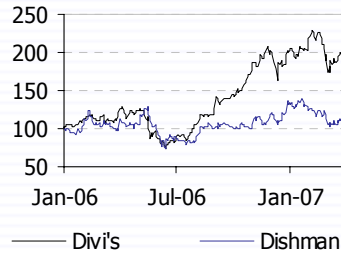
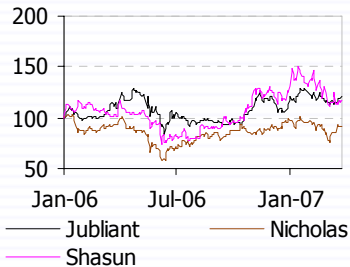


## Relative Performance



Source: ENAM Research, Bloomberg

## Relative Performance



Source: ENAM Research, Bloomberg

# CRAMS Sector Report

## The India Advantage Story

### Sector Summary

Company	Price (Rs.)	Mkt cap (USD mn)	EPS (Rs.)		P/E (x)		RoE		RoCE		Tgt Price (Rs.)	Potential Upside (%)	Relative to Sector
			FY07E	FY08E	FY07E	FY08E	FY07E	FY08E	FY07E	FY08E			
Dishman Pharma	209	346	9.4	14.5	22.3	14.5	34.1	37.1	15.1	16.0	283	35	Outperformer
Divi's Laboratories	3,008	882	86.9	136.1	34.6	22.1	28.9	34.5	29.0	33.8	3,161	5	Neutral
Jubilant Organosys	256	840	12.4	15.7	20.6	16.3	24.1	24.8	14.8	14.3	278	9	Neutral
Nicholas Piramal	243	1,164	10.1	13.9	24.2	17.5	20.5	24.7	21.0	23.4	265	9	Neutral
Shasun Chemicals	99	110	8.4	9.3	11.9	10.7	20.8	19.8	17.2	15.3	-	-	Not rated

Source: ENAM Research

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March 29, 2007

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# Investment summary

- **The global CRAMS space is very attractive**
  - Total global revenues from contract research were estimated at ~USD 13bn in 2005 and are expected to grow at 14% CAGR (2005-09)
  - Innovators are looking for more cost-effective manufacturing, as they face increasing margin pressures
    - ▶ Cost of R&D is rising, while R&D productivity (as verified by lower NCE approvals) is declining
    - ▶ As new targets increasingly come from genomics, “traditional” small molecule research is likely to be farmed out even more
- **Leading US/EU CRAMS players (e.g. Lonza) are moving into biopharmaceuticals, as competition is making their existing businesses less profitable**
- **Innovator companies seem more willing to contract work to Asian/Indian players**
  - Post India’s signing of TRIPS in 2005 the comfort level of the innovators has increased
- **Indian CRAMS players are well placed to capitalize on this under-penetrated market**
  - Cost and skill advantage. (manufacturing cost in an USFDA approved plant in India is 0.4x the USA)
  - India has max no. of USFDA approved plants outside of the US
  - Indian pharma companies have presence across the value chain
  - Pure play CRAMS players i.e. those with low exposure to “commoditized” API manufacturing will benefit the most
- **Entry of other low-cost players is likely to keep margins in check**
- **Top picks in the CRAMS space: Dishman (Sector Outperformer); Divi’s, Jubilant & Nicholas (Sector Neutral)**

**Indian CRAMS players are in a “sweet spot”**

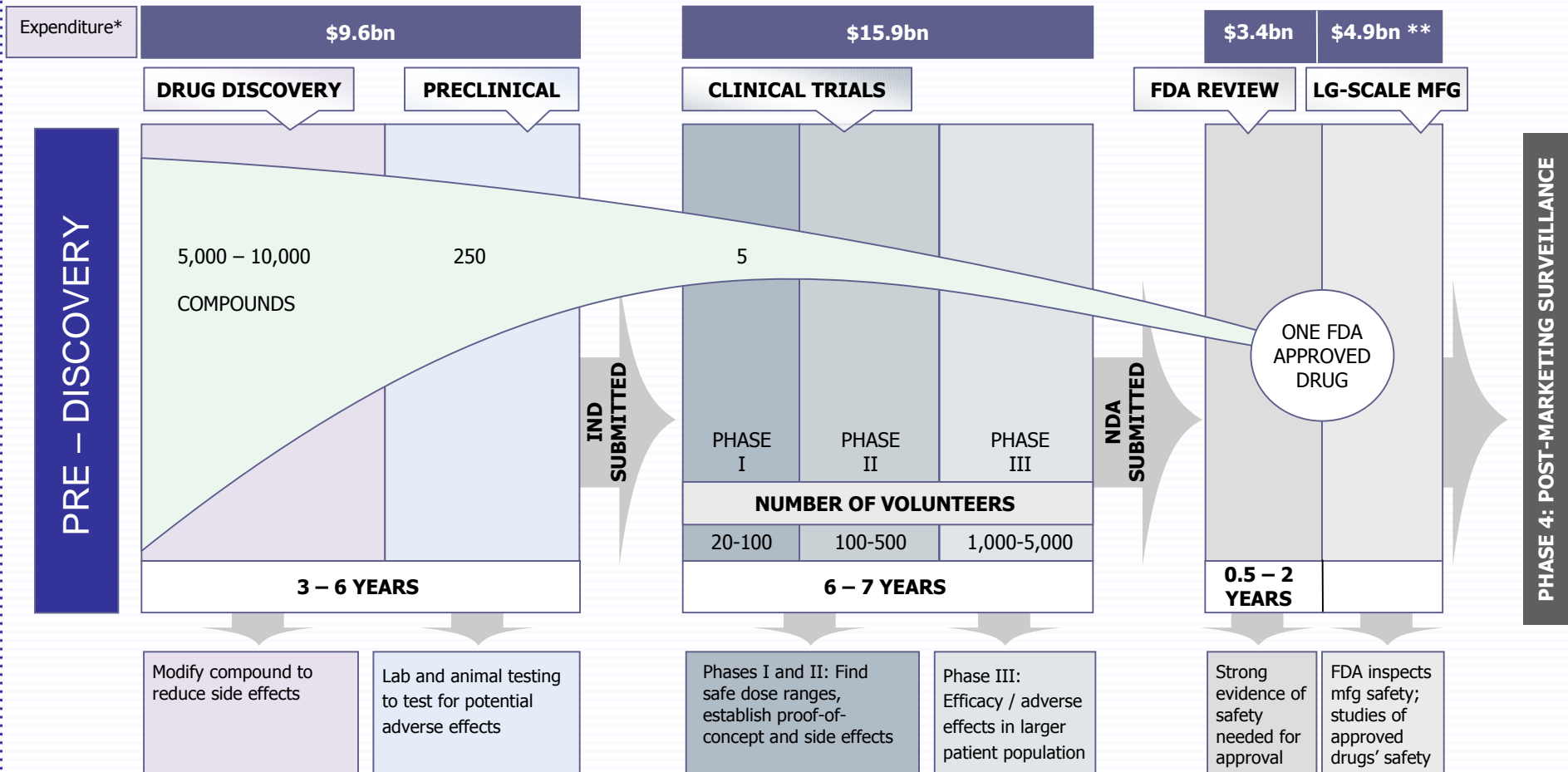


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# **Global scenario in CRAMS**

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# Expensive R&D leads to CRAMS opportunity

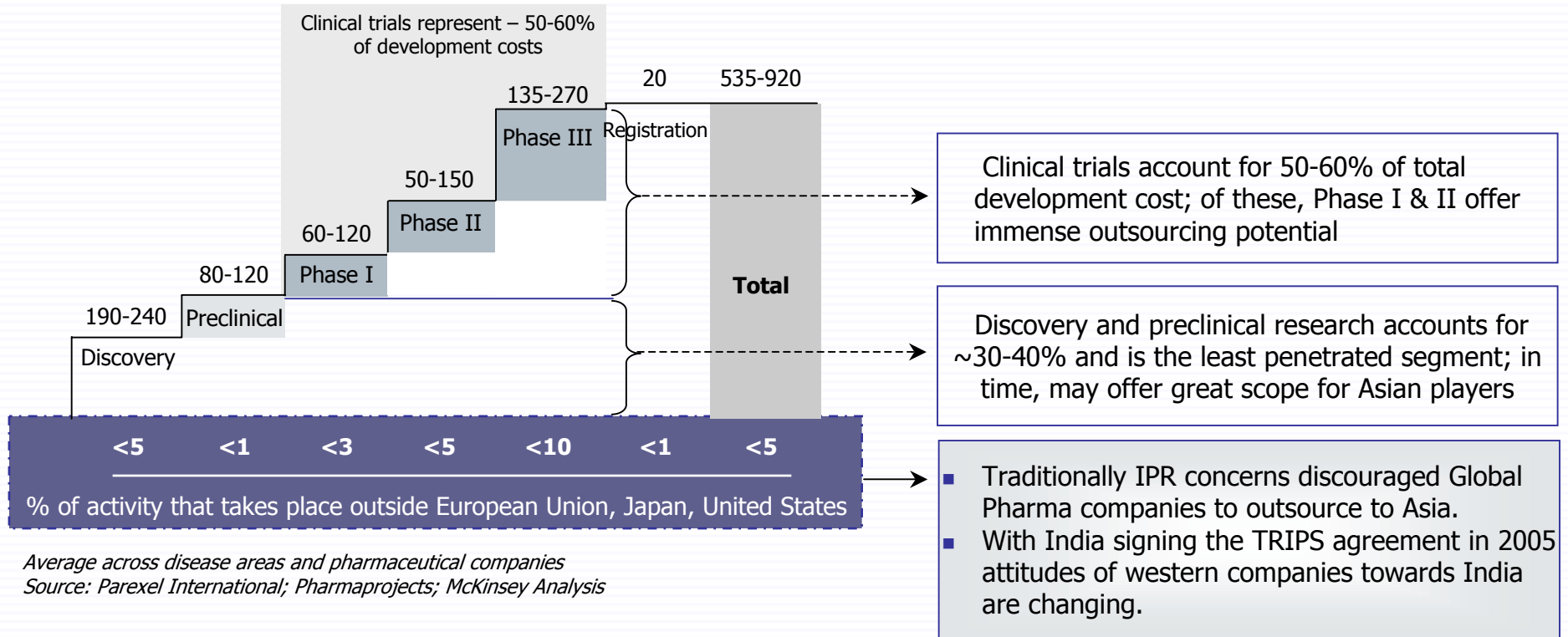


Source: ENAM Research, Pharma  
 \* Amount Spent in 2005, \*\* This figure includes Phase IV testing only.

