



Economy News

- ▶ The price of crude oil for October delivery climbed by \$25 per barrel to \$128.50 at one point of time on Monday, the largest jump ever over worries of a weakened dollar prompted by US government plans to buy failing mortgages from the troubled finance industry. However, the more active November contract ended the day at \$109.4 per barrel. (ET)
- ▶ Government on Monday cleared 27 proposals for special economic zones (SEZ) including those by Larsen and Toubro, JSW Bengal Steel, Ansal Properties and Bharat Forge. The Board of Approvals (BoA) granted formal approval to 17 SEZ proposals and gave in-principle nod to 10 tax-free zones. (ET)
- ▶ Government has revised the ECB norms for core sectors to \$500mn vs \$100mn earlier. Over \$100mn ECB must be for 7 years. Interest rate cap on ECB for over 7-year has been raised by 100bps. With this, Infrastructure companies can raise 7-year loans at 450bps over LIBOR vs 350bps earlier. ECB limit for non-core companies remains at \$50mn. (BL)
- ▶ Bankrupt foreign investment banks such as Lehman Brothers, who have exposure to India's realty sector, may get some reprieve from the government. The mandatory three-year lock-in for FDI may be relaxed on a case-to-case basis for the I-banks if they apply to the Foreign Investment Promotion Board (FIPB). (ET)
- ▶ Even as the RBI has decided to withdraw the 4% interest rate subvention benefit to the textile exporters from September 30, the Ministry of Textiles has proposed to the Union Cabinet that the scheme be continued till March 31, 2009. (BS)
- ▶ India's foreign reserves jumped by 650 million to USD 289.461 billion for the week ended September 12 from USD 288.811 billion in the previous week. (FE)

Corporate News

- ▶ **Reliance Power** has submitted the mining plan of the Chhatrasal coal block, which would supply coal to the company's 4,000 MW ultra mega power project at Sasan in Madhya Pradesh. (ET)
- ▶ The Commerce Ministry may take up the issue of the import ban imposed by the USFDA on 30 drugs manufactured by **Ranbaxy** in case the ban is not revoked following corrective actions taken by the company. (ET)
- ▶ Major financial institutions and private equity firms such as Cornell Capital and Actis are likely to join hands with **Power Finance Corporation (PFC)** to set up an equity consortium for funding power projects in the country. (ET)
- ▶ **Power Grid Corporation of India's** board has approved an investment of Rs 4,824.12 crore for the transmission system associated with Mundra Ultra Mega Power Project. (BS)
- ▶ **Kingfisher Airlines** is cutting 300 jobs, besides returning surplus aircraft to the lessor. The move comes as cost saving measures taken up and to improve operational efficiency. (BL)
- ▶ **Tulip Telecom** has been awarded the state wide area network (SWAN) project for Madhya Pradesh against a bid of Rs 95 crore. The network will be established on a built own operate and transfer model. (BS)
- ▶ Global soft-drinks major **PepsiCo India** said it will invest USD 500 million in India over the next three years to triple its business in the country. (FE)
- ▶ **Lanco Infratech** has received a contract worth Rs 3.1 bn from Andhra Pradesh government for construction related works. (ET)

Equity

		% Chg		
	22 Sep 08	1 Day	1 Mth	3 Mths
Indian Indices				
BSE Sensex	13,995	(0.3)	(2.8)	(2.1)
Nifty	4,223	(0.5)	(2.4)	(1.0)
BSE Banking	7,102	(0.1)	6.7	7.1
BSE IT	3,639	(0.7)	(5.2)	(14.0)
BSE Capital Goods	11,477	(2.2)	(3.8)	6.3
BSE Oil & Gas	9,399	(0.7)	(5.5)	2.5
NSE Midcap	5,276	(0.4)	(6.6)	(6.8)
BSE Small-cap	6,194	(0.4)	(10.6)	(13.2)
World Indices				
Dow Jones	11,016	(3.3)	(5.3)	(7.0)
Nasdaq	2,179	(4.2)	(9.8)	(8.7)
FTSE	5,236	(1.4)	(4.9)	(7.6)
Nikkei	11,921	3.8	(4.5)	(12.8)
Hangseng	19,632	1.6	(6.4)	(16.0)

Value traded (Rs cr)

	22 Sep 08	% Chg - Day
Cash BSE	4,797	(21.1)
Cash NSE	11,519	(29.3)
Derivatives	58,188	(21.3)

Net inflows (Rs cr)

	19 Sep 08	% Chg	MTD	YTD
FII	1,168	295	(6,170)	(35,739)
Mutual Fund	168	(82)	2,138	12,330

FII open interest (Rs cr)

