> </ul>
Dr Reddy's	Fujifilm	<ul style="list-style-type: none"> <li>DRL ties-up with Fujifilm Holdings Corp. to develop and produce generic drugs for the Japanese market.</li> <li>Fujifilm will hold 51% of the JV while DRL will hold the rest.</li> <li>The JV will focus on developing high quality generic drugs using Fujifilm's quality control technology and DRL's expertise over cost competitive production of APIs and formulations.</li> <li>The JV aim to start selling generics in Japan within the next four years or so.</li> <li>Japan is the second largest pharma market (US\$ 97 bn) with generic share of 23% (in terms of volume); Japanese government aims to increase generic proportion to 30% by 2013.</li> <li>At the current market price of Rs 1,467, the stock trades at 19x FY12E EPS of Rs 77 and 16x FY13E EPS of Rs 90. Maintain Buy.</li> </ul>

## M&amp;A activities - Indian company acquiring / being acquired by MNC

Acquirer	Target	Comments
Zydus Cadila	Bremer Pharma GmbH	<ul style="list-style-type: none"> <li>• Cadila acquires Bremer Pharma GmbH (based in Germany) from ICICI ventures, details regarding purchase consideration is un-disclosed</li> <li>• The acquisition is made through Cadila's 100% subsidiary Zydus Animal Health Limited.</li> <li>• Bremer Pharma is a global animal health company with operations across the world</li> <li>• As per the agreement, Bremer would transfer all its key assets, brands and export contract.</li> <li>• This acquisition would help Cadila expand its animal health business and gain access to EU, South America, Africa and Asia.</li> <li>• The global market size for animal health is around US\$ 20 bn.</li> <li>• At the current market price of Rs 835, the stock trades at 21x FY12E EPS of Rs 39 and 18x FY13E EPS of Rs 47. Maintain Buy.</li> </ul>
Danone	Wockhardt (Nutritional Business)	<ul style="list-style-type: none"> <li>• Wockhardt has decided to divest its nutritional business to Danone for a sum of Euro 250 mn (~Rs 15.8 bn).</li> <li>• As per media reports, Wockhardt's nutritional business has revenues of ~Rs 1.7 bn (which means Danone paid 8x sales, acquisition definitely made at expensive valuations which we believe is due to Wockhardt's key brands and entry into high growth segment/market for Danone).</li> <li>• As per the agreement, Wockhardt's nutritional brands and its related industrial operations from Carol Info Service (located in Punjab, India) would be transferred to Danone.</li> <li>• Wockhardt has earlier sold its hospital business (10 hospitals) to Fortis for Rs 9 bn in August 2009.</li> </ul> <p><b><u>Benefit for Wockhardt</u></b></p> <ul style="list-style-type: none"> <li>• For Wockhardt, this transaction would provide much needed cash of ~Rs 15.8 bn. We believe that the company <b>could use these proceeds to repay debt (has debt of ~Rs 48.5 bn of which FCCBs are around Rs 4.5 bn).</b></li> <li>• FCCBs worth around US\$ 108.5 mn were due in October 2009 (<b>which the company has not yet paid</b>). The company <b>is undertaking a Comprehensive Debt Restructuring (CDR) scheme (including FCCB)</b>. The company is also in negotiation with several FCCB holders (for re-negotiating FCCB debt).</li> </ul> <p><b><u>Benefit for Danone</u></b></p> <ul style="list-style-type: none"> <li>• This acquisition is in-line with Danone's plans to increase focus towards high growth market. Further, India is the fastest growth infant nutrition market in the world.</li> <li>• Danone's acquisition of Wockhardt's nutritional business would strengthen its presence in baby care segment (Wockhardt's strong presence through strong brands such as Dexolac, Farex and Nusobee).</li> <li>• In addition, the nutritional supplement brand Protinex will give Danone a strong foundation for developing its medical nutrition business.</li> </ul> <p><b><u>B&amp;K's view - Several unresolved issues</u></b></p> <p><b>FCCB Holders file winding-up petition against Wockhardt (High Court Interim relief for Wockhardt)...any escalation would ring the bell.</b></p> <p>Further, certain lenders/banks <b>have filed winding-up petition against Wockhardt</b>, ICICI bank (as empowered by CDR) and employee union have <b>filed intervention application against the winding-up. In March 2011, Mumbai high court granted ad-interim relief to it by staying the admission of a winding up petition filed against it by FCCB holders</b>(Wockhardt deposited Rs 1.2 bn in Mumbai High Court).</p>