**Drug Discovery, Preclinical and Clinical Trials spends were over USD 25bn**

# Pie outsourced to Asia still small

Estimated development cost per launched by stage of development,<sup>1</sup> 2005 (USD mn)



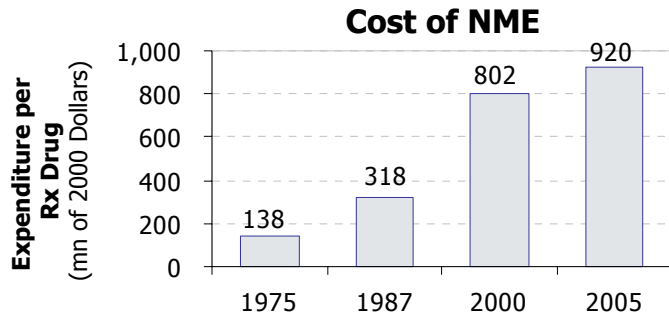
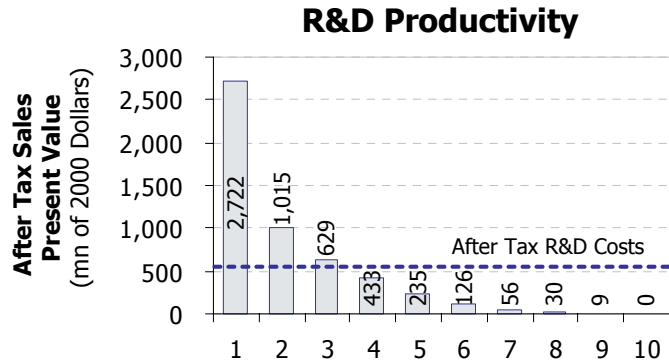
Average across disease areas and pharmaceutical companies  
 Source: Parexel International; Pharmaprojects; McKinsey Analysis

**Asian players are a potential low cost destination for CRAMS**

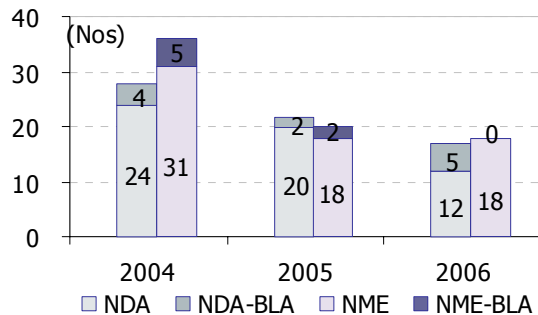
# Innovators are facing immense pressures...

- Innovators are facing margin pressures due to declining productivity of R&D.
- NME and NDA approvals continue to remain low.

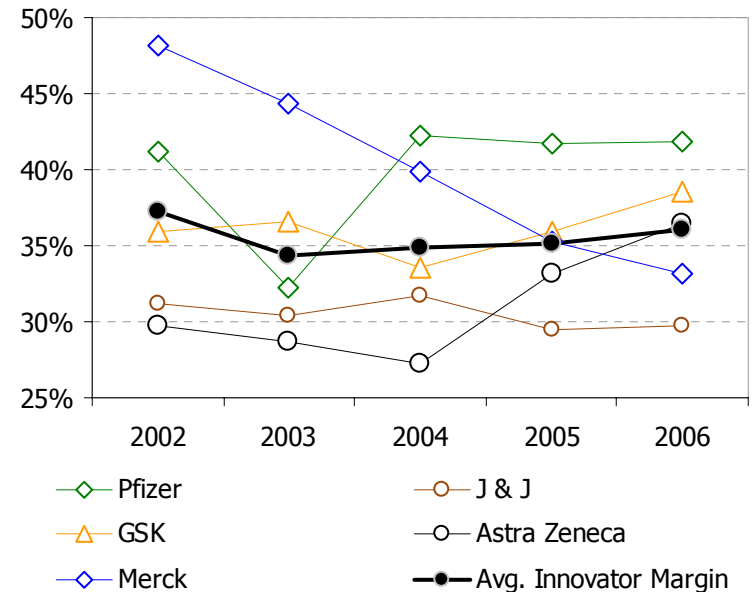
Which has led to...



### Falling NME and NDA approvals



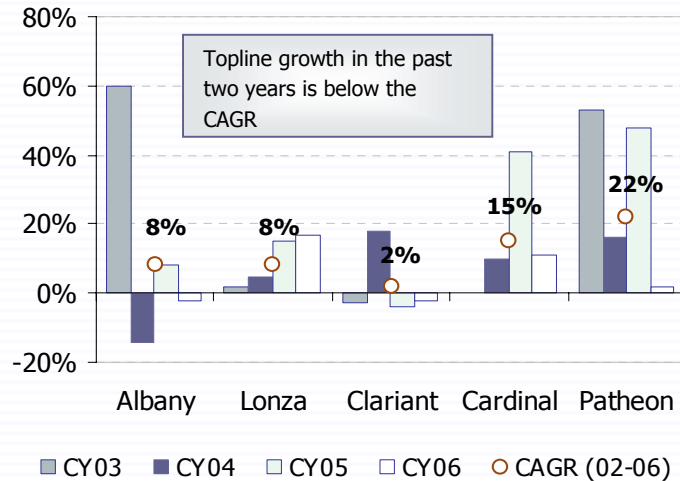
### EBITDA Margins: Top 5 innovators



Thus Innovators are looking to improve margins through cost-effective research and manufacturing.

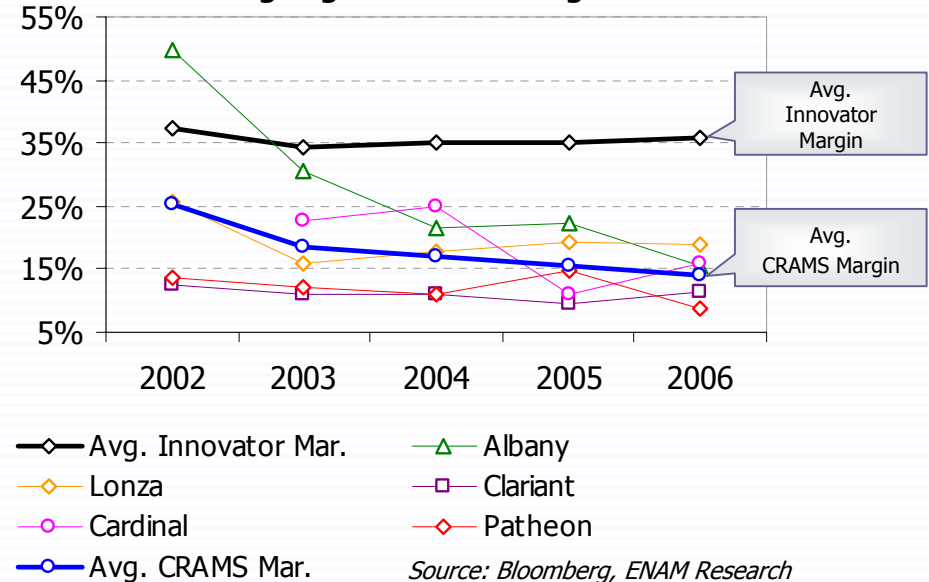
# ...which reflects on US/EU CRAMS players

### Topline Growth



Source: Bloomberg, ENAM Research

### EBITDA margin of US/EU CRAMS players lag avg. innovator margins



Source: Bloomberg, ENAM Research

## ➤ US/EU CRAMS players are facing a plethora of problems

- Pfizer plans to shut down two US plants and “aggressively pursue outsourcing”. Some APIs have been outsourced to Scinopharm (Taiwan) and Shanghai Pharmaceuticals (China).
- Albany suffered revenue losses due to drop in royalties from Allegra post generics launch; it also saw a low 10% growth in Large Scale Manufacturing (LSM), a major business segment.
- Patheon’s earnings were negatively impacted by a series of manufacturing issues and market driven declines affecting several high-volume products at Puerto Rico operations.

## ➤ Global Pharma Companies are buying out companies in low cost manufacturing regions

- Matrix Mylan Deal
- Actavis buying out Grandix in India



# US/EU players are moving to new areas

## ➤ **Biopharmaceuticals are proving lucrative**

- One in four new drugs are biopharmaceuticals and annual sales are seen at USD 52bn by 2010
- Leading players are diversifying into bio-pharmaceuticals
  - ▶ Lonza has received approval for BMS Biologic arthritis drug Ornelia and manufactures Multistem for Athersys
  - ▶ QSV (Canadian CMO) has signed a deal with Critical Biologics, USA.
- Consolidation in the bio-generics space for development of bio-similars
  - ▶ Lonza has acquired Genentech's biopharmaceutical production plant and set up a plant in Singapore
  - ▶ Reliance Life Sciences has bought 74% stake in GeneMedix. The Joint entity will develop biosimilar drugs and offer full service CRAMS.
  - ▶ Cytovance (specializes in antibody & recombinant protein products) picked up by Bone Biologics for clinical quantity manufacture

## ➤ **Large Scale Manufacturing (LSM), likely to shift to low cost regions like India**

- US/EU CRAMS players are finding LSM less profitable
- Discovery and development services are much more lucrative and they are shifting focus from LSM to these areas

**Gradual shift of US/EU CRAMS players towards bio-generics creates opportunities**

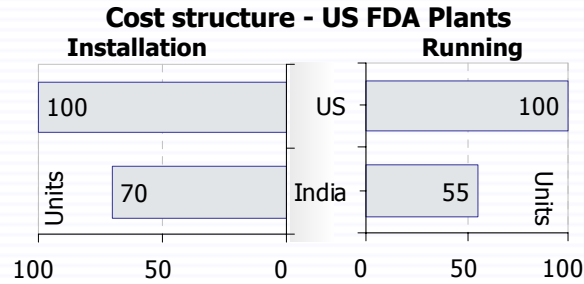


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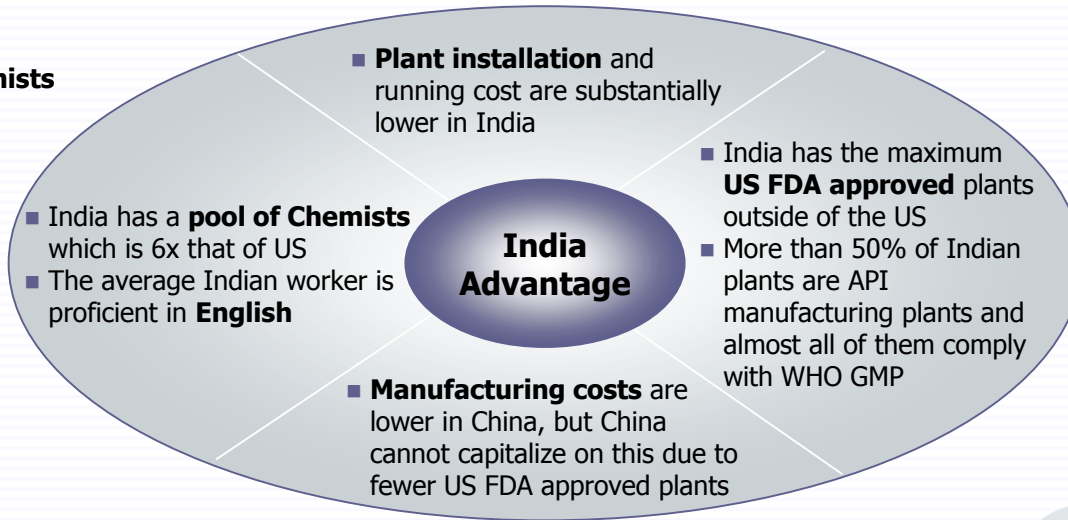
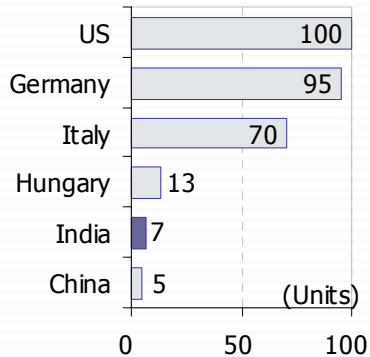
# **CRAMS in India**

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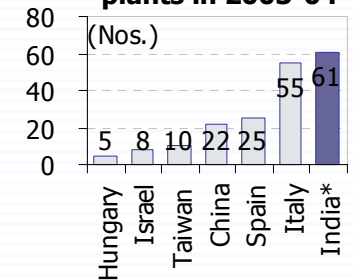
# India Advantage



### Comparative wages of chemists



### US FDA compliant plants in 2003-04



\*:India had ~70-75 US FDA approved plants at the end of 2005

### Cost of Manufacturing

Country	(Units)
US	100
Europe	85-90
<b>India</b>	
- US FDA plants	35-40
- Others	25-30
China	20-25

**US/EU CRAMS players are not interested in executing small contracts (~USD 5-10mn). Indian CRAMS players benefit by getting many contracts of small sizes.**

