

# Expectations running high; Downgrade to Sell



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## Downgrade to Sell from Buy; likely 15% stock downside

Following a 30%+ run-up YTD, the Divi's stock trades about 15% higher to our revised fair value of Rs3350/sh. From here-on we see downside risks given slowing earnings growth trend, steep valuations, disappointing scale-up of the neutraceuticals business and risk of appreciating rupee.

## FY07E earnings higher; capex benefits fully factored in

We have raised our FY07E EPS by 19% resulting in strong 4Q (84% PAT growth YoY) to reflect earlier than expected impact of capex commissioning from the new facility which has already reached optimum utilization. For FY08E our EPS is marginally higher (3%) and our 42% EPS growth forecast for FY08E factors in full impact of scale-up in custom manufacturing and generics (Rs2.5bn capex).

## Steep valuations leave no room for error

Based on our revised earnings, Divi's trades at 27.8x FY08E and 23.6x FY09E, which is a significant 31% and 35% premium to the sector average on FY08E and FY09E earnings respectively. Divi's also trades at a significant 26% premium to its 2-year historic average on FY08E EPS.

## Neutraceuticals expectations scaled down significantly

Compared to our earlier estimate of US\$35-40mn p.a. revenues from the neutraceuticals business, we now estimate only about US\$10mn revenues p.a. from this venture (now in Mle) given the much smaller scale of operations.

## Switch to our preferred mid-cap plays - Panacea/Biocon

We recommend investors to sell into the strength of the strong 4Q performance and switch to our mid-cap preferred picks - Panacea Biotec / Biocon.

### Estimates (Mar)

(Rs)	2005A	2006A	2007E	2008E	2009E
Net Income (Adjusted - mn)	666	695	1,274	1,806	2,138
EPS	51.93	54.24	99.39	140.90	166.75
EPS Change (YoY)	-9.0%	4.5%	83.2%	41.8%	18.3%
Dividend / Share	8.00	10.00	10.00	10.00	10.00
Free Cash Flow / Share	35.08	(22.26)	(69.46)	72.83	141.40

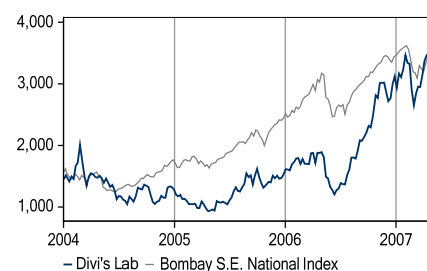
### Valuation (Mar)

	2005A	2006A	2007E	2008E	2009E
P/E	75.66x	72.43x	39.53x	27.89x	23.56x
Dividend Yield	0.204%	0.255%	0.255%	0.255%	0.255%
EV / EBITDA*	42.43x	41.31x	24.90x	17.44x	15.10x
Free Cash Flow Yield*	0.893%	-0.567%	-1.77%	1.85%	3.60%
EV/Sales	14.68x	13.38x	7.43x	5.31x	4.42x

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 9.

### Stock Data

Price	Rs3,929
Investment Opinion	C-1-7 to C-3-7
Volatility Risk	HIGH
52-Week Range	Rs1,118-Rs3,942
Mkt Val / Shares Out (mn)	US\$1,233 / 12.8
Average Daily Volume	22,083
ML Symbol / Exchange	XXQPF / BSE
Bloomberg / Reuters	DIVI IN / DIVI.BO
ROE (2007E)	32.1%
Net Dbt to Eqty (Mar-2006A)	41.1%
Est. 5-Yr EPS / DPS Growth	18.0% / 0%
Free Float	46.0%



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# iQprofile<sup>SM</sup> Divi's Laboratories