Acquirer	Target	Comments
		<p><b><i>Huge debt...CDR in process...no clarity yet</i></b></p> <p><b>Current debt position:</b> The company currently has a debt of Rs 48.5 bn (<b>a shy short of its market cap of Rs 50 bn</b>).</p> <p><b>Current business doing much better...not enough to pull Wockhardt out of woods</b></p> <p>Wockhardt derives revenues from EU, US, domestic and ROW businesses. While <b>EU is the largest segment</b> (46% of overall revenues growing at ~14.5%), considering headwinds in Europe (issues such as German market becoming extremely competitive, French market becoming difficult, etc.), it <b>does not make significant profits on account of low margins</b>. US has gained strong traction (~24% of business growing in excess of 40%) on account of increasing product filings/launches while India continues to grow in line with the industry of ~14-15% (which is 26% of business). Though Wockhardt's business has gained good momentum over the past two-three quarters (reported profits in the last two quarters), the <b>stock price rallied from levels of Rs 132 to current levels of Rs 382</b>.</p>
Aventis	Universal Medicare (brands in India)	<p><b>Key highlights</b></p> <ul style="list-style-type: none"> <li>• Aventis acquires over 40 nutraceutical brands of Universal Medicare in India.</li> <li>• This acquisition helps Aventis's entry into nutraceutical segment in India as well as facilitates creation of a consumer healthcare and wellness platform.</li> <li>• These brands had annual turnover of around Rs 1.1 bn. Aventis will be absorbing around 750 commercial employees as part of this transaction.</li> <li>• Key categories of Universal Medicare include anti-oxidants, vitamins and mineral supplements, anti-arthritis, anti-osteoporotic, liver tonics and other nutrients (caters to 60,000 doctors).</li> <li>• Some of its key brands include FreeFlex (arthritis), Primacal-AT (osteoporosis), Selace Forte and E-cod Plus (anti-oxidants), Seacod (Cod Liver Oil), Multivite (vitamins), etc.</li> <li>• The transaction value has not been disclosed, but as per media reports, it was suggested to be around Rs 5 bn (around 4-5x revenues).</li> <li>• Aventis has cash on hand of nearly Rs 6.5 bn which will be utilised for this buyout.</li> <li>• With this acquisition, Aventis will be strengthening its focus on Consumer Healthcare and wellness platform segment in India.</li> <li>• Aventis already has OTC/consumer healthcare brands like Combiflam cream.</li> </ul> <p><b>Outlook and valuation</b></p> <p>We continue to remain positive on Aventis on account of 1) Blockbuster brands in its portfolio - Lantus, Cardace, Combiflam, Amaryl, Allegra, Daonil, Avil, Lasix, Soframycin. We expect revenues to grow higher than industry average in future 2) Improved margins (OPM at 15%, EBITDA at 19%, much lower than GSK - 35%) expected once its investment/expansion phase is completed. Current focus for Aventis remains on sales &amp; marketing expansion across India, through its Prayas Initiative where it is focusing on tier-II and rural markets. It has also aggressively entered into branded generics segment 3) Cash surplus on books of nearly Rs 6.5 bn (large part to be deployed for this acquisition, we estimate yearend cash to be around Rs 2.0-2.5 bn), continues to look for more acquisitions.</p> <p>At the current market price of Rs 2,150, the stock trades at 26x CY11E EPS of Rs 84 and 21x CY12E EPS of Rs 105. Maintain Buy.</p>

## International M&amp;A activities

Acquirer	Target	Comments
Par Pharma	Anchen Pharma	<ul style="list-style-type: none"> <li>• Par Pharma acquires Anchen Pharma for US\$ 410 mn in cash.</li> <li>• Anchen Pharma is a privately held specialty pharma company focusing on developing and commercialising extended release and niche drugs.</li> <li>• Anchen is a fully integrated company with five commercialised products, 27 ANDAs (of which 5 are FTFs).</li> <li>• It is further developing 26 additional products and plans to launch 8-10 generic products over the next couple of years.</li> <li>• This acquisition would strengthen Par Pharma's pipeline of products apart from augmenting its R&amp;D capabilities in niche segment.</li> </ul>