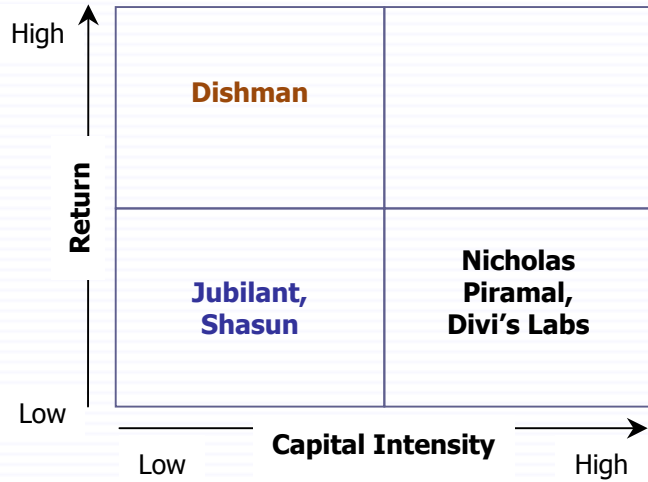
Source: CrisInfac, ENAM Research

# Strategies adopted by Indian CRAMS players

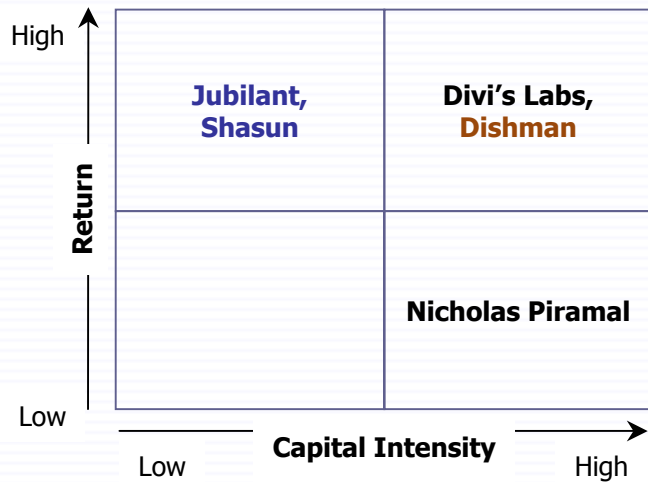
Company Name	Business Outlook	Acquisitions	Remarks
<b>Divis Laboratories</b>	Conservative	No acquisitions. Has set up marketing subsidiary in Europe.	Growing organically
<b>Dishman</b>	Aggressive	Carbogen and Amcis (Swiss), Synprotec (UK)	Carbogen AMCIS acquisition has been at a reasonable price. Looking for small acquisitions in Europe.
<b>Nicholas Piramal</b>	Very aggressive	Torcan (Canada), Avecia (UK), Morepeth (UK)	Has acquired assets in various geographies, effective integration of these acquisitions is key to future growth in CRAMS.
<b>Jubilant</b>	Aggressive	Target (USA), Biosys (USA), Trigen (USA)	Small sized acquisitions have added breadth in the CRAMS space.
<b>Shasun</b>	Aggressive	Rhodia's Plant (UK)	Acquisition of Rhodia's assets marks entry into CRAMS.

**Indian players are swiftly increasing their presence in the regulated markets**

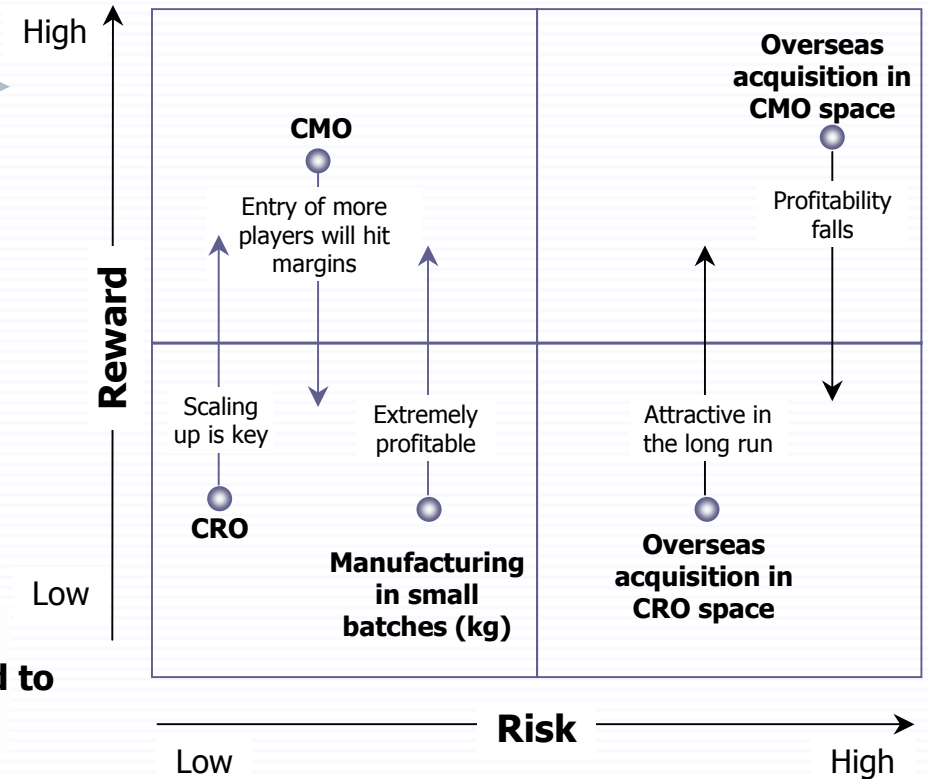
# Risk & Reward matrix for CRAMS



changing times



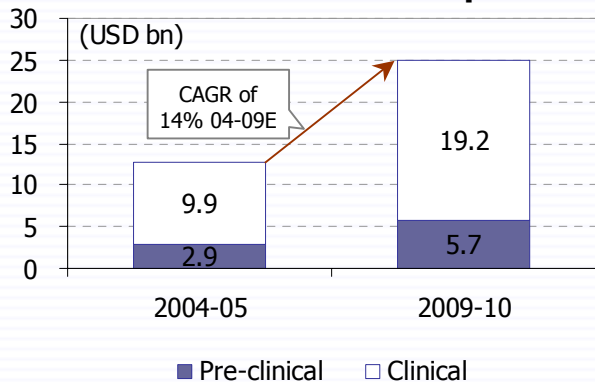
will lead to



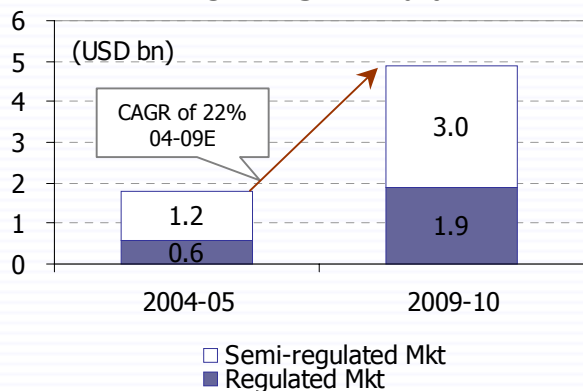
Source: ENAM Research

# Signs of Scalability are evident

## Global Contract Research potential



## CRAMS in India



Major ongoing CRAMS contracts

## Top Innovators have tied up with India

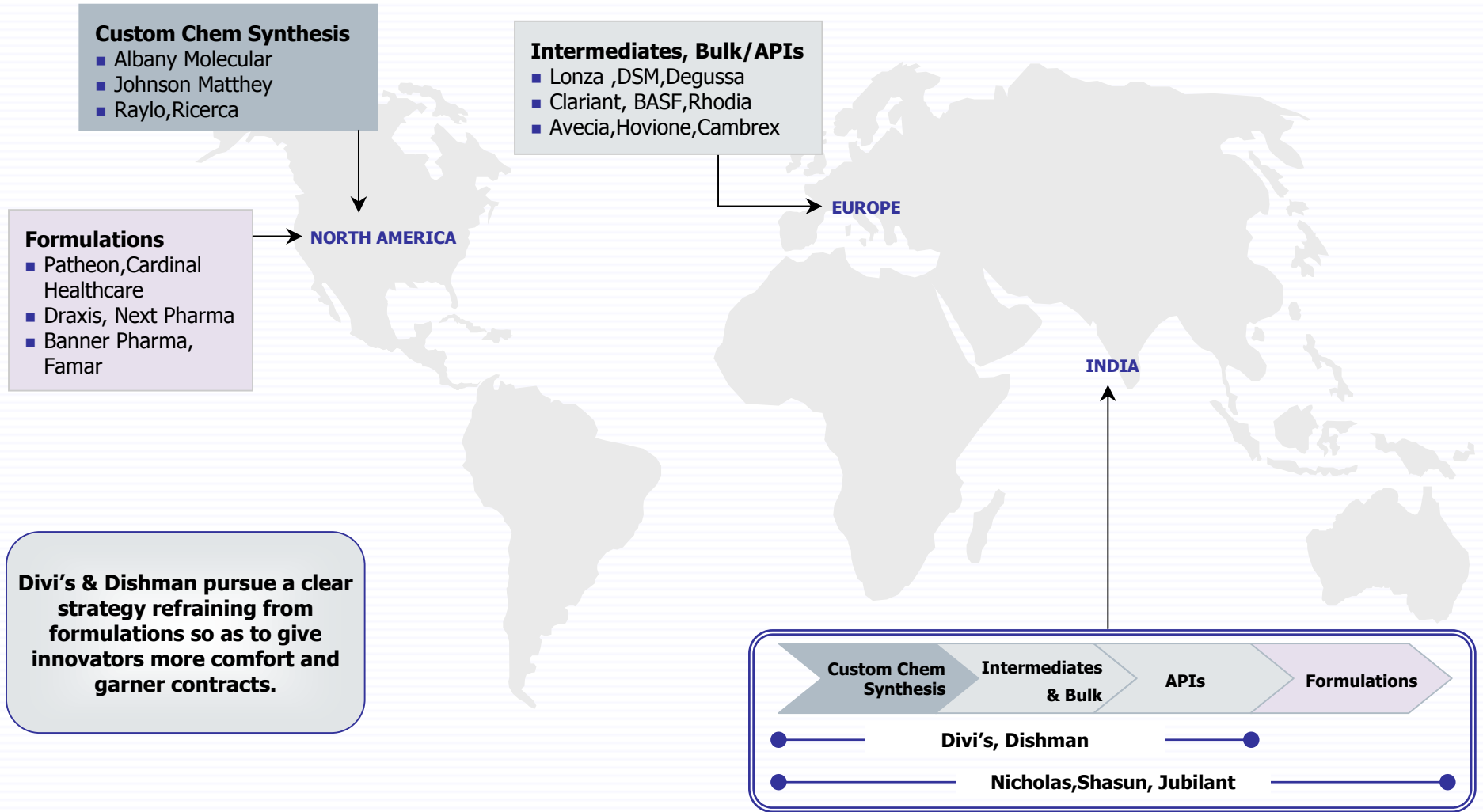
Innovator/ Generic	Area	
<b>Cadila (through JV)</b>	Altana	Two intermediates for pantoprazole
	Mayne	Intermediates for 8 oncology products
<b>Divi's Lab</b>	Mylan	API for leviteracetam
	Merck, Abbott and GSK plc	NA
<b>Dishman</b>	Solvay	API for eprosaratan mesylate
	AstraZeneca	Intermediates for esomeparzole
	GSK	Intermediates for 3 products
	Merck	Intermediates for 3 products
<b>Jubilant Organosys</b>	Eli Lilly	CCS for 3 molecules
	Novartis	oxcarbazepine in India
	GSK plc	lamotrigine
<b>Nicholas Piramal</b>	AMO	Neutralizing tablets
	Allergan	APIs
	AstraZeneca	APIs & Intermediates for many products
	Global hospital products co	APIs for many products
	Pfizer	APIs/formulations for veterinary products
	Eli Lilly	Drug discovery agreement
	<b>Shasun</b>	GSK plc
	Eli Lilly	API for nizatidine
	Boots Plc	API for ibuprofen
<b>Suven</b>	GSK plc	Intermediates for abacavir
	Eli Lilly	Intermediates for losartan

Source: ENAM Research, CRIS infac

Refer Appendix for Innovator R&D spend  
Refer Appendix for SWOT analysis of Indian CRAMS

Source: Company, ENAM Research

# Potential to capture the entire value chain



Divi's & Dishman pursue a clear strategy refraining from formulations so as to give innovators more comfort and garner contracts.