Key Income Statement Data (Mar)	2004A	2005A	2006E	2007E	2008E
<b>(Rs Millions)</b>					
Sales	3,160	3,630	3,890	5,983	8,461
Gross Profit	1,547	1,651	1,673	2,486	3,710
Sell General & Admin Expense	(302)	(365)	(352)	(543)	(772)
Operating Profit	1,040	1,051	1,086	1,567	2,459
Net Interest & Other Income	(20)	(28)	(29)	(65)	(80)
Associates	NA	NA	NA	NA	NA
Pretax Income	1,020	1,023	1,057	1,502	2,379
Tax (expense) / Benefit	(288)	(357)	(361)	(436)	(628)
Net Income (Adjusted)	732	666	695	1,066	1,751
Average Fully Diluted Shares Outstanding	13	13	13	13	13

## Key Cash Flow Statement Data

Net Income (Reported)	732	666	695	1,066	1,751
Depreciation & Amortization	132	151	148	226	268
Change in Working Capital	(648)	(493)	(246)	(813)	(1,173)
Deferred Taxation Charge	45	27	28	30	45
Other Adjustments, Net	307	384	391	519	668
Cash Flow from Operations	569	735	1,016	1,027	1,560
Capital Expenditure	(340)	(258)	(1,273)	(897)	(400)
(Acquisition) / Disposal of Investments	NA	NA	NA	NA	NA
Other Cash Inflow / (Outflow)	NA	NA	NA	NA	NA
Cash Flow from Investing	(340)	(258)	(1,273)	(897)	(400)
Shares Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	(103)	(103)	(128)	(128)	(128)
Cash Flow from Financing	(202)	(504)	317	9	(741)
Free Cash Flow	229	477	(257)	130	1,160
Net Debt	587	616	1,397	1,738	1,845
Change in Net Debt	199	29	781	259	(244)

## Key Balance Sheet Data

Property, Plant & Equipment	1,718	1,826	2,951	3,581	3,713
Other Non-Current Assets	1	0	0	83	433
Trade Receivables	867	1,022	1,074	1,618	2,298
Cash & Equivalents	72	45	105	162	230
Other Current Assets	1,176	1,650	2,360	3,158	4,368
Total Assets	3,834	4,543	6,491	8,601	11,043
Long-Term Debt	659	661	1,502	1,900	2,075
Other Non-Current Liabilities	223	250	279	284	290
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	660	795	1,311	1,840	2,558
Total Liabilities	1,542	1,706	3,092	4,025	4,923
Total Equity	2,292	2,837	3,399	4,577	6,120
Total Equity & Liabilities	3,834	4,543	6,491	8,601	11,043

## iQmethod<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	27.7%	20.0%	16.4%	19.0%	24.0%
Return On Equity	36.9%	26.0%	22.3%	26.7%	32.7%
Operating Margin	34.3%	30.3%	28.5%	26.5%	29.3%
EBITDA Margin	37.1%	33.1%	31.7%	30.0%	32.2%

## iQmethod<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	0.8x	1.1x	1.5x	1.0x	0.9x
Asset Replacement Ratio	2.6x	1.7x	8.6x	4.0x	1.5x
Tax Rate (Reported)	28.2%	34.9%	34.2%	29.0%	26.4%
Net Debt-to-Equity Ratio	25.6%	21.7%	41.1%	38.0%	30.2%
Interest Cover	30.9x	24.4x	19.4x	16.8x	22.5x

## Key Metrics

Sales Growth (YoY)	22.8%	14.7%	9.7%	55.0%	42.0%
EBITDA Growth (YoY)	45.9%	2.5%	2.7%	45.3%	52.1%
Net Income Growth (YoY)	33.3%	-9.0%	4.5%	53.4%	64.2%
Net Profit Margin	23.2%	18.3%	17.9%	17.8%	20.7%

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 9.

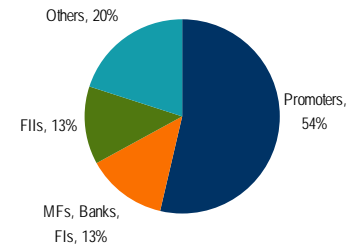
## Company Description

Divi's Labs is positioned in the US\$18bn global pharmaceutical outsourcing market as a research-focused custom manufacturing player (bulk drugs/intermediates). About 30% of Divi's revenues (FY05) is derived from development and contract manufacturing (custom manufacturing) of APIs/intermediates for inventor companies, while the balance is derived from generic exports where it derives strong economies of scale and competes globally.