## Filing details

### New Para IV filings

Date	Brands	Innovator	API / No of DMF filings	Therapeutic areas	Mkt. Size (US\$ mn)	Patent expiry	Dosage & Strength
8-Apr-11	Fazaclo	Azur Pharma	Clozapine (4)	CNS	34	5-Dec-17	Orally Disintegrating Tablets (ODT) 150 mg, 200 mg
17-Jun-11	Zithromax	Pfizer	Azithromycin (14)	Anti-biotic	415	31-Jul-18	Injection 500 mg/vial
8-May-08	Symbyax	Eli Lilly	Olanzapine (20) and Fluoxetine Hydrochloride (14)	CNS		23-Oct-11	Capsules 3 mg/25 mg

## Final approvals for Indian pharma companies

### Final approval for Indian companies (25 July -29 August 2011)

Generic	Therapeutic area	Company	Brand	Innovator	Market size (US\$mn)	Date
Acarbose	Anti-Diabetic	Strides Arcolab	Precose	Bayer	21	27-Jul-11
Chlorothiazide Sodium	CVS	Sun Pharma	Diuril	Lundbeck		26-Jul-11
Finasteride	Oncology	Sun Pharma	Proscar	Merck		16-Aug-11
Mefenamic Acid	Anti-inflammatory	Lupin Ltd	Ponstel	Shionogi		22-Jul-11
Naproxen	Arthritis	Hetero Drugs	Naprosyn	Roche	53	24-Aug-11
Verapamil HCL	CVS	Glenmark Pharma	Isoptin	Ranbaxy	52	3-Aug-11
Gemcitabine HCL	Oncology	Sun Pharma	Gemzar	Eli Lilly	670	25-Jul-11
		DRL				
		Strides Arcolab				

## Tentative approvals for Indian pharma companies

### Tentative approval for Indian Companies (25 July-29 August 2011)

Generic	Therapeutic area	Company	Brand	Innovator	Market size (US\$mn)	Date
Candesartan Cilexetil; HCTZ	CVS	Matrix Labs	Atacand HCT	Astra Zeneca	1483	9-Aug-11
Clopidogrel	CVS	Sun Pharma	Plavix	Sanofi	6000	28-Jul-11
Duloxetine HCL	CNS	DRL	Cymbalta	Eli Lilly	3300	22-Jul-11
Fexofenadine HCL	Allergy	Wockhardt	Allegra	Sanofi	452	16-Aug-11
Fexofenadine HCL; Pseudoephedrine HCL	Allergy	DRL	Allegra-D12	Sanofi		19-Aug-11
Paricalcitol	Nephrology	DRL	Zemplar	Abbott	568	5-Aug-11
Ropivacaine HCL	Anesthesia	Strides Arcolab	Naropin	APP Pharma		12-Aug-11

## Other approvals – MNCs

## Approvals for international companies (25 July-29 August 2011)

Final approval		Tentative approval	
Generic	Company	Generic	Company
Butalbital & Acetaminophen	Nexgen	Clobetasol Propionate	Perrigo
Cevimeline	Apotex	Emtricitabine; Tenofovir Disoproxil Fumarate	Teva
Dronabinol	Insys Therapeutics	Epinephrine	Intelliject Inc.
Famciclovir	Apotex	Ezetimibe; Simvastatin	Mylan Pharma
Gatifloxacin	Apotex	Montelukast Sodium	Sandoz
Ketoconazole	Perrigo	Pregabalin	Teva
Letrozole	Apotex	Rosuvastatin Zinc	Watson Labs
Levocetirizine Di-HCL	Teva	Travoprost	Par Pharm
Naltrexone HCL	Accord	Levetiracetam	Teva
Paricalcitol	Sandoz		Anchen Pharms
Phentermine Resin Complex	Lannett Hldngs		Apotex
Tranexamic Acid	Pharmaforce		Mutual Pharm
Gemcitabine HCL	Hospira		Par Pharm
	Watson		
	Actavis		
	Accord		
Levetiracetam	Apotex		
	Innopharma		
	Breckenridge		