**Geographically, Formulations are strong in America, APIs are strong in Europe**



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# **Company Section**

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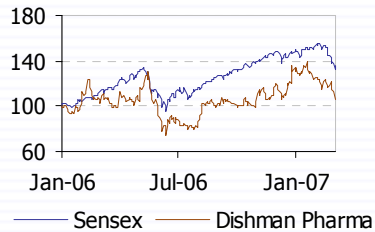


**Stock Data**

No. of shares	: 72.2mn
Market cap	: USD 346mn
52 week high/low	: Rs 273 / Rs 132
Avg. daily vol. (6mth)	: 195,400 shares
Bloomberg code	: DISH IN
Reuters code	: DISH.BO

**Shareholding (%) Dec-06 QoQ chg**

Promoters	:	70.9	(0.3)
FIIIs	:	10.4	(0.6)
MFs / UTI	:	12.3	(0.2)
Banks / FIs	:	0.0	0.0
Others	:	6.4	1.0

**Relative Performance**

Source: ENAM Research, Bloomberg

**Financial summary**

Y/E March	Sales (Rs mn)	PAT (Rs mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change (YoY %)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs)
2006	2,761	514	-	6.3	55	30.1	31.1	16.7	23.6	0.7
2007E	5,129	764	10.2	9.4	49	22.3	34.1	15.1	16.0	0.7
2008E	8,229	1,175	15.4	14.5	54	14.5	37.1	16.0	11.4	1.0
2009E	10,092	1,532	N.A.	18.9	30	11.1	34.5	17.0	9.0	1.2

Source: \*Consensus broker estimates, Company, ENAM estimates

# Dishman Pharma

Relative to Sector: **Outperformer**

**Rs 209**

Target Price: Rs 283  
Potential Upside: 35%

Value For Money

# Dishman Pharma: Investment summary

## ➤ Reduction in dependence on Solvay contracts

- After the acquisition of Carbogen and Amcis (CA), Dishman's dependence on the Solvay's eprosartan contract is likely to reduce from 47% of total CRAMS in FY06 to 26% in FY07E
- Acquisition of CRO Synprotec and contracts from Astra, Merck, KRKA and GSK have further diversified Dishman's portfolio

## ➤ CA acquisition to benefit immensely

- New customers gained through Carbogen and Amcis will boost Dishman's existing CRAMS business and also provide it with an entry into high-value APIs
- Post acquisition of CA, EBIDTA margins are expected to fall marginally by about 100-150bps in FY08E. However profits are expected to grow at 46% CAGR(FY06-FY09E)

## ➤ Valuations do not reflect future opportunities

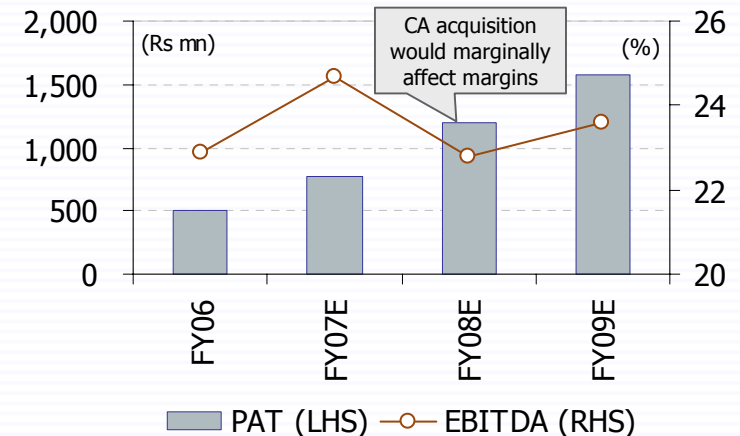
- At CMP (Rs 209), stock trades at 14.5x FY08E EPS of Rs 14.8.
- CRAMS would be boosted by another contract from Solvay. Dishman expects to start supply of SLV-306 - a Solvay candidate for congestive heart failure undergoing Phase III trials - in FY10
- We initiate coverage on the stock with a sector Outperformer rating

## Sales Mix

(%)	FY06	FY07E	FY08E	FY09E
Bulk and QUATs	47	28	19	17
CRAMs	53	72	81	83
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Break-up of CRAMS contracts by company</b>				
Solvay	47	26	20	21
Astra, Merck, KRKA & GSK	32	19	14	16
Saudi Arabian JV	-	-	3	6
Synprotec	15	7	5	5
FTEs and others	5	3	2	2
Carbogen Amcis	-	45	56	50
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Company, ENAM Research

## EBIDTA Margins and PAT



Source: ENAM Research

# Dishman Pharma: Company Financials

## Income statement

Y/E March	2006	2007E	2008E	2009E
<b>Net sales</b>	<b>2,761</b>	<b>5,129</b>	<b>8,229</b>	<b>10,092</b>
Other operating income	0	0	0	0
<b>Total income</b>	<b>2,761</b>	<b>5,129</b>	<b>8,229</b>	<b>10,092</b>
Cost of goods sold	1,863	3,465	5,790	7,030
Contribution (%)	33	32	30	30
Advt/Sales/Distrn O/H	266	396	561	681
<b>Operating Profit</b>	<b>632</b>	<b>1,268</b>	<b>1,878</b>	<b>2,381</b>
Other income	135	155	155	155
<b>PBIDT</b>	<b>767</b>	<b>1,423</b>	<b>2,033</b>	<b>2,536</b>
Depreciation	120	354	396	444
Interest	102	201	301	350
Other pretax	0	0	0	0
<b>Pre-tax profit</b>	<b>544</b>	<b>868</b>	<b>1,336</b>	<b>1,741</b>
Tax provision	30	104	160	209
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
<b>Adjusted PAT</b>	<b>514</b>	<b>764</b>	<b>1,175</b>	<b>1,532</b>
E/o income / (Expense)	0	0	0	0
<b>Reported PAT</b>	<b>514</b>	<b>764</b>	<b>1,175</b>	<b>1,532</b>

## Key ratios

Y/E March	2006	2007E	2008E	2009E
<b>Sales growth</b>	<b>48.1</b>	<b>85.8</b>	<b>60.4</b>	<b>22.6</b>
<b>OPM</b>	<b>22.9</b>	<b>24.7</b>	<b>22.8</b>	<b>23.6</b>
Oper. profit growth	25.3	100.7	48.1	26.8
COGS / Net sales	67.5	67.6	70.4	69.7
Overheads/Net sales	9.6	7.7	6.8	6.7
Depreciation / G. block	5.5	6.0	6.0	6.0
Effective interest rate	4.6	4.2	4.3	4.5
Net wkg.cap / Net sales	0.5	0.4	0.5	0.5
Net sales / Gr block (x)	1.5	1.3	1.3	1.4
Incremental RoCE	7.6	8.5	25.5	32.2
<b>RoCE</b>	<b>16.7</b>	<b>15.1</b>	<b>16.0</b>	<b>17.0</b>
Debt / equity (x)	173.6	244.1	207.4	154.0
Effective tax rate	5.6	12.0	12.0	12.0
<b>RoE</b>	<b>31.1</b>	<b>34.1</b>	<b>37.1</b>	<b>34.5</b>
Payout ratio (Div/NP)	9.4	6.3	5.7	5.3
<b>EPS (Rs.)</b>	<b>6.3</b>	<b>9.4</b>	<b>14.5</b>	<b>18.9</b>
EPS Growth	54.7	48.6	53.9	30.4
CEPS (Rs.)	9.2	16.3	22.8	28.7
DPS (Rs.)	0.7	0.7	1.0	1.2

Source: Company, ENAM Research

# Dishman Pharma: Company Financials

## Balance sheet

Y/E March	2006	2007E	2008E	2009E
<b>Total assets</b>	<b>5,129</b>	<b>8,980</b>	<b>11,418</b>	<b>13,108</b>
Gross block	2,190	5,907	6,607	7,407
Net fixed assets	1,750	5,113	5,417	5,772
CWIP	373	373	373	373
Investments	0	0	0	0
Wkg. cap. (excl cash)	1,579	2,951	4,875	5,933
Cash / Bank balance	1,427	542	753	1,029
Others/Def tax assets	0	0	0	0
<b>Capital employed</b>	<b>5,129</b>	<b>8,980</b>	<b>11,418</b>	<b>13,108</b>
Equity capital	137	138	138	138
Reserves	1,737	2,474	3,582	5,033
Borrowings*	3,255	6,375	7,715	7,965
Others	(0)	(7)	(17)	(28)

## Cash flow

Y/E March	2006	2007E	2008E	2009E
<b>Sources</b>	<b>2,636</b>	<b>4,205</b>	<b>2,834</b>	<b>2,134</b>
Cash profit	633	1,112	1,562	1,965
(-) Dividends	55	55	77	92
Retained earnings	578	1,057	1,485	1,873
Issue of equity	(7)	0	0	0
Borrowings	2,072	3,120	1,340	250
Others	(7)	28	9	11
<b>Applications</b>	<b>2,636</b>	<b>4,205</b>	<b>2,834</b>	<b>2,134</b>
Capital expenditure	921	3,717	700	800
Investments	0	0	0	0
Net current assets	384	1,372	1,924	1,059
Change in cash	1,331	(884)	211	275

Source: Company, ENAM Research

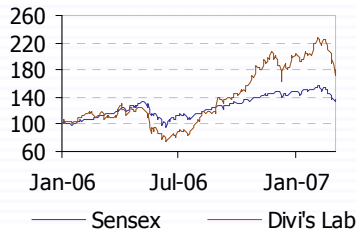
Note: Include USD 50 mn FCCB which will be converted at Rs 172/ share

**Stock Data**

No. of shares	: 12.8mn
Market cap	: USD 882mn
52 week high/low	: Rs 3,541 / Rs 1,118
Avg. daily vol. (6mth)	: 127,900 shares
Bloomberg code	: DIVI IN
Reuters code	: DIVI.BO

**Shareholding (%) Dec-06 QoQ chg**

Promoters	: 53.9	0.0
FII's	: 15.1	(0.3)
MFs / UTI	: 12.0	0.8
Banks / FIs	: 0.2	0.2
Others	: 18.8	(0.6)

**Relative Performance**

Source: ENAM Research, Bloomberg

**Financial summary**

Y/E March	Sales (Rs mn)	PAT (Rs mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change (YoY %)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs)
2006	3,890	695	-	54.2	5	34.5	22.3	26.5	20.6	10.0
2007E	6,423	1,114	87.0	86.9	60	34.6	28.9	29.0	22.3	15.0
2008E	8,393	1,745	125.4	136.1	57	22.1	34.5	33.8	15.5	22.0
2009E	9,717	2,251	130.3	175.6	29	17.1	33.4	35.3	12.7	28.0

Source: \*Consensus broker estimates, Company, ENAM estimates

# Divi's Laboratories

Relative to Sector: **Neutral**

**Rs 3,008**

Target Price: Rs 3,161

Potential Upside: 5%

'Divi'ning A Different Growth Path

# Divi's: Investment summary

## ➔ At an inflexion point

- Custom manufacturing is expected to constitute ~40% of FY07 sales, up from 30% in FY06. We expect sales to grow at a CAGR of 36% from FY06-09E, and earnings to grow by 48% over the same period.
- Revenues from the custom manufacturing business are likely to more than double in FY07 to Rs 2.7bn.