## Stock Data

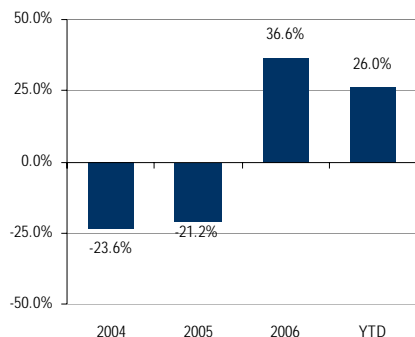
Price to Book Value	14.8x
Market Cap (US\$ mn)	1,233

## Chart 1: Shareholding pattern



Source: BSE website

**Chart 2: Divis relative to Sensex**



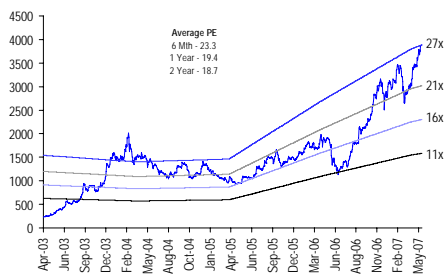
Source: Bloomberg

**Table 1: Divi's stock performance**

	Divi's Absolute Return	Relative to Sensex
1 Month	14.0%	9.8%
3 Month	13.1%	15.3%
6 Month	33.9%	27.3%
1 Year	119.8%	90.1%
YTD '07	26.8%	25.1%

Source: Bloomberg

**Chart 3: Divis PE Bands**



Source: Bloomberg, ML Research

## Recommendation lowered to Sell

We are downgrading Divi's to Sell from Buy primarily on rich valuations given slowing earnings trend, steep valuations, disappointing scale-up of the nutraceuticals business and risk of appreciating rupee. Our downgrade is predicated on the following factors-

### Significant stock outperformance

Within the Indian pharmaceutical space, Divi's has been the best performing stock in the last six months having delivered over 34% absolute return and over 27% relative out-performance. We believe this outperformance has been largely on the back of strong earnings expectation following capex commercialization.

### Higher FY07E earnings reflects full capex benefits

We have raised our FY07E EPS by 19% which will likely result in strong 4Q performance (84% PAT growth YoY). This reflects earlier than expected impact of capex commissioning from the new facility which has already reached optimum utilization. For FY08E our EPS is marginally higher (3%) and our 42% EPS growth forecast for FY08E factors full impact of scale-up in custom manufacturing and generics.

Moreover, with increased scale of business, the working capital requirement on account of inventory and receivables will rise considerably thereby causing a strain on operating cash flows in the subsequent periods. We expect the working capital days to remain at 225 days or so primarily driven by high inventory (175 days) and receivables (100 days) in line with the nature of the industry.

Over the last two years Divi's has invested of Rs2.5bn capex for scale-up of API/intermediates (new manufacturing facility at Vizag, Andhra Pradesh) in the custom manufacturing and generic projects with innovator/generic companies. Our estimate of 30% revenue CAGR (FY07-09E) and 30% EPS CAGR (FY07-09E) reflects full capex commercialization benefits.

### Steep valuations leave no room for error

Based on our revised estimates, Divi's trades at 27.8x FY08E and 23.6x FY09E, which is a significant 31% and 35% premium to the sector average on FY08E and FY09E earnings respectively. Divi's also trades at a significant 26% premium to its 2-year historical average on FY08E EPS. Divi's is now at the highest end of the valuation band of its closest benchmark companies – Matrix Labs, Nicholas Piramal, and Biocon which trade at range of 15-17x FY09E earnings. We estimate Divi's fair value range to be Rs3300-3400/sh (20-21x FY09E EPS; in-line with its historical average)

### Lower than expected revenue build-up of nutraceuticals

Compared to our earlier estimate of US\$35-40mn p.a. revenues from the nutraceuticals business, we now estimate only about US\$10mn revenues p.a. over the long term given the much smaller scale of operations and low clarity order book in this product. Divi's nutraceuticals facility on a pilot stage level is expected to commercialize in mid-2007 and we estimate modest US\$3-5 mn revenues from this venture for next two years.