	19 Sep 08	% Chg
FII Index Futures	15,899	4.7
FII Index Options	24,103	(1.9)
FII Stock Futures	21,822	(0.1)
FII Stock Options	1,927	1.6

Advances / Declines (BSE)

	22 Sep 08	A	B	S	Total	% total
Advances	68	793	230	1,091	46	
Declines	134	866	200	1,200	51	
Unchanged	1	56	12	69	3	

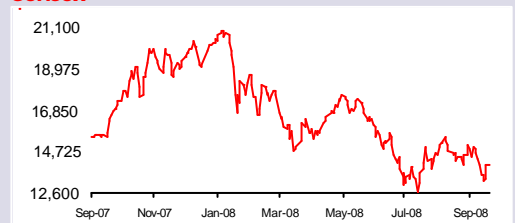
Commodity

		% Chg		
	22 Sep 08	1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	109.1	(0.3)	(4.8)	(20.3)
Gold (US\$/OZ)	897.0	2.7	9.1	1.6
Silver (US\$/OZ)	13.5	6.5	1.0	(19.6)

Debt / forex market

	22 Sep 08	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.56	8.54	9.25	8.75
Re/US\$	45.46	45.69	43.46	43.04

Sensex



COMPANY UPDATE

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PANACEA BIOTEC LTD (PBL)

PRICE: Rs.225
TARGET PRICE: Rs.474

RECOMMENDATION: BUY
FY10E P/E: 8.4x

Health Ministry to phase-out multiple dosage DPT vaccines; Panacea to gain

- ❑ The Health Ministry is planning to phase-out multiple dosages DPT (Diphtheria, Pertussis and Tetanus) vaccines
- ❑ DTP vaccine will be replaced with a single shot pentavalent combination vaccine in the national immunization program from mid-2009
- ❑ The process of replacing vaccines will start beginning 2009 in a phased manner and by mid-2009, the whole country will be covered by pentavalent vaccines
- ❑ The new pentavalent vaccine, which is a combination of five vaccines will provide protection from early childhood diseases such as Diphtheria, Pertussis and Tetanus and offer additional cover from Hepatitis B and Hib (influenza) infections
- ❑ The Government will require 100mn dosage of pentavalent vaccines per annum which provides Rs.10bn plus business opportunity for existing pentavalent vaccine makers like Panacea Biotec, Shantha Biotech, Novartis and GlaxoSmithKline
- ❑ Globally as many as 114 countries have already introduced pentavalent vaccines
- ❑ The WHO has approved pentavalent vaccines manufactured by Panacea Biotec, Shantha Biotech, Novartis and GlaxoSmithKline for supplies to their UN vaccination programs
- ❑ In August 2008, PBL has received a US\$34.2mn order for pentavalent vaccine (EasyFive) from UNICEF for years 2008 and 2009
- ❑ We estimate, the global market size (excluding India) to be around US\$700mn in 2008 (200mn dosage at US\$3.5/dose), of which PBL will likely to capture around US\$50mn in FY09
- ❑ We have modeled US\$30mn and US\$45mn sales from combination vaccines in FY09 and FY10, respectively, on the back of supplies to UN agencies for their global requirements
- ❑ The shift from DPT to pentavalent vaccines will be positive for PBL because it does not sell only DPT vaccines but it sell DPT vaccines in combination of Hep-B (Ecovac) and Hib (EasyFour), which will not be phased out
- ❑ PBL has the WHO-prequalification for pentavalent vaccines and is the significant supplier of combination vaccines in India
- ❑ We remain positive on PBL despite the expected slower growth in Oral Polio Vaccine. We expect strong growth in private vaccine business, combination vaccines and proprietary formulations.

Summary table

(Rs mn)	FY08	FY09E	FY10E
Revenues	8,413	10,251	12,050
Growth (%)	(0.0)	21.8	17.5
EBITDA	2,117	2,563	3,073
EBITDA margin (%)	25.2	25.0	25.5
Net profit	1,290	1,109	1,906
Net Margin (%)	15.3	10.8	15.8
EPS diluted (Rs)	19.3	15.6	26.9
Growth (%)	(14.0)	(19.0)	71.8
DPS (Rs)	1.0	1.0	1.0
RoE (%)	20.9	13.5	18.3
RoCE (%)	20.5	14.5	20.2
EV/Sales (x)	3.1	1.4	1.0
EV/EBITDA (x)	12.4	5.4	4.1
P/E (x)	11.7	14.4	8.4
P/BV (x)	3.7	1.7	1.4

Source: Company, Kotak Securities - Private Client Research

Stock corrected significantly led by some print media news related to WHO ban for vaccines

The stock has corrected significantly in last few trading sessions. We believe this was mainly due to some news which was appeared in the print media, saying that WHO has not approved any new vaccine from India this year as the Indian regulatory system, which gives manufacturing licenses for domestic vaccines, has failed to meet its quality benchmarks.