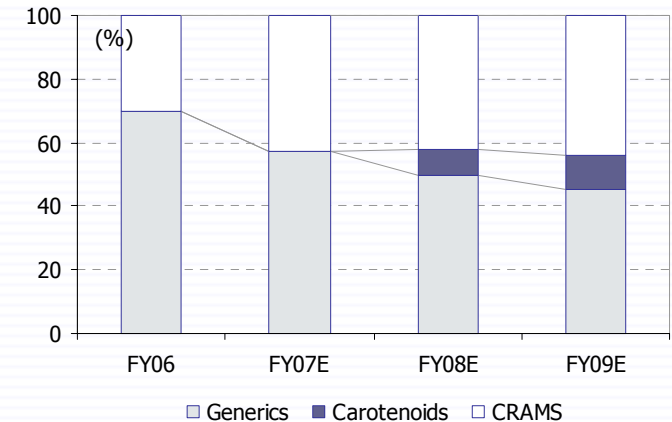
## ➔ Rich Client Profile

- Divi's is working with 20 of the top 25 global innovator companies on various custom manufacturing contracts. Since many of these involve supplies of development quantities, margins are likely to be higher.
- Divi's hopes to receive contracts for supply of APIs in the event that any NCEs for which it is developing processes receives final approval.

## ➔ Valuations, EBIDTA margins justify premium

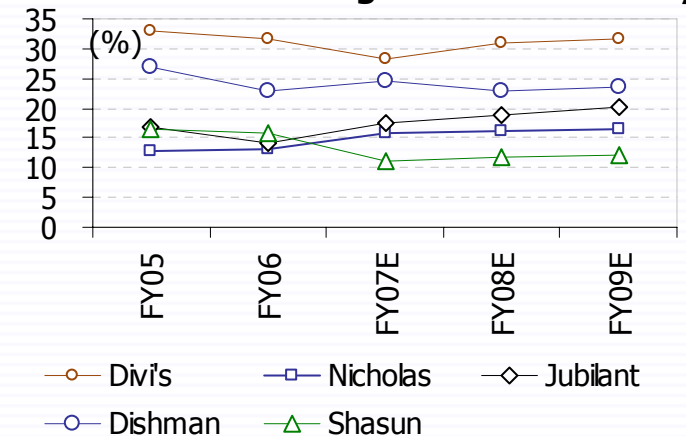
- At CMP (Rs 3,008), Divi's trades at 22.1x FY08E EPS of Rs 136.1. We believe that the current valuations adequately factor in the high earnings expectations and positive surprises from the company on the back of an excellent 9MFY07.
- If the management is able to demonstrate higher-than-industry growth on a regular basis, the stock will be re-rated. We maintain a Sector Neutral rating.

## Sales mix



Source: Company, ENAM Research

## Best EBITDA margins in the Industry



Source: Company, ENAM Research

# Divi's: Company Financials

## Income statement

Y/E March	2006	2007E	2008E	2009E
<b>Net sales</b>	<b>3,890</b>	<b>6,423</b>	<b>8,393</b>	<b>9,717</b>
Other operating income	0	0	0	0
<b>Total income</b>	<b>3,890</b>	<b>6,423</b>	<b>8,393</b>	<b>9,717</b>
Cost of goods sold	2,304	4,008	4,994	5,626
Contribution (%)	41	38	41	42
Advt/Sales/Distrn O/H	353	591	805	1,022
<b>Operating Profit</b>	<b>1,233</b>	<b>1,824</b>	<b>2,594</b>	<b>3,069</b>
Other income	27	20	25	27
<b>PBIDT</b>	<b>1,259</b>	<b>1,844</b>	<b>2,619</b>	<b>3,096</b>
Depreciation	148	206	256	281
Interest	56	110	124	83
Other pretax	0	0	0	0
<b>Pre-tax profit</b>	<b>1,055</b>	<b>1,529</b>	<b>2,240</b>	<b>2,732</b>
Tax provision	360	414	495	481
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
<b>Adjusted PAT</b>	<b>695</b>	<b>1,114</b>	<b>1,745</b>	<b>2,251</b>
E/o income / (Expense)	0	0	0	0
<b>Reported PAT</b>	<b>695</b>	<b>1,114</b>	<b>1,745</b>	<b>2,251</b>

## Key ratios

Y/E March	2006	2007E	2008E	2009E
<b>Sales growth</b>	<b>7.2</b>	<b>65.1</b>	<b>30.7</b>	<b>15.8</b>
<b>OPM</b>	<b>31.7</b>	<b>28.4</b>	<b>30.9</b>	<b>31.6</b>
Oper. profit growth	2.6	48.0	42.2	18.3
COGS / Net sales	59.2	62.4	59.5	57.9
Overheads/Net sales	9.1	9.2	9.6	10.5
Depreciation / G. block	4.9	5.0	5.6	5.6
Effective interest rate	5.2	6.1	6.4	6.7
Net wkg.cap / Net sales	0.5	0.4	0.5	0.5
Net sales / Gr block (x)	1.4	1.8	1.9	2.0
Incremental RoCE	2.4	34.8	68.8	65.8
<b>RoCE</b>	<b>26.5</b>	<b>29.0</b>	<b>33.8</b>	<b>35.3</b>
Debt / equity (x)	0.4	0.5	0.3	0.1
Effective tax rate	34.1	27.1	22.1	17.6
<b>RoE</b>	<b>22.3</b>	<b>28.9</b>	<b>34.5</b>	<b>33.4</b>
Payout ratio (Div/NP)	18.4	17.3	16.2	15.9
<b>EPS (Rs.)</b>	<b>54.2</b>	<b>86.9</b>	<b>136.1</b>	<b>175.6</b>
EPS Growth	5.3	60.3	56.6	29.0
CEPS (Rs.)	65.8	103.0	156.1	197.5
DPS (Rs.)	10.0	15.0	22.0	28.0

Source: Company, ENAM Research

# Divi's: Company Financials

## Balance sheet

Y/E March	2006	2007E	2008E	2009E
<b>Total assets</b>	<b>5,179</b>	<b>6,671</b>	<b>7,786</b>	<b>8,517</b>
Gross block	3,020	4,114	4,564	5,014
Net fixed assets	2,149	3,037	3,232	3,401
CWIP	803	200	100	0
Investments	0	0	0	0
Wkg. cap. (excl cash)	2,123	3,371	4,323	4,937
Cash / Bank balance	105	63	132	179
Others/Def tax assets	0	0	0	0
<b>Capital employed</b>	<b>5,179</b>	<b>6,671</b>	<b>7,786</b>	<b>8,517</b>
Equity capital	128	128	128	128
Reserves	3,271	4,193	5,655	7,548
Borrowings	1,502	2,096	1,796	696
Others	279	254	206	145

## Cash flow

Y/E March	2006	2007E	2008E	2009E
<b>Sources</b>	<b>1,580</b>	<b>1,698</b>	<b>1,359</b>	<b>997</b>
Cash profit	872	1,296	1,952	2,471
(-) Dividends	146	217	330	420
Retained earnings	726	1,079	1,623	2,051
Issue of equity	0	0	0	0
Borrowings	841	594	(300)	(1,100)
Others	13	25	36	46
<b>Applications</b>	<b>1,580</b>	<b>1,698</b>	<b>1,359</b>	<b>997</b>
Capital expenditure	1,280	492	350	350
Investments	0	0	0	0
Net current assets	239	1,248	952	614
Change in cash	60	(41)	57	33

Source: Company, ENAM Research

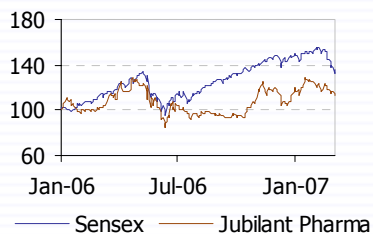


**Stock Data**

No. of shares	: 143mn
Market cap	: USD 840mn
52 week high/low	: Rs 295/ Rs 180
Avg. daily vol. (6mth)	: 82,700 shares
Bloomberg code	: JOL IN
Reuters code	: JUBO.BO

**Shareholding (%) Dec-06 QoQ chg**

Promoters	:	51.9	(0.1)
FII's	:	11.8	0.0
MFs / UTI	:	0.7	0.2
Banks / FIs	:	1.7	(0.1)
Others	:	34.1	(0.0)

**Relative Performance**

Source: ENAM Research, Bloomberg

**Financial summary**

Y/E March	Sales (Rs mn)	PAT (Rs mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change (YoY %)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs)
2006	15,043	1,286	-	7.1	17	34.4	19.2	15.0	19.0	1.3
2007E	18,509	2,249	12.9	12.4	75	20.6	24.1	14.8	13.4	2.2
2008E	22,339	2,846	15.9	15.7	27	16.3	24.8	14.3	10.5	2.8
2009E	26,188	3,741	18.6	20.6	31	12.4	26.1	16.7	8.2	3.7

Source: \*Consensus broker estimates, Company, ENAM estimates

# Jubilant Organosys

Relative to Sector: **Neutral**

**Rs 256**

Target Price: Rs 278

Potential Upside: 9%

Ramping Up CRAMS

# Jubilant Organosys: Investment summary

## ➤ Integrated player

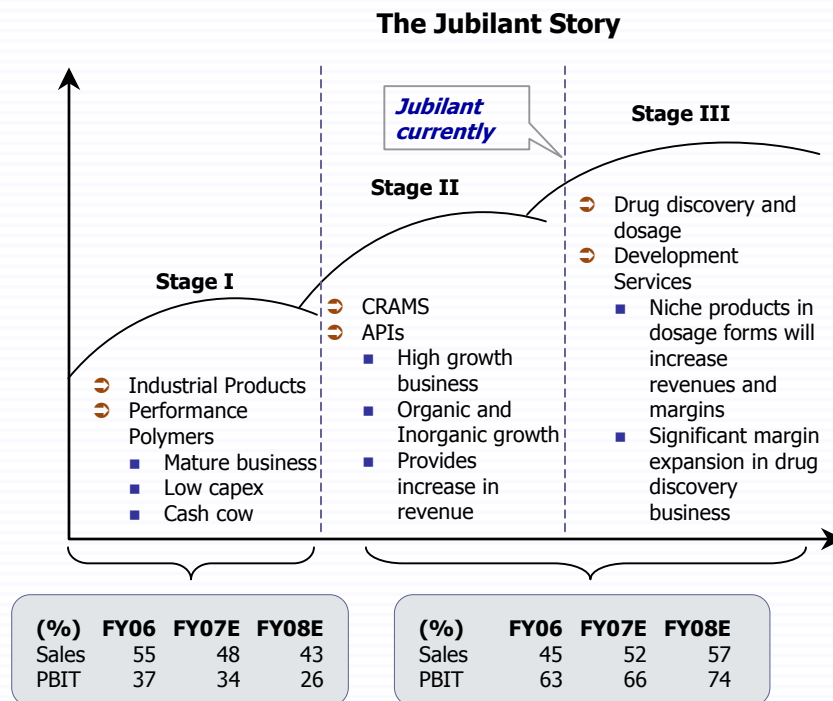
- Jubilant is an integrated player in Pharma & Life Sciences, and Industrial & Performance chemicals
- Non-Pharma business constituted 48% of total sales in FY07E
- Jubilant has a strong market presence for most of its Industrial chemicals products

## ➤ Pharma business to drive future growth

- Pharma biz. is backed by capex of ~Rs5 bn over the next two years
- New businesses – Target, Trigen, Biosys and Chemsys to contribute ~23% of sales in FY08E , up from 12% in FY06
- Jubilant is looking for acquisitions in the clinical research and discovery space in regulated markets