### Likely risk of earnings from Rupee Appreciation

Divi's will likely be affected by the rupee appreciation as close to 70% of its revenues are dollar denominated which are not fully hedged through import costs or dollar-debt. This is likely to have a dent of 7% on FY08E EPS.

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**Table 2: EPS Sensitivity to rupee appreciation**

Rupee Sensitivity for Divis Labs	Rs mn	With 5% appreciation Impact per share	Impact on FY08 EPS
Export Revenues (70% of Total Revenues in US\$)	-4318	-16.84	-12.3%
Dollar Costs (40% of material costs incurred in US\$)	1235	4.82	3.5%
Dollar denominated debt (US\$16mn @Rs42)	672	2.62	1.9%
<b>Net Exposure</b>	<b>-2412</b>	<b>-5.82</b>	<b>-6.9%</b>

Source: Merrill Lynch Estimates

### Switch to our preferred mid-cap plays - Panacea/Biocon

We recommend investors to book profits riding on a strong 4Q results and switch to Biocon/ Panacea - our preferred picks in the mid-cap space.

#### Biocon

We remain upbeat on Biocon with our PO of Rs600 on 20x target multiple on FY09E earnings. We expect 26% and 18% EPS growth for Biocon in FY08E and FY09E respectively driven by (a) near doubling of insulin revenues by FY09E (current 12-13% of revenues) (b) robust 40%+ growth outlook for contract research and licensing fees and (c) likely licensing deal catalysts. We forecast maintenance of EBITDA margin despite high R&D spend.

Key catalysts for growth are:

- Insulin licensing deals (oral insulin/ generic insulin)
- Scale-up of insulin & insugen registrations for Asian & Middle East markets
- Biomab sales build-up and licensing deals for same (head & neck cancer)
- Increased statins API supply to US with better pricing and limited competition

The stock trades at 18.9x FY08E and 15.8x FY09E EPS.

#### Panacea Biotech

We remain bullish on Panacea's growth prospects and our PO of Rs.513 is based on P/E target multiple of 16x FY08E earnings (a slight discount to the sector average). We expect Panacea's EPS to grow 29% in FY08 (on a fully diluted basis) driven by 22% revenue growth led by polio vaccine exports, 15% growth in domestic business and launch of combination vaccines. We expect the company to maintain its Ebitda margin at 29% despite high R&D spend.

Key drivers of FY08 growth are:

- New launches like combination vaccines (Ecovac, Easy4, Easy5) in the export market for which the WHO pre-qualification process is currently on.
- Likely double digit growth in polio vaccines driven largely by exports.
- Exports of NDDS drug, cyclosporin to Brazilian market which could result in about US\$10mn bulk order from the Brazilian Govt.
- Tax savings from Baddi and other EOU commercialization

The stock trades at 16.3x FY08E and 13.4x FY09E EPS.