We have tried to confirm this news with the management who has strongly denied any such move by WHO. Infact, the company has received the approval for its pentavalent vaccine and also has received orders worth of US\$34.2mn from UNICEF to supply the vaccine for the year 2008 and 2009. The management has further said that though its true that tussle between Health Ministry and WHO is going on for long period of time on country's drug regulatory system, which is not suppose to be as per WHO's satisfaction, but this does not stop the private players who have already received the pre-qualification from WHO for their vaccines.

Combination vaccines to drive growth from FY09 and onwards

PBL has received an award notification for supply of its pentavalent vaccine (EasyFive) for 2008 and 2009. The total value of order is US\$34.2mn. EasyFive is the world's first fully liquid pentavalent vaccine introduced in India, which immunizes children against dreadful diseases (DTP+Hep B+Hib) of early childhood. The company in July 2008 has received WHO pre-qualification for this innovative pentavalent combination vaccine. We expect significant contribution from this combination vaccine by Q3 onwards.

Pentavalent vaccines are used by UN agencies (UNICEF, PAHO etc.) to vaccinate children in the developing world. The Indian government also has plans to include pentavalent vaccines in its immunizations program. Developing countries would need a combination vaccine to the tune of around 300 million dosages annually. The combined demand of all combination pediatric vaccines worldwide was valued at US\$600mn in 2005, which is expected to grow up to US\$1.6bn by 2012. Pentavalent vaccine market is estimated to cross US\$1bn by 2009, out of which UN agencies are likely to procure this vaccine worth more than US\$350mn by 2009.

We estimate, the total market size to be around US\$700mn in 2008 (200mn dosage at US\$3.5/dose), of which PBL will likely to capture around US\$50mn in FY09. However, due to regulatory delay in pre-qualification form WHO, we expect revenue from combination vaccines only for part of the year in FY09. We have modeled US\$30mn and US\$45mn sales from combination vaccines in FY09 and FY10, respectively, on the back of supplies to UN agencies for their global requirements.

Panacea Biotec Approved Vaccines from WHO

Vaccines	Brand
DTwP Biofarma	Hib Novartis (1 dose) (EASYFOUR)
DTwP Biofarma	Hepatitis B PHB (1 dose) (ECOVAC)
DTwP Biofarma	Hep B PHB- Hib PHB (1 dose) (EASYFIVE)
Hepatitis B	(Enivac B)
OPV (from bulk supplied by Biofarma, Indonesia)	-
OPV (from bulk supplied from Chiron, Italy)	-

Source - WHO

Oral Polio Vaccines (OPV) business remains solid; however growth may stabilize

PBL is the largest supplier of Oral Polio Vaccines (OPV) to UN agencies (UNICEF) for their requirements in India. It also supplies oral polio vaccines and hepatitis-B vaccines to UN agencies for their international requirements (mainly developing countries). In domestic market, the demand of OPV is expected to increase at lower pace (or in worse case remain stable) in the wake of recent increase in the number of polio cases in India, which has increased from 676 in 2006 to 874 in 2007 and to 346 in 2008 YTD. Considering the increasing number of polio cases, we believe that polio eradication program will continue at-least for next 4 to 5 years.

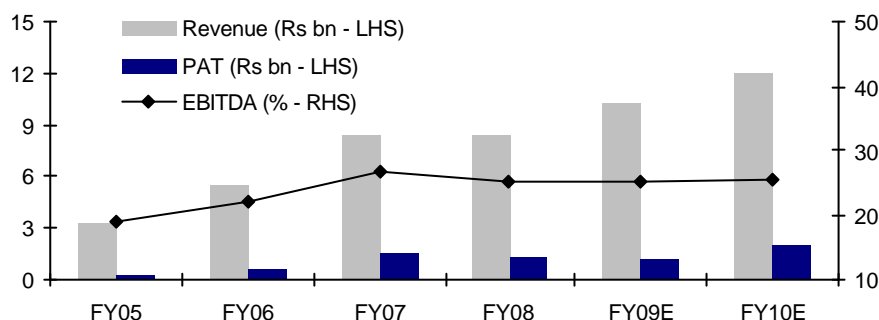
NDDS-based products for international markets - another growth driver

At present, the company is exporting its branded formulations to several countries in CIS regions, African Region and SEA region. The company is in the process of registering its existing branded formulations in several countries in these regions and plans to launch Panimun Bioral (Cyclosporin) NDDS formulations in the Brazilian market by end of FY09. We have assumed that Panimun Bioral could yield revenues of US\$2mn in FY09 and US\$5mn in FY10. Further, formulations exports in other developing countries are expected to yield around US\$5mn in FY09 and US\$15mn in FY10. During the quarter, PBL has been granted a patent in the USA for its proprietary product Thank God (Euphorbia Prostrata) for effective management of hemorrhoids and piles.