## ➤ Valuations factor non-Pharma business

- At CMP (Rs.256), trades at 16.3x FY08E EPS of Rs 15.7. The commoditized nature of the non-Pharma business caps overall valuations. We maintain a sector Neutral rating



## Growth Rate of Pharma businesses

(%)	06-09E CAGR
APIs	30
CRAMS	30
PSI	8
PVA	8
New businesses	56

Source: ENAM Research

# Jubilant Organosys: Company Financials

## Income statement

Y/E March	2006	2007E	2008E	2009E
<b>Net sales</b>	<b>15,043</b>	<b>18,509</b>	<b>22,339</b>	<b>26,188</b>
Other operating income	0	0	0	0
<b>Total income</b>	<b>15,043</b>	<b>18,509</b>	<b>22,339</b>	<b>26,188</b>
Cost of goods sold	11,501	13,600	16,147	18,530
Contribution (%)	24	27	28	29
Advt/Sales/Distrn O/H	1,394	1,670	1,993	2,337
<b>Operating Profit</b>	<b>2,148</b>	<b>3,239</b>	<b>4,199</b>	<b>5,322</b>
Other income	195	526	526	526
<b>PBIDT</b>	<b>2,343</b>	<b>3,765</b>	<b>4,725</b>	<b>5,848</b>
Depreciation	513	623	749	839
Interest	181	187	194	162
Other pretax	0	0	0	0
<b>Pre-tax profit</b>	<b>1,649</b>	<b>2,954</b>	<b>3,783</b>	<b>4,847</b>
Tax provision	370	739	946	1,115
(-) Minority Interests	(8)	(33)	(9)	(9)
Associates	0	0	0	0
<b>Adjusted PAT</b>	<b>1,286</b>	<b>2,249</b>	<b>2,846</b>	<b>3,741</b>
E/o income / (Expense)	11	0	0	0
<b>Reported PAT</b>	<b>1,297</b>	<b>2,249</b>	<b>2,846</b>	<b>3,741</b>

## Key ratios

Y/E March	2006	2007E	2008E	2009E
<b>Sales growth</b>	<b>28.8</b>	<b>23.0</b>	<b>20.7</b>	<b>17.2</b>
<b>OPM</b>	<b>14.3</b>	<b>17.5</b>	<b>18.8</b>	<b>20.3</b>
Oper. profit growth	10.0	50.8	29.7	26.7
COGS / Net sales	76.5	73.5	72.3	70.8
Overheads/Net sales	9.3	9.0	8.9	8.9
Depreciation / G. block	3.7	3.5	3.6	3.6
Effective interest rate	3.3	1.6	1.2	1.0
Net wkg.cap / Net sales	0.2	0.2	0.2	0.2
Net sales / Gr block (x)	1.3	1.2	1.2	1.2
Incremental RoCE	1.0	35.3	26.9	41.3
<b>RoCE</b>	<b>15.0</b>	<b>14.8</b>	<b>14.3</b>	<b>16.7</b>
Debt / equity (x)	0.9	1.6	1.3	0.9
Effective tax rate	22.4	25.0	25.0	23.0
<b>RoE</b>	<b>19.2</b>	<b>24.1</b>	<b>24.8</b>	<b>26.1</b>
Payout ratio (Div/NP)	14.1	14.1	14.1	14.1
<b>EPS (Rs.)</b>	<b>7.1</b>	<b>12.4</b>	<b>15.7</b>	<b>20.6</b>
EPS Growth	16.8	74.8	26.6	31.5
CEPS (Rs.)	12.6	20.2	25.2	32.2
DPS (Rs.)	1.3	2.2	2.8	3.7

Source: Company, ENAM Research

# Jubilant Organosys: Company Financials

## Balance sheet

Y/E March	2006	2007E	2008E	2009E
<b>Total assets</b>	<b>15,596</b>	<b>26,911</b>	<b>28,813</b>	<b>31,007</b>
Gross block	14,020	17,810	20,810	23,310
Net fixed assets	10,242	13,408	15,659	17,320
CWIP	1,290	0	0	0
Investments	0	0	0	0
Wkg. cap. (excl cash)	3,715	4,619	5,469	6,308
Cash / Bank balance	1,392	9,882	8,627	8,247
Others/Def tax assets	(1,042)	(998)	(941)	(867)
<b>Capital employed</b>	<b>15,596</b>	<b>26,911</b>	<b>28,813</b>	<b>31,007</b>
Equity capital	142	142	142	142
Reserves	8,233	10,132	12,567	15,771
Borrowings	7,220	16,637	16,104	15,094
Others	0	0	0	0

## Cash flow

Y/E March	2006	2007E	2008E	2009E
<b>Sources</b>	<b>7,535</b>	<b>11,894</b>	<b>2,595</b>	<b>2,959</b>
Cash profit	1,976	2,795	3,530	4,497
(-) Dividends	209	362	458	602
Retained earnings	1,767	2,433	3,072	3,895
Issue of equity	121	0	0	0
Borrowings	3,502	9,417	(533)	(1,010)
Others	2,145	45	56	74
<b>Applications</b>	<b>7,535</b>	<b>11,894</b>	<b>2,595</b>	<b>2,959</b>
Capital expenditure	4,776	2,500	3,000	2,500
Investments	0	0	0	0
Net current assets	1,745	904	850	840
Change in cash	1,014	8,491	(1,255)	(381)

Source: Company, ENAM Research

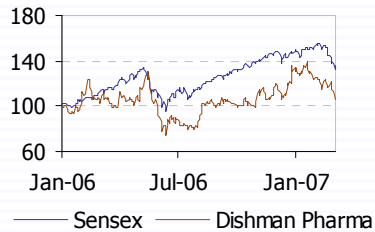
Note: Include USD 200 mn FCCB which will be converted at Rs 413/ share

**Stock Data**

No. of shares	: 209mn
Market cap	: USD 1,164mn
52 week high/low	: Rs.284/ Rs.150
Avg. daily vol. (6mth)	: 184,100 shares
Bloomberg code	: NP IN
Reuters code	: NICH.BO

**Shareholding (%) Dec-06 QoQ chg**

Promoters	:	50.2	(0.1)
FII's	:	14.0	1.3
MFs / UTI	:	1.6	(0.4)
Banks / FIs	:	6.0	0.0
Others	:	28.2	(0.8)

**Relative Performance**

Source: ENAM Research, Bloomberg

**Financial summary**

Y/E Mar	Sales (Rs mn)	PAT (Rs mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change (YoY %)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs)
2006	15,825	1,232	-	5.9	52	44.1	16.8	15.5	27.3	3.0
2007E	24,274	2,101	10.3	10.1	70	24.2	20.5	21.0	14.8	3.5
2008E	27,892	2,914	14.2	13.9	39	17.5	24.7	23.4	12.0	4.0
2009E	31,143	3,693	17.2	17.7	27	13.8	26.1	26.6	10.0	4.0

Source: \*Consensus broker estimates, Company, ENAM estimates

# Nicholas Piramal

Relative to Sector: **Neutral**

**Rs.243**

Target Price: Rs.265  
Potential Upside: 9%

Gaining Ground in CRAMS

# Nicholas Piramal: Investment summary

## ➤ Strong earnings momentum over the next 2 years

- We expect revenue and earnings CAGR of 25% and 44% respectively from FY06-09E respectively
- CRAMS will be a key driver and is expected to grow at an earnings CAGR of 55% from FY06-09E
- Avecia is expected to breakeven by the end of 4QFY07
- FY08 will be a year when there will be full year impact of sales from Morpeth

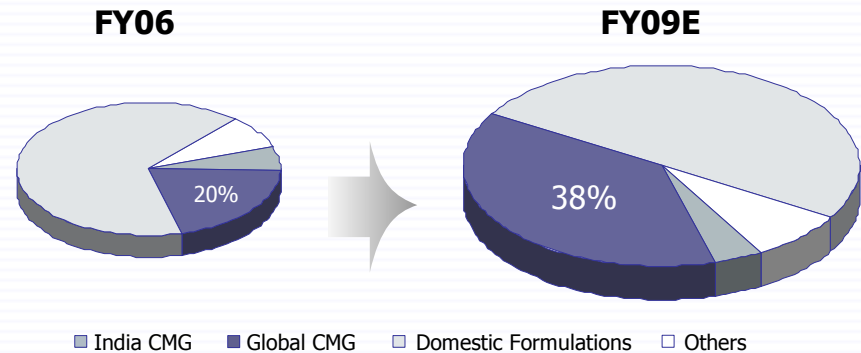
## ➤ Global player in the CRAMS space

- Nicholas has manufacturing assets spread across regulated markets viz Canada (Torcan) and Europe (Morpeth, Avecia), which also act as marketing front offices
- Nicholas and Eli Lilly have entered into a drug discovery agreement

## ➤ Current Valuations do not reflect future opportunities

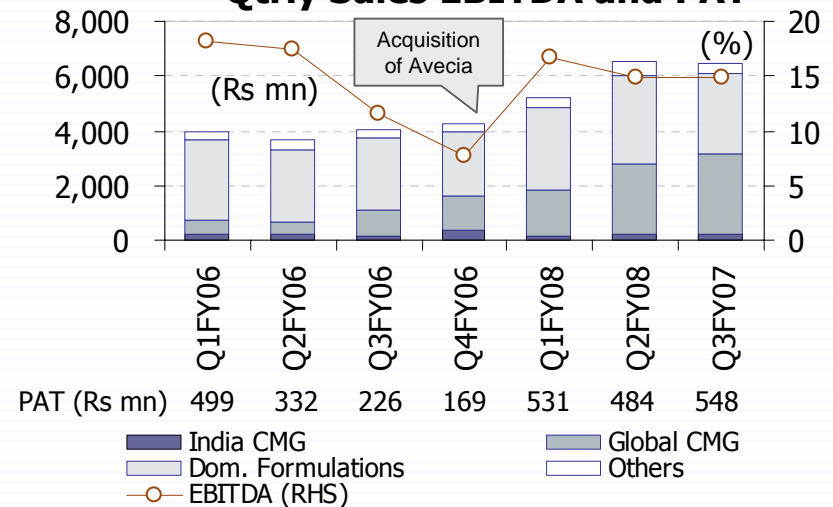
- At CMP (Rs 243), stock trades at 17.5x FY08E EPS of Rs 13.9. Post normalcy of Phensedyl sales, domestic sales are expected to provide a cushion to the lumpy nature of CRAMS sales. However successful execution of the acquisitions in the CRAMS space is the key. We maintain sector Neutral rating.