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## Financial Tables

Table 3: Profit model, March fiscal year ends, 2005-2009E

Year to Mar (Rs mn)	2005	2006	2007E	2008E	2009E
Domestic sales	431	390	694	972	1,166
Export sales	3,082	3,465	6,247	8,745	10,494
<b>Total sales</b>	<b>3,513</b>	<b>3,856</b>	<b>6,941</b>	<b>9,717</b>	<b>11,660</b>
<b>Gross sales</b>	<b>3,513</b>	<b>3,856</b>	<b>6,941</b>	<b>9,717</b>	<b>11,660</b>
Less: Excise duty	39	45	81	113	135
<b>Net sales</b>	<b>3,474</b>	<b>3,811</b>	<b>6,860</b>	<b>9,604</b>	<b>11,525</b>
Other operating income	156	79	76	73	70
<b>Net operating revenue</b>	<b>3,630</b>	<b>3,890</b>	<b>6,936</b>	<b>9,677</b>	<b>11,594</b>
<b>Expenditure</b>					
Cost of raw materials	1,584	1,698	3,087	4,274	5,186
Manufacturing Expenses	245	332	569	793	951
Staff costs	151	187	442	581	696
R & D Expenses	84	87	173	242	348
Other expenses	365	352	617	864	1,037
<b>Total expenditure</b>	<b>2,428</b>	<b>2,656</b>	<b>4,889</b>	<b>6,754</b>	<b>8,218</b>
<b>EBITDA</b>	<b>1,202</b>	<b>1,234</b>	<b>2,047</b>	<b>2,923</b>	<b>3,377</b>
<i>(% net operating revenue)</i>	<i>33.1</i>	<i>31.7</i>	<i>29.5</i>	<i>30.2</i>	<i>29.1</i>
Finance cost	43	56	142	227	203
Non-operating income	15	27	28	30	31
Depreciation	151	148	235	320	358
<b>PBT before extraordinary items</b>	<b>1,023</b>	<b>1,057</b>	<b>1,699</b>	<b>2,405</b>	<b>2,846</b>
<b>Pretax profits</b>	<b>1,023</b>	<b>1,057</b>	<b>1,699</b>	<b>2,405</b>	<b>2,846</b>
Tax	357	361	425	599	709
<b>Net profits after extra-ordinary items</b>	<b>666</b>	<b>695</b>	<b>1,274</b>	<b>1,806</b>	<b>2,138</b>
<b>Adjusted net profits (annualized)</b>	<b>666</b>	<b>695</b>	<b>1,274</b>	<b>1,806</b>	<b>2,138</b>
<b>Key parameters</b>					
Fully-diluted shares (mn)	12.8	12.8	12.8	12.8	12.8
Dividends	103	128	128	128	128
<b>EPS (Rs) Diluted</b>	<b>52</b>	<b>54</b>	<b>99</b>	<b>141</b>	<b>167</b>
<b>CEPS (Rs) Diluted</b>	<b>64</b>	<b>66</b>	<b>118</b>	<b>166</b>	<b>195</b>
DPS (Rs)	8	10	10	10	10
<b>Margins (%)</b>					
Operating profit margin (on total income)	33.1	31.7	29.5	30.2	29.1
Gross profit margin	56.4	56.4	55.5	55.8	55.3
Net profit margin	18.3	17.9	18.4	18.7	18.4
<b>Growth (% YoY)</b>					
Gross sales	14.4	9.8	80.0	40.0	20.0
Net sales	14.7	9.7	80.0	40.0	20.0
Operating profits	2.5	2.7	65.9	42.7	15.5
Gross profits	7.7	3.3	76.3	40.5	18.4
Net profits	(9.0)	4.5	83.2	41.8	18.3

Source: Company reports, ML Estimates

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**Table 4: Balance sheet, March fiscal year ends 2005-2009E**

Year to Mar (Rs mn)	2005	2006	2007E	2008E	2009E
Inventories	1,390	1,839	3,289	4,605	5,526
Sundry debtors	1,022	1,074	1,879	2,631	3,157
Cash/bank balance	45	105	188	263	316
Other current assets	1	2	2	2	6
Loans/advances	258	519	940	1,316	1,579
<b>Current assets, loans/advances</b>	<b>2,717</b>	<b>3,539</b>	<b>6,298</b>	<b>8,816</b>	<b>10,584</b>
<b>Investments</b>	<b>-</b>	<b>-</b>	<b>110</b>	<b>147</b>	<b>209</b>
Gross block	2,538	3,020	4,220	4,920	5,320
Less: Acc. dep.	723	871	1,191	1,511	1,869
Net block	1,815	2,149	3,029	3,409	3,451
Capital – WIP	4	603	650	300	300
Unallocated expenditure pending capitalisation	-	40	40	40	40
Advances for capital works	7	160	160	160	160
<b>Fixed Assets</b>	<b>1,826</b>	<b>2,951</b>	<b>3,879</b>	<b>3,909</b>	<b>3,951</b>
<b>Total assets</b>	<b>4,543</b>	<b>6,491</b>	<b>10,286</b>	<b>12,873</b>	<b>14,743</b>
Current liabilities/provisions	795	1,311	2,241	3,085	3,684
Loan Funds	661	1,502	3,217	3,275	2,531
<b>Total Liabilities</b>	<b>1,456</b>	<b>2,813</b>	<b>5,457</b>	<b>6,360</b>	<b>6,215</b>
Equity	128	128	128	128	128
Reserves/surplus	2,959	3,549	4,701	6,384	8,400
<b>Total shareholders' funds</b>	<b>3,087</b>	<b>3,677</b>	<b>4,829</b>	<b>6,513</b>	<b>8,528</b>
<b>Total capital</b>	<b>4,543</b>	<b>6,491</b>	<b>10,286</b>	<b>12,873</b>	<b>14,743</b>