Financial outlook remain strong

We expect revenue growth of 21.8% and 17.5% to Rs.10.25bn and Rs.12.05bn in FY09 and FY10, respectively. Net profit is expected to grow at -14% and 71.8% to Rs.1.11bn and Rs.1.91bn in FY09 and FY10, respectively. In FY09, net profit is lower mainly due to Rs.500mn provision for mark-to-market translation loss on foreign currency liabilities. We expect formulation business to register a growth of around 24% in FY09 and 42% in FY10 and vaccines business to clock a growth of 19.8% and 9.7% during the same period.

Annual Performance (FY2005-10E)



Source: Company, Kotak Securities - Private Client Research

Valuations and Recommendation

We maintain our BUY recommendation on Panacea Biotec with a price target of Rs.474

We remain positive on the business model and growth prospects in Panacea's key businesses. We believe that going forward growth will be driven by supplies of innovative combination vaccines to US agencies (UNICEF, WHO), progress on NDDS project and cyclosporine NDDS approval for Brazil and collaboration for anthrax vaccine for the US stockpiling program.

The company has posted EPS of Rs.19.3 in FY08. Going forward, we expect fully diluted EPS Rs.15.6 and Rs.26.9 in FY09 and FY10, respectively. In FY09, the EPS is lower mainly due to Rs.500mn provision for mark-to-market translation loss on foreign currency liabilities. The stock has corrected significantly in recent past mainly due to some adverse media news, which management has denied strongly. We believe this correction should be used as an opportunity to accumulate the stock. At current market price Rs.225, the stock is trading at 14.4x FY09 and 8.4x FY10 fully diluted earning estimates. We believe business outlook remain strong with potential catalysts in combination vaccines and proprietary formulation products. We maintain BUY with 9-12 months price target of Rs.474.

Key risks

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

Bulk Deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
22-Sep	Austral Coke	Aakarshan Tracon Private Ltd	B	259,804	230.62
22-Sep	Austral Coke	Aap Investments	S	259,804	230.62
22-Sep	Cat Technol	Prabhudas Lilladher Pvt. Ltd.	S	195,019	5.59
22-Sep	Cat Technol	Naresh Chand Jain	S	180,000	5.55
22-Sep	Dagger Forst	Godavari Corporations Pvt Ltd	B	375,842	17.75
22-Sep	Dagger Forst	Birla Bombay Pvt Ltd	S	375,842	17.75
22-Sep	G.S. Auto	Hardik M Mithani	B	61,216	89.98
22-Sep	G.S. Auto	Rajesh Gupta	S	18,923	92.01
22-Sep	Goldston Tec	Hemant Madhusudan Sheth	B	130,000	123.13
22-Sep	Koff Br Pict	Pravin D Gala	S	59,723	40.13
22-Sep	Koff Br Pict	Laxmi Cap Broking Pvt Ltd	S	56,999	41.01
22-Sep	Odyssey Corp	Mariam Ebrahim Gheewala	B	26,000	37.60
22-Sep	Parekh Alum	Pioneer Nirman India Private Ltd	B	99,825	119.82
22-Sep	Parekh Alum	Rajasthan Global Securities Ltd	S	86,546	119.90
22-Sep	Rajoo Engin.	Hardik M Mithani	B	19,396	70.43
22-Sep	Rama Pul Pap	Mukesh Kumar Singhal	S	70,000	12.70
22-Sep	Rasand Eng I	Vincent Commercial Co. Ltd.	B	50,000	54.75
22-Sep	Rasand Eng I	Mackertich Consultancy Servicespvtltd	S	50,000	54.75
22-Sep	Shyam Star	Manubhai Jivani	S	35,000	137.67
22-Sep	Tulip Tele	Deutsche Securities Mauritius Limited	S	153,748	950.00
22-Sep	Vintage Card	Setu Securities Pvt Ltd	B	7,998	59.60

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
ITC	195	2.1	2.4	10.6
Tata Steel	494	3.0	1.7	3.1
Hindustan Unilever	250	1.8	1.6	2.3
Losers				
ONGC	1,060	(1.1)	(4.0)	1.1
Reliance Ind	2,039	(0.8)	(3.8)	5.8
L&T	2,571	(2.8)	(3.5)	1.4

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
23-Sep	Aptech holds event for new product
	IMC organizes a press meet on financial institutions
	Gensler and Space Matrix holds meet for joint venture
	Synopsys EDS Software holds session for its strategy plans

Source: Bloomberg

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