### Sales Mix



Source: Company, ENAM Research

### Qtrly Sales EBITDA and PAT



Source: Company, ENAM Research

# Nicholas Piramal: Company Financials

## Income statement

Y/E March	2006	2007E	2008E	2009E
<b>Net sales</b>	<b>15,825</b>	<b>24,274</b>	<b>27,892</b>	<b>31,143</b>
Other operating income	0	0	0	0
<b>Total income</b>	<b>15,825</b>	<b>24,274</b>	<b>27,892</b>	<b>31,143</b>
Cost of goods sold	9,934	15,605	17,596	19,522
Contribution (%)	37	36	37	37
Advt/Sales/Distrn O/H	3,803	4,877	5,731	6,395
<b>Operating Profit</b>	<b>2,089</b>	<b>3,792</b>	<b>4,565</b>	<b>5,226</b>
Other income	347	301	327	329
<b>PBIDT</b>	<b>2,435</b>	<b>4,093</b>	<b>4,892</b>	<b>5,555</b>
Depreciation	688	979	1,022	1,065
Interest	303	614	437	141
Other pretax	0	0	0	0
<b>Pre-tax profit</b>	<b>1,445</b>	<b>2,501</b>	<b>3,433</b>	<b>4,350</b>
Tax provision	209	396	515	652
(-) Minority Interests	4	4	4	4
Associates	0	0	0	0
<b>Adjusted PAT</b>	<b>1,232</b>	<b>2,101</b>	<b>2,914</b>	<b>3,693</b>
E/o income / (Expense)	(58)	(100)	0	0
<b>Reported PAT</b>	<b>1,174</b>	<b>2,001</b>	<b>2,914</b>	<b>3,693</b>

## Key ratios

Y/E March	2006	2007E	2008E	2009E
<b>Sales growth</b>	<b>21.0</b>	<b>53.4</b>	<b>14.9</b>	<b>11.7</b>
<b>OPM</b>	<b>13.2</b>	<b>15.6</b>	<b>16.4</b>	<b>16.8</b>
Oper. profit growth	23.3	81.6	20.4	14.5
COGS / Net sales	62.8	64.3	63.1	62.7
Overheads/Net sales	24.0	20.1	20.5	20.5
Depreciation / G. block	5.5	5.8	5.8	5.8
Effective interest rate	7.7	13.4	9.3	5.2
Net wkg.cap / Net sales	0.2	0.1	0.2	0.2
Net sales / Gr block (x)	1.5	1.6	1.6	1.7
Incremental RoCE	7.2	38.9	209.2	240.6
<b>RoCE</b>	<b>15.5</b>	<b>21.0</b>	<b>23.4</b>	<b>26.6</b>
Debt / equity (x)	0.4	0.5	0.3	0.1
Effective tax rate	14.4	15.8	15.0	15.0
<b>RoE</b>	<b>16.8</b>	<b>20.5</b>	<b>24.7</b>	<b>26.1</b>
Payout ratio (Div/NP)	53.4	36.6	28.7	22.6
<b>EPS (Rs.)</b>	<b>5.9</b>	<b>10.1</b>	<b>13.9</b>	<b>17.7</b>
EPS Growth	51.7	70.5	38.7	26.7
CEPS (Rs.)	9.2	14.7	18.8	22.8
DPS (Rs.)	3.0	3.5	4.0	4.0

Source: Company, ENAM Research

# Nicholas Piramal: Company Financials

## Balance sheet

Y/E March	2006	2007E	2008E	2009E
<b>Total assets</b>	<b>14,124</b>	<b>17,064</b>	<b>17,283</b>	<b>17,481</b>
Gross block	12,601	17,019	17,769	18,519
Net fixed assets	8,650	12,089	11,817	11,503
CWIP	1,768	400	400	400
Investments	287	287	287	287
Wkg. cap. (excl cash)	2,466	4,029	4,650	5,221
Cash / Bank balance	953	258	129	70
Others/Def tax assets	0	0	0	0
<b>Capital employed</b>	<b>14,124</b>	<b>17,064</b>	<b>17,283</b>	<b>17,481</b>
Equity capital	418	418	418	418
Reserves	9,222	10,415	12,374	15,113
Borrowings	3,648	5,498	3,898	1,498
Others	836	733	593	452

## Cash flow

Y/E March	2006	2007E	2008E	2009E
<b>Sources</b>	<b>4,962</b>	<b>3,918</b>	<b>1,240</b>	<b>1,263</b>
Cash profit	2,164	2,980	3,799	4,621
(-) Dividends	747	860	999	999
Retained earnings	1,417	2,120	2,800	3,623
Issue of equity	23	(4)	(4)	(4)
Borrowings	(566)	1,850	(1,600)	(2,400)
Others	4,088	(48)	44	44
<b>Applications</b>	<b>4,962</b>	<b>3,918</b>	<b>1,240</b>	<b>1,263</b>
Capital expenditure	3,828	3,050	750	750
Investments	250	0	0	0
Net current assets	87	1,563	620	572
Change in cash	798	(695)	(130)	(59)

Source: Company, ENAM Research

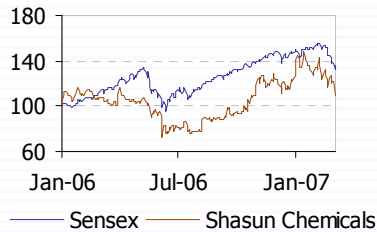


**Stock Data**

No. of shares	: 48.1mn
Market cap	: USD 110mn
52 week high/low	: Rs.136 / Rs.60
Avg. daily vol. (6mth)	: 245,700 shares
Bloomberg code	: SSCD IN
Reuters code	: SHAS.BO

**Shareholding (%) Dec-06 QoQ chg**

Promoters	:	42.7	0.2
FII's	:	16.9	1.1
MFs / UTI	:	11.1	1.1
Banks / FIs	:	1.3	(0.3)
Others	:	28.0	(2.0)

**Relative Performance**

Source: ENAM Research, Bloomberg

**Financial summary**

Y/E March	Sales (Rs mn)	PAT (Rs mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change (YoY %)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs)
2006	3,498	367	-	7.6	18	13.1	23.4	19.9	10.0	1.7
2007E	7,561	402	2.4	8.4	9	11.9	20.8	17.2	8.5	1.9
2008E	8,895	448	11.0	9.3	12	10.7	19.8	15.3	7.2	2.1
2009E	9,644	477	N.A.	9.9	6	10.0	18.2	14.9	6.5	2.2

Source: \*Consensus broker estimates, Company, ENAM estimates

# Shasun Chemicals

**Rs 99**Relative to Sector: **Not rated**

Trying to make a mark

# Shasun Chemicals: Investment summary

## ➤ Acquisition of Rhodia’s assets marks entry into Contract Manufacturing

- Shasun has acquired two of Rhodia’s plants (Dudley near Newcastle and Annan in Scotland) for a nominal consideration.
- We expect sales from the Rhodia plants to grow at 18% YoY in FY07 and 20% in FY08.
  - ▶ After the release of negative goodwill (on inventory taken over at the time of acquisition) we expect the Rhodia operations to have an operating profit of GBP 3mn in FY07 and GBP 4mn in FY08.

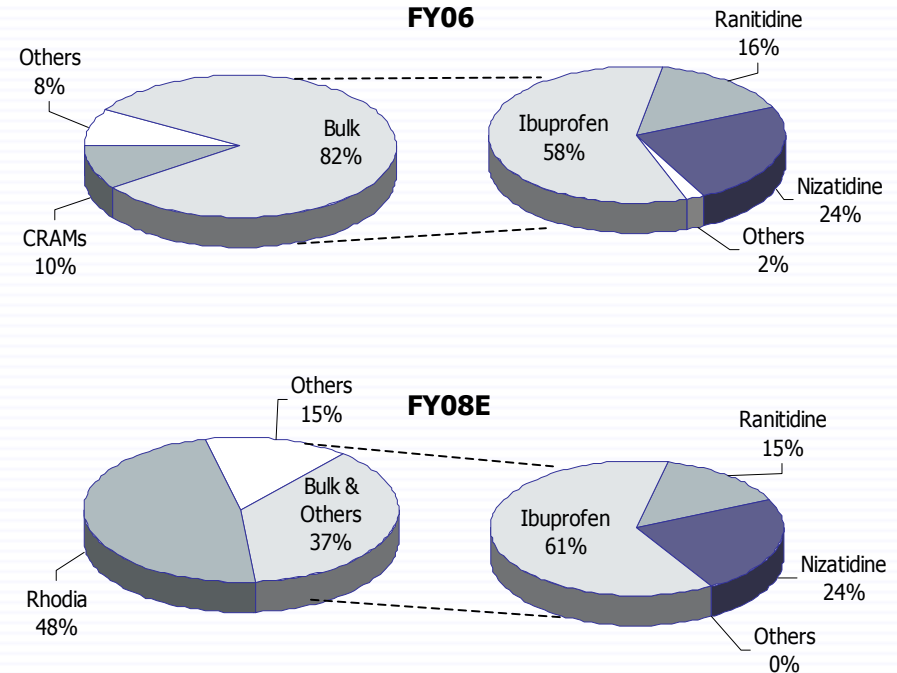
## ➤ Intense pricing pressure in API to continue

- We expect Ibuprofen to grow by 5% p.a. over the next 2-3 years.
- Nizatidine sales to Eli Lilly/ Reliant are expected to be flat and lower off take by GSK Plc is likely to subdue ranitidine sales too.

## ➤ Valuations, trading at a discount to peers

- At CMP (Rs 99), trades at 10.7x FY08E EPS of Rs 9.3. The Rhodia plant currently operates at about 40-50% capacity. Management’s immediate concern will be to ensure that existing clients do not begin to look for alternate suppliers, even as they scout for fresh contracts.

### Sales Mix



# Shasun Chemicals: Company Financials

## Income statement

Y/E March	2006	2007E	2008E	2009E
<b>Net sales</b>	<b>3,498</b>	<b>7,561</b>	<b>8,895</b>	<b>9,644</b>
Other operating income	0	0	0	0
<b>Total income</b>	<b>3,498</b>	<b>7,561</b>	<b>8,895</b>	<b>9,644</b>
Cost of goods sold	2,471	6,154	7,178	7,752
Contribution (%)	29	19	19	20
Advt/Sales/Distrn O/H	477	575	670	729
<b>Operating Profit</b>	<b>550</b>	<b>832</b>	<b>1,047</b>	<b>1,162</b>
Other income	162	100	100	100
<b>PBIDT</b>	<b>712</b>	<b>932</b>	<b>1,147</b>	<b>1,262</b>
Depreciation	232	319	382	427
Interest	49	123	219	254
Other pretax	0	0	0	0
<b>Pre-tax profit</b>	<b>430</b>	<b>490</b>	<b>547</b>	<b>582</b>
Tax provision	63	88	98	105
(-) Minority Interests	0	0	0	0
Associates	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Adjusted PAT</b>	<b>367</b>	<b>402</b>	<b>448</b>	<b>477</b>
E/o income / (Expense)	0	0	0	0
<b>Reported PAT</b>	<b>367</b>	<b>402</b>	<b>448</b>	<b>477</b>

## Key ratios

Y/E March	2006	2007E	2008E	2009E
<b>Sales growth</b>	<b>11.9</b>	<b>116.1</b>	<b>17.6</b>	<b>8.4</b>
<b>OPM</b>	<b>15.7</b>	<b>11.0</b>	<b>11.8</b>	<b>12.1</b>
Oper. profit growth	6.8	51.3	25.8	11.0
COGS / Net sales	70.6	81.4	80.7	80.4
Overheads/Net sales	13.6	7.6	7.5	7.6
Depreciation / G. block	8.0	8.0	8.0	8.0
Effective interest rate	5.9	7.5	8.0	8.5
Net wkg.cap / Net sales	0.2	0.2	0.3	0.3
Net sales / Gr block (x)	1.3	2.2	2.0	1.9
Incremental RoCE	5.4	10.1	19.3	19.8
<b>RoCE</b>	<b>19.9</b>	<b>17.2</b>	<b>15.3</b>	<b>14.9</b>
Debt / equity (x)	0.4	1.2	1.2	1.1
Effective tax rate	14.6	18.0	18.0	18.0
<b>RoE</b>	<b>23.4</b>	<b>20.8</b>	<b>19.8</b>	<b>18.2</b>
Payout ratio (Div/NP)	22.3	22.3	22.3	22.3
<b>EPS (Rs.)</b>	<b>7.6</b>	<b>8.4</b>	<b>9.3</b>	<b>9.9</b>
EPS Growth	18.1	9.4	11.5	6.4
CEPS (Rs.)	12.5	15.0	17.3	18.8
DPS (Rs.)	1.7	1.9	2.1	2.2

