



Indian Pharma

*The great Indian **SALE** ... is ON!*

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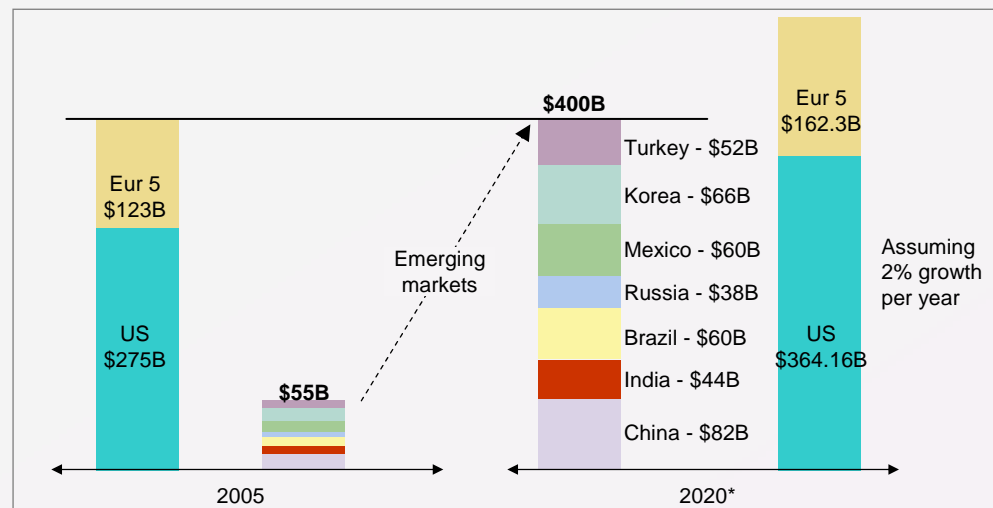
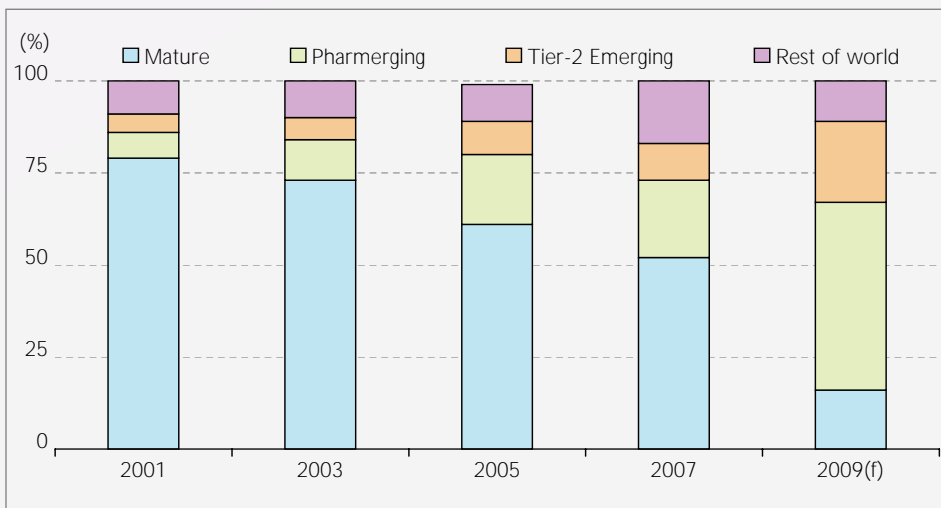
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Big Pharma: The Emerging Market rush!

Developed markets - no longer a haven for global pharma companies

- ❑ Mega patent expiries
- ❑ Limited new blockbuster launches
- ❑ Weakening economic growth - pricing & reimbursement pressures
- ❑ Growing regulatory challenges

70% of incremental global pharma market growth to come from 'P'EM* 2010 onwards



Source: GSK, industry; **P'EM - Pharmerging markets -Brazil, India, Turkey, Mexico, Russia, South Korea and China

Big Pharma's growing focus on 'P'EM

“Emerging Markets are hugely important to us in the future as they create a middle class that can pay out of pocket for medicines, and I do believe we can maintain substantially higher growth rates in Emerging Markets than in the developed markets.”

- Pfizer Inc, Q4CY10 Post Results Conference Call

“So we make these investments in those businesses we want to drive great growth in: emerging markets, obviously on select areas of the pharmaceutical business, vaccines, and consumer.”