Source: Company reports, ML Estimates

**Table 5: Cash flows, March fiscal year ends, 2005-2009E**

Year to Mar (Rs mn)	2005	2006	2007E	2008E	2009E
<b>Operating</b>					
Operating profits (a)	1,202	1,234	2,047	2,923	3,377
Working capital (b)	(493)	(246)	(1,747)	(1,599)	(1,116)
Other operating	(1)	0	56	(40)	(48)
Total operating	707	988	357	1,284	2,213
<b>Investing</b>					
Capex (c)	(258)	(1,273)	(1,247)	(350)	(400)
Other investing	1	-	(110)	(38)	(61)
Total investing	(257)	(1,273)	(1,357)	(388)	(461)
<b>Financing</b>					
Dividends paid (d)	(103)	(128)	(128)	(128)	(128)
Premium/reserves	(18)	(5)	-	-	-
Borrowings	2	841	1,715	58	(744)
Other income	15	27	28	30	31
Net extraordinary income	-	-	-	-	-
Finance cost	(43)	(56)	(142)	(227)	(203)
Tax paid (e)	(330)	(333)	(391)	(553)	(655)
Total financing	(477)	346	1,083	(821)	(1,699)
Net change in cash	(27)	60	83	75	53
Net cash at beginning	72	45	105	188	263
Net cash at end	45	105	188	263	316
Gross cash flow (a+e)	872	901	1,657	2,369	2,722
Free cash flow (a+b+c+e)	121	(619)	(1,337)	420	1,206
Disc. cash flow (a+b+c+d+e)	18	(747)	(1,465)	292	1,078
Free cash flow per share (Rs)wtd	9	(48)	(104)	33	94

Source: Company reports, ML Estimates

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**Table 6: Valuation summary, March fiscal year ends, 2004-2009E**

Year to Mar (Rs mn)	2005	2006	2007E	2008E	2009E
<b>ROE DUPONT ANALYSIS</b>					
Net Profit	666	695	1,274	1,806	2,138
Average Equity	2,564	3,118	3,972	5,384	7,227
<b>Return on Average Equity (%)</b>	<b>23.5%</b>	<b>22.3%</b>	<b>32.1%</b>	<b>33.5%</b>	<b>29.6%</b>
<b>Dupont Analysis</b>					
EBIT margin (EBIT/sales) (%)	29.4	28.6	26.5	27.2	26.3
Asset turnover (sales/assets) (x)	1.1	0.9	1.1	1.1	1.1
Financial leverage (assets/equity) (x)	1.3	1.3	1.6	1.6	1.4
Interest burden (pretax/EBIT) (x)	1.0	0.9	0.9	0.9	0.9
Tax burden (net/pretax) (%)	0.7	0.7	0.8	0.8	0.8
<b>Return on average equity (%)</b>	<b>23.5%</b>	<b>22.3%</b>	<b>32.1%</b>	<b>33.5%</b>	<b>29.6%</b>
<b>Ratios</b>					
ROE (%)	23.5	22.3	32.1	33.5	29.6
ROCE (%)	28.9	26.9	30.8	31.1	29.6
Working Capital (days)	201.9	213.4	215.9	217.8	218.5
<b>Valuation parameters</b>					
EPS (Rs) YE	51.9	54.2	99.4	140.9	166.8
CEPS (Rs) YE	63.7	65.8	117.7	165.9	194.7
<b>Growth (%)</b>					
Net revenues	14.9	7.2	78.3	39.5	19.8
EPS	(9.0)	4.5	83.2	41.8	18.3
<b>Valuation metrics</b>					
Price (Rs)	3,929	3,929	3,929	3,929	3,929
Fully-diluted shares (mn)-Rs 10 FV	12.8	12.8	12.8	12.8	12.8
P/E	68.1	74.9	72.4	39.5	27.9
EV/EBITDA	42.6	41.5	41.1	25.7	18.1
EV/Sales	16.1	14.0	13.3	7.7	5.5