## Valuations

	No of shares (mm)	CMP (Rs)	Target price (Rs)	6m daily average (US\$ mn)	Mkt. Cap. (US\$ mn)	EPS (Rs)			Earnings CAGR FY11-13E (%)	P/E (x)		EV/EBITDA (x)	EV/Sales (x)	RoE (%)	RoCE (%)
						FY11	FY12E	FY13E		FY12E	FY13E				
<b>Top Picks</b>															
Aventis	23	2,150	2,513	0.4	1,075	67	84	105	25	26	21	17.5	3.5	18.1	27.5
Cadila	205	835	1,038	2.2	3,714	32	39	47	21	21	18	16.0	3.3	31.7	27.9
Divi's	133	709	888	4.2	2,042	32	38	47	20	18	15	14.4	5.9	26.0	30.8
Dr Reddy's	169	1,467	2,048	12.2	5,395	65	77	90	17	19	16	13.8	3.0	25.5	20.6
Sun	1,030	466	578	9.9	10,425	18	20	23	15	24	20	18.8	6.1	18.2	21.9
<b>Other Buys</b>															
GSK	85	2,108	2,390	1.5	3,878	69	78	90	15	27	23	18.5	6.6	34.0	51.1
Biocon	200	331	418	3.4	1,435	17	17	21	10	19	16	11.2	3.3	15.6	18.0
Shasun	49	70	108	0.3	73	5	11	18	81	6	4	5.2	0.7	47.6	21.6
Lupin	446	460	523	9.7	4,455	19	22	27	17	21	17	15.3	3.2	26.4	23.4
Unichem	90	142	180	0.3	279	11	9	13	10	15	11	9.9	1.5	13.5	15.6
Vimta	22	20	26	0.1	10	(2)	(1)	1	NA	(24)	21	4.1	0.6	(1.4)	0.2
<b>Outperformer</b>															
Apollo	131	531	589	0.9	1,515	15	18	22	22	30	24	14.3	2.4	10.9	13.9
Cipla	803	279	310	8.9	4,866	12	13	15	14	21	18	14.9	3.3	15.2	17.3
Dishman	81	69	91	0.3	120	10	11	13	15	6	5	6.9	1.2	9.3	8.6
Elder Pharma	21	401	462	0.9	179	32	39	50	25	10	8	6.1	1.0	13.9	15.9
Fortis	405	151	185	1.4	1,331	4	6	6	18	26	26	14.1	4.0	7.8	9.9
Glenmark	270	328	330	5.0	1,922	14	15	17	11	21	19	14.3	3.2	13.2	13.5
Jubilant	159	179	193	0.8	617	17	16	18	3	11	10	10.1	1.5	10.0	7.4
Novartis	32	861	1,017	0.2	598	46	51	57	12	17	15	15.3	3.4	21.2	32.2
Pfizer	30	1,361	1,500	0.3	882	57	66	73	13	21	19	15.4	3.4	15.8	23.9
Torrent	85	590	695	0.7	1,084	32	38	45	18	16	13	10.3	2.0	28.3	23.5
Wyeth	23	1,013	1,120	0.3	500	55	70	82	23	14	12	9.4	3.6	36.2	51.5
<b>Underperformer</b>															
Aurobindo	291	128	126	6.8	812	18	17	18	0	7	7	7.2	1.3	15.0	11.4
Ranbaxy	422	454	477	9.7	4,157	22	19	22	(1)	24	21	14.8	2.4	13.1	11.6
Panacea	61	141	118	0.1	188	22	10	16	(15)	14	9	6.1	1.3	8.8	12.1



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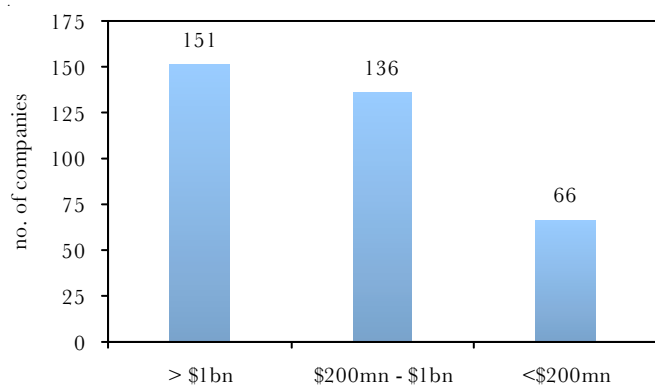
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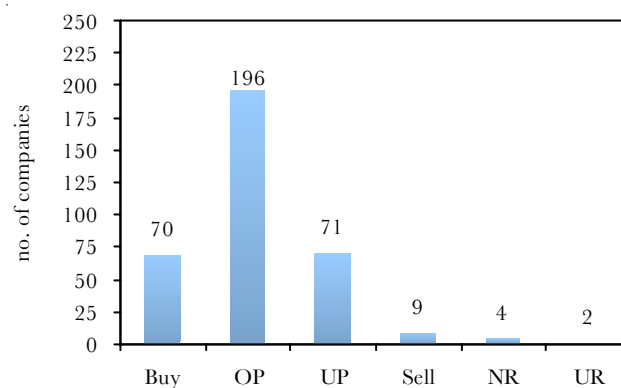
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## B&amp;K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



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