- GSK Plc, Q4CY10 Post Results Conference Call

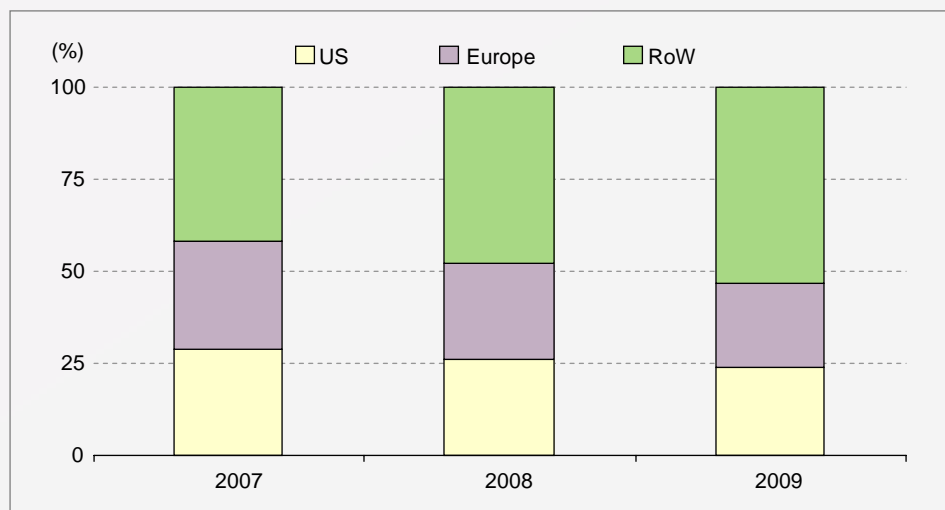
“And now, actually we're seeing markets in China, in India and Latin America, are real true growth drivers. Although I would say, when I talk to CEOs in other businesses, everybody's excited about Emerging Markets, whether you're in cement, whether you're in transportation, whether you're in electronics. And I sometimes think that actually in the healthcare sector, we still haven't really appreciated what kind of economic revolution is really going on in some of those markets.”

- Sanofi Aventis, Q4CY10 Post Results Conference Call

Big Pharma beginning to walk the talk...

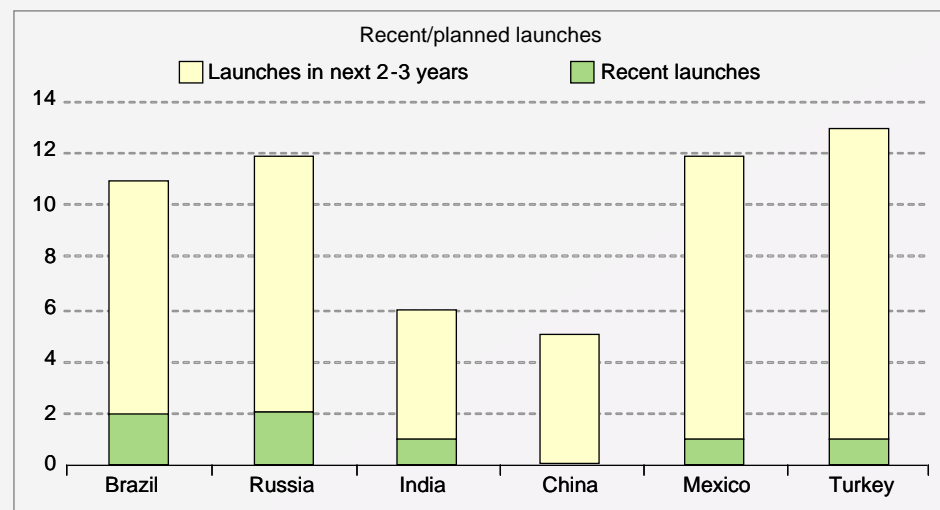
- ❑ Significant step-up in new product launches in emerging markets
- ❑ Shifting resources from developed to developing markets
- ❑ Increasing Big Pharma M&A activity related to emerging markets

GSK steadily shifting field force to emerging markets...



Source: GSK

...as also incremental new product launches



Source: GSK

” You can’t be half pregnant in these markets. You either have to go for it, and realize you need huge portfolios, big scale, and reach and distribution, and be willing to innovate, or you decide you’re going to be a boutique player”

- Andrew Witty, CEO, GSK

...vindicated by the recent deal flow!

Sanofi Aventis spreading its wings in the EM space...