Source: Company reports, ML Estimates



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## Price Objective Basis & Risk

### **Biocon Ltd. (BCLTF; C-1-7; Rs465.75)**

Our PO of Rs600/share is based on 20x FY08E EPS (15% discount to sector) implying potential 17% stock upside.

Risks to our price objective are: 1) Higher than expected pricing pressure in statins 2) Lower than expected pick-up of insulin and immunosuppressant sales to non-regulated/regulated markets 3) Risk of failure in research 4) Severance of custom manufacturing tie-ups 5) Regulatory delays

### **Panacea Biotec Ltd. (XPEAF; C-1-7; Rs449.50)**

We remain upbeat on the strong growth prospects in Panacea's key businesses driven by (a) likely launch of combination vaccines (b) collaboration for anthrax vaccine for US stockpiling program (c) tie-up for IPV vaccine (d) progress on NDDS project with a European MNC (e) start of manufacturing outsourcing deals and (f) cyclosporine NDDS approval for Brazil. Our PO of Rs.513 is based on rolling over our target multiple of 16x FY08E earnings (a slight discount to the sector average).

Risks: (a) regulatory delays (b) execution risks (c) domestic business slow-down.

## Analyst Certification

I, Visalakshi Chandramouli, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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### *iQmethod*<sup>SM</sup> Measures Definitions

<b>Business Performance</b>	<b>Numerator</b>	<b>Denominator</b>
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
<b>Quality of Earnings</b>		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
<b>Valuation Toolkit</b>		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

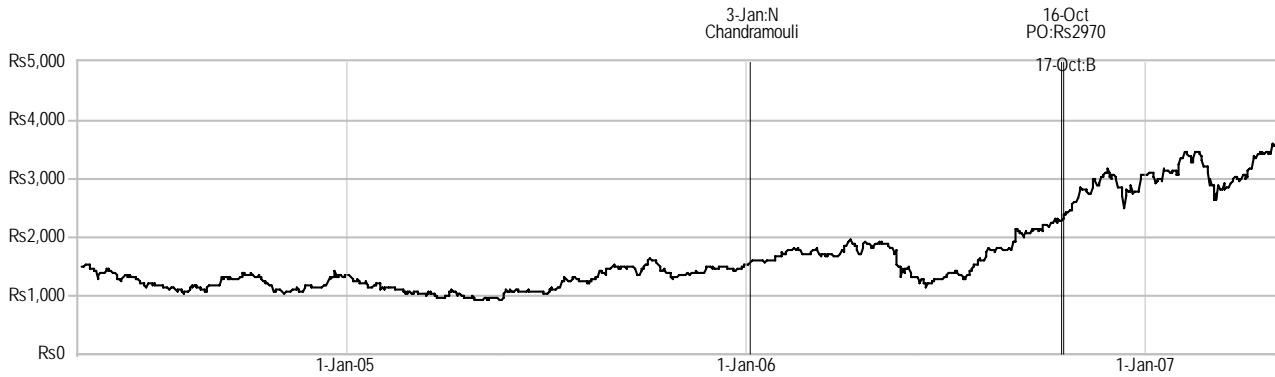
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## Important Disclosures