Source: Company, ENAM Research

# Shasun Chemicals: Company Financials

## Balance sheet

Y/E March	2006	2007E	2008E	2009E
<b>Total assets</b>	<b>2,572</b>	<b>4,574</b>	<b>5,422</b>	<b>5,793</b>
Gross block	2,918	3,988	4,770	5,336
Net fixed assets	1,748	2,499	2,899	3,039
CWIP	22	0	0	0
Investments	0	0	0	0
Wkg. cap. (excl cash)	897	2,102	2,490	2,704
Cash / Bank balance	113	169	214	218
Others/Def tax assets	(208)	(196)	(182)	(167)
<b>Capital employed</b>	<b>2,572</b>	<b>4,574</b>	<b>5,422</b>	<b>5,793</b>
Equity capital	96	96	96	96
Reserves	1,681	1,993	2,342	2,713
Borrowings	795	2,484	2,984	2,984
Others	0	0	0	0

## Cash flow

Y/E March	2006	2007E	2008E	2009E
<b>Sources</b>	<b>553</b>	<b>2,309</b>	<b>1,216</b>	<b>783</b>
Cash profit	602	709	816	889
(-) Dividends	93	102	114	121
Retained earnings	509	607	702	768
Issue of equity	5	0	0	0
Borrowings	(98)	1,689	500	0
Others	138	13	14	15
<b>Applications</b>	<b>553</b>	<b>2,309</b>	<b>1,216</b>	<b>783</b>
Capital expenditure	266	1,048	782	566
Investments	0	0	0	0
Net current assets	326	1,205	388	214
Change in cash	(39)	56	46	3

Source: Company , ENAM Research



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# Valuations

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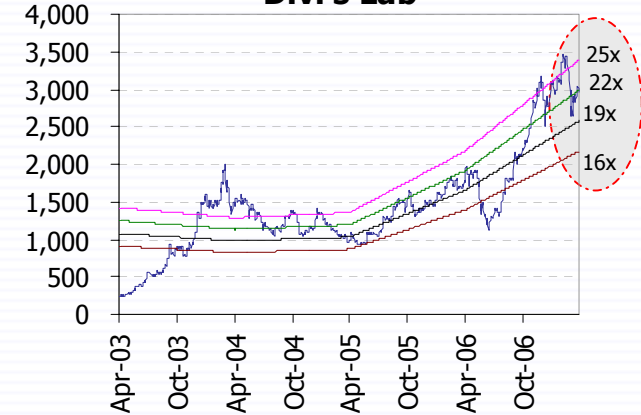
# 1 year forward PE Band

**Nicholas Piramal**

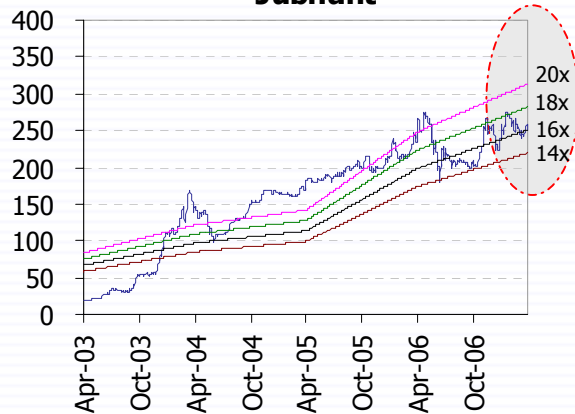


- High PE band for Divi's is due to high margins and high growth phase
- Jubilant's lower PE is on account of 40-50% of non-pharma business
- Dishman and Nicholas are in a consolidation phase. PE re-rating expected on successful integration of acquired assets

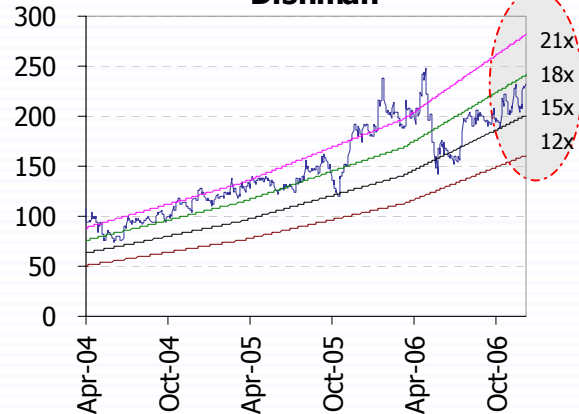
**Divi's Lab**



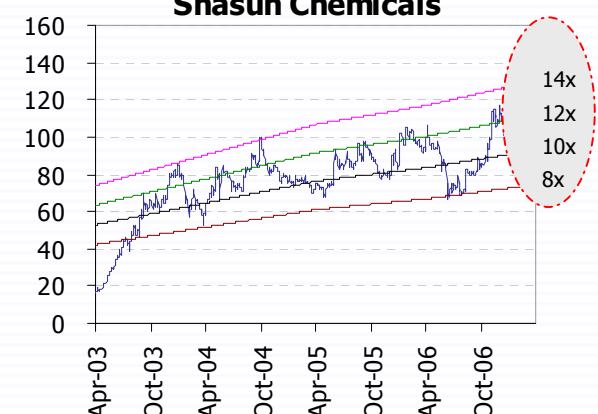
**Jubilant**



**Dishman**



**Shasun Chemicals**



Source: Bloomberg, ENAM Research

# Comparative valuations

- As with most businesses, in the CRAMS space very high EBIDTA margins coupled with high earnings growth leads to premium valuations
- While Divi's follows an organic route to growth, Nicholas, Dishman, Jubilant and Shasun have acquired businesses/assets in the CRAMS space in US and Europe

Rs mn	Dishman (CMP: 209) (Mcap: USD 346mn)			Divi's Labs (CMP: 3008) (Mcap: USD 882mn)			Jubilant (CMP: 256) (Mcap: USD 840mn)			Nicholas Piramal India (CMP: 243) (Mcap: USD 1164mn)			Shasun (CMP: 99) (Mcap: USD 110mn)		
	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E
	Sales (Rs.mn)	5,129	8,229	10,092	6,423	8,393	9,717	18,509	22,339	26,188	24,274	27,892	31,143	7,561	8,895
EBITDA (%)	24.7	22.8	23.6	28.4	30.9	31.6	17.5	18.8	20.3	15.6	16.4	16.8	11.0	11.8	12.1
FDEPS (Rs.)	9.4	14.5	18.9	86.9	136.1	175.6	12.4	15.7	20.6	10.1	13.9	17.7	8.4	9.3	9.9
PE (x)	22.3	14.5	11.1	34.6	22.1	17.1	20.6	16.3	12.4	24.2	17.5	13.8	11.9	10.7	10.0
ROE (%)	34.1	37.1	34.5	28.9	34.5	33.4	24.1	24.8	26.1	20.5	24.7	26.1	20.8	19.8	18.2
P/B (x)	5.5	3.9	2.8	8.9	6.7	5.0	3.5	2.9	2.3	4.7	4.0	3.3	2.3	2.0	1.7
Mktcap/Sales (x)	2.8	1.8	1.4	6.0	4.6	4.0	2.0	1.6	1.4	1.5	1.3	1.2	0.6	0.5	0.5
EV/EBITDA (x)	16.0	11.4	9.0	22.3	15.5	12.7	13.4	10.5	8.2	14.8	12.0	10.0	8.5	7.2	6.5
Gearing (x)	0.7	0.7	0.6	0.3	0.2	0.1	0.4	0.4	0.3	0.3	0.2	0.1	0.5	0.5	0.5

Source: ENAM Research; Bloomberg



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# Appendix

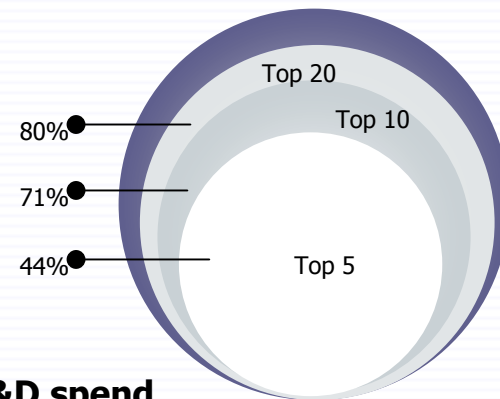
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# Top heavy approach in CRAMS

- **Top 20 innovators account for more than 75% of the global R&D spend**
- **Most Indian companies target the top 20 innovators for their contract research and manufacturing business**

**Innovators share of Global R&D**



**Top innovator Pharma Companies by R&D spend**

2005 Rank	Company	Pharma R&D Spend (\$ B)	% of Sales
1	Pfizer	7.4	16.7
2	Johnson & Johnson	6.3	28.3
3	GlaxoSmithKline	5.7	16.8
4	AstraZeneca	5.4	22.5
5	Sanofi-Aventis	4.8	14.9
6	Novartis	4.5	18.0
7	Roche (incl Chugai)	4.2	26.8
8	Merck	3.8	17.3
9	Eli Lilly	3.0	20.4
10	Amgen	2.3	19.2
11	Schering-Plough	1.9	25.0
12	Abbott Labs	1.8	12.9
13	Takeda	1.3	15.3
14	Wyeth	1.3	8.5
15	Genentech	1.3	23.6

2005 Rank	Company	Pharma R&D Spend (\$ B)	% of Sales
16	Astellas	1.3	16.3
17	Daiichi-Sankyo	1.3	17.8
18	Schering AG	1.2	19.0
19	Boehringer Ingelheim	1.1	10.2
20	Bayer	1.1	14.5
21	Novo Nordisk	0.8	14.8
22	Eisai	0.7	14.6
23	Merck KGaA	0.7	15.2
24	UCB (Belgium)	0.6	25
25	Serono (Switzerland)	0.6	25.6
26	Baxter International	0.5	16.7
27	Akzo Nobel	0.5	17.2
28	Genzyme (U.S.)	0.5	20.8
29	Altana (Germany)	0.5	17.9
30	Mitsubishi	0.5	26.3

Source: Pharma, CRIS Infac, Pharmaceutical Executive May 2006

# SWOT Analysis: Indian CRAMS

## CRAMS - SWOT Analysis

<p style="text-align: center;"><b>STRENGTHS</b></p> <ul style="list-style-type: none"> <li>▪ Low cost, high quality <b>manufacturing</b> skills</li> <li>▪ Large <b>facilities</b> approved by global <b>regulatory</b> bodies</li> <li>▪ Managements willing to invest in <b>IP creation</b> and <b>protection</b></li> </ul>	<p style="text-align: center;"><b>WEAKNESS</b></p> <ul style="list-style-type: none"> <li>▪ Commitment to <b>protecting IP</b> still unclear</li> <li>▪ Dependability regarding timely <b>delivery</b></li> <li>▪ A <b>service oriented</b> business calls for mindset changes</li> </ul>
<p style="text-align: center;"><b>OPPORTUNITIES</b></p> <ul style="list-style-type: none"> <li>▪ Erstwhile <b>European</b> leaders in API are <b>divesting</b> plants</li> <li>▪ <b>High-margin contracts</b> in cytotoxic, injectibles</li> <li>▪ <b>SMEs</b>, with no historical baggage of patent litigation, have an edge</li> </ul>	<p style="text-align: center;"><b>THREATS</b></p> <ul style="list-style-type: none"> <li>▪ Insufficient <b>entry barriers</b></li> <li>▪ Entry of <b>Chinese players</b>, leading to price wars</li> <li>▪ Market valuations will be lower than for discovery-led companies; <b>raising capital will be costlier</b></li> </ul>

Source: ENAM Research

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### **Disclosure of interest statement (As of March 29, 2007)**

	<b>Divi's</b>	<b>Dishman</b>	<b>Nicholas</b>	<b>Shasun</b>	<b>Jubilant</b>
1. Analyst ownership of the stock	No	No	No	No	No
2. Firm ownership of the stock	No	No	No	No	No
3. Directors ownership of the stock	No	No	No	No	No
4. Investment Banking mandate	No	No	No	No	No
5. Broking relationship	No	No	No	No	No

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