Timeline	Details of transaction	Rationale/ Comments
Feb-09	Acquired Czech Republic-based Zentiva for US\$2.6bn	Provides platform for growth in the emerging markets of Eastern Europe, Turkey and Russia
Apr-09	Bought Medley, Brazil for \$664m	Instantly made Sanofi the biggest generics player in Latin America
Apr-09	Bought Kendrick, Mexico for US\$30m	Sanofi gains exposure to growing Mexico market
Jul-09	Sanofi-Shantha Biotechnics	Shantha provides Sanofi a portfolio of new vaccines in development; to complement Sanofi's current vaccines; also gives presence in EMs

...so is GSK

Timeline	Details of transaction	Rationale
Jul-08	Acquires 16% stake in South Africa-based Aspen for US\$410m	The deal provides GSK access to African markets
Aug-08	Ties up license and supply-agreement with India's Strides Arcolab and Onco Therapies	The deal provides license to market injectibles in emerging markets outside India and Africa
Jun-09	Announces marketing tie-up with India's Dr. Reddy's Laboratories	Enables GSK to sell generics made by Dr. Reddy's in EMs
Dec-08	Acquired the branded generics business of US-based Bristol Myers Squibb for \$23.2m	GSK gains access to Lebanon, Jordan, Syria, Libya and Yemen

India at the centre of EM rush...

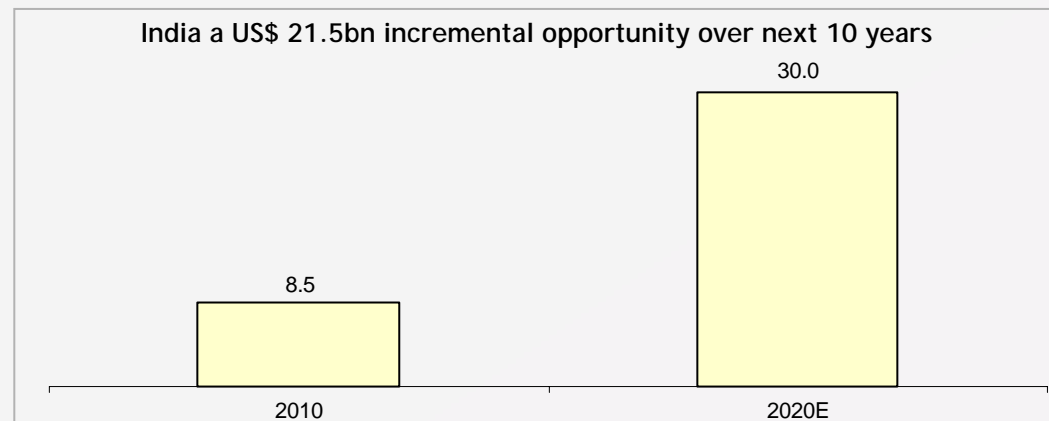
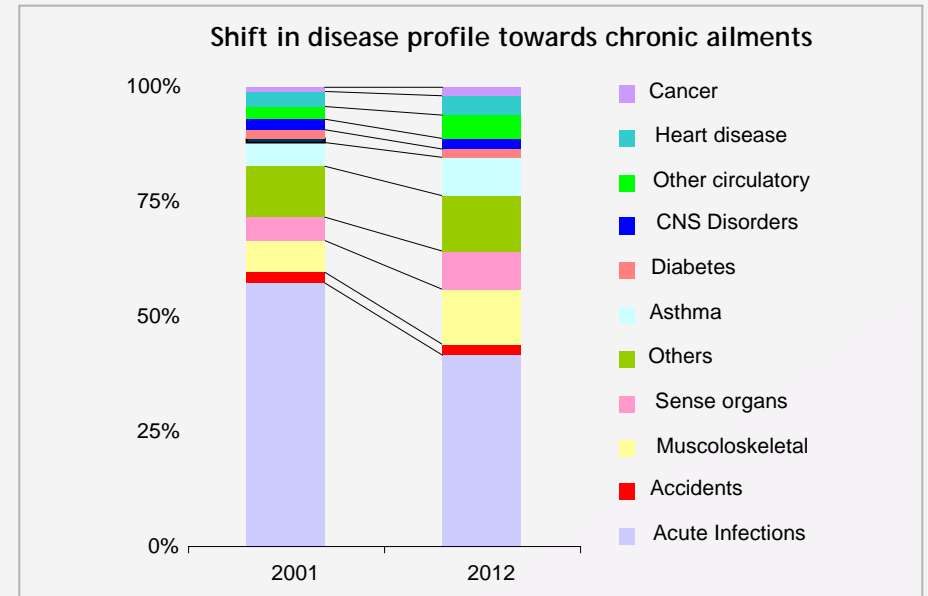