### XXQPF Price Chart

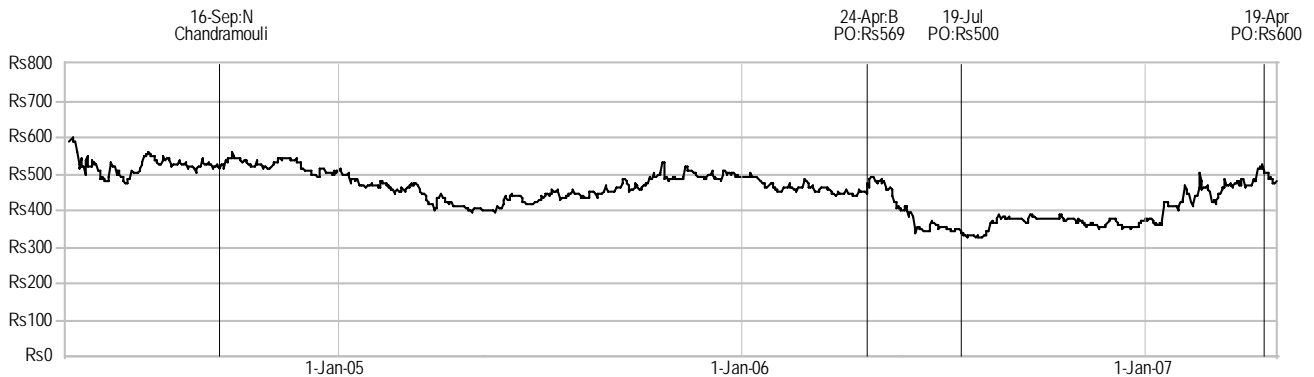


XXQPF \_\_\_\_\_

B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of April 30, 2007 or such later date as indicated.

### BCLTF Price Chart



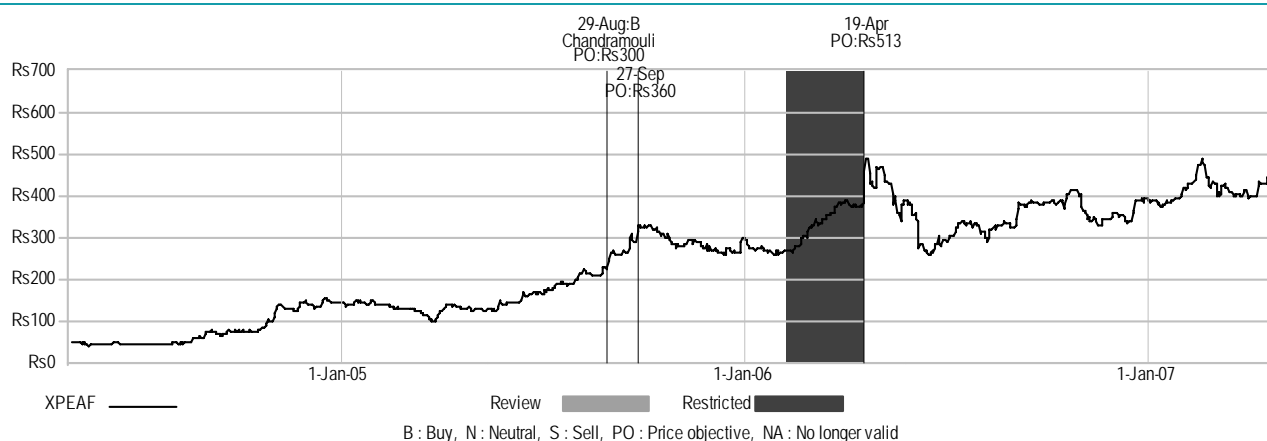
BCLTF \_\_\_\_\_

B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

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**XPEAF Price Chart**



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**Investment Rating Distribution: Health Care Group (as of 31 Mar 2007)**

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	97	46.86%	Buy	25	27.78%
Neutral	100	48.31%	Neutral	32	34.41%
Sell	10	4.83%	Sell	3	33.33%

**Investment Rating Distribution: Global Group (as of 31 Mar 2007)**

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1562	45.16%	Buy	415	30.09%
Neutral	1615	46.69%	Neutral	446	30.65%
Sell	282	8.15%	Sell	49	19.76%

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