

February 29, 2008

Industry View  
In-Line

## India Pharmaceuticals

### Budget F09 – Beneficial Impact

**Budget F09 announcements will benefit the Indian pharmaceutical sector**, we believe. Sun, Ranbaxy and Glaxo are our top picks in the larger caps and Wockhardt and Lupin in the mid cap names. We are Underweight Cipla and Biocon and Equal-weight DRL.

**What's new:** Sharp excise duty cut (16% to 8%, clear positive), 125% weighted deduction on research out-sourcing (minor positive), 5 year tax holiday (80IB) for new hospitals (conditions apply), dilution of indirect taxes on life-saving drugs (minor positive), fortification of rural healthcare delivery (longer-term positive) and continuing budgetary support for AIDS/polio were the key announcements relevant to the healthcare sector.

**Disappointment** - As expected, the government did not grant extension of tax benefits for EOU (Export Oriented Units, Section 10A/B) by 1-2 years, which otherwise sunsets in March 2009.

**Impact** - Of the announcements, excise duty cut (for domestic sales) will have the biggest impact, in our view. The beneficial impact will be moderated by 1) price controlled products (all benefits to be passed on to the consumers), 2) incremental facilities moving to excise duty free zones (Baddi, Sikkim, Jammu etc) and 3) market forces (if a few players pass on the benefits to the customers, most others will have to follow suit). *Pure plays on the domestic market (such as Glaxo, Aventis) will benefit the most, we believe.*

**EPS Impact** - Most companies we talked to were unsure of the extent of the benefits of the duty cuts, but most agreed that they will retain some savings and pass on the rest to end-customers. Assuming 40% of the excise benefits are retained by our coverage companies, we expect the following impact on F09 EPSe – Glaxo (up 4.5%), Aventis (4%), Lupin (2.5%), Biocon (2%), Cipla (2.5%), DRL (1.9%), Sun (1.7%), Wock (1.6%) and Ranbaxy (1.5%).

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(as of January 31, 2008)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of IBC	% of Rating Category
<b>Overweight/Buy</b>	<b>1048</b>	<b>44%</b>	<b>333</b>	<b>45%</b>	<b>32%</b>
<b>Equal-weight/Hold</b>	<b>986</b>	<b>41%</b>	<b>308</b>	<b>42%</b>	<b>31%</b>
<b>Underweight/Sell</b>	<b>346</b>	<b>15%</b>	<b>98</b>	<b>13%</b>	<b>28%</b>
<b>Total</b>	<b>2,380</b>		<b>739</b>		

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**More volatile (V)** - We estimate that this stock has more than a 25% chance of a price move (up or down) of more than 25% in a month, based on a quantitative assessment of historical data, or in the analyst's view, it is likely to become materially more volatile over the next 1-12 months compared

February 29, 2008  
India Pharmaceuticals

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**Industry Coverage: India Pharmaceuticals**

<b>Company (Ticker)</b>	<b>Rating (as of)</b>	<b>Price (02/29/2008)</b>
<b>Sameer Baisiwala, CFA</b>		
Aventis (India) (AVPH.BO)	O (07/06/2005)	Rs942.3
Biocon Ltd (BION.BO)	U (10/24/2005)	Rs446.3
Cipla Ltd. (CIPL.BO)	U (04/13/2006)	Rs207.25
Dr. Reddy's Lab (REDY.BO)	E (05/14/2007)	Rs582.65
GlaxoSmithKline Pharma (GLAX.BO)	O (06/05/2006)	Rs1,109.4
Lupin Ltd. (LUPN.BO)	O (10/03/2006)	Rs555.6
Ranbaxy Laboratories (RANB.BO)	O (04/30/2007)	Rs445.75
Sun Pharmaceutical Industries (SUN.BO)	O (09/27/2004)	Rs1,225.9
Wockhardt Limited (WCKH.BO)	O (02/26/2007)	Rs336.8
<b>Kang-Ho Chong, CFA</b>		
Dishman Pharmaceuticals & Chemicals Ltd (DISH.BO)	O (07/03/2007)	Rs291.4
Jubilant Organosys Limited (JUBO.BO)	O (07/03/2007)	Rs357.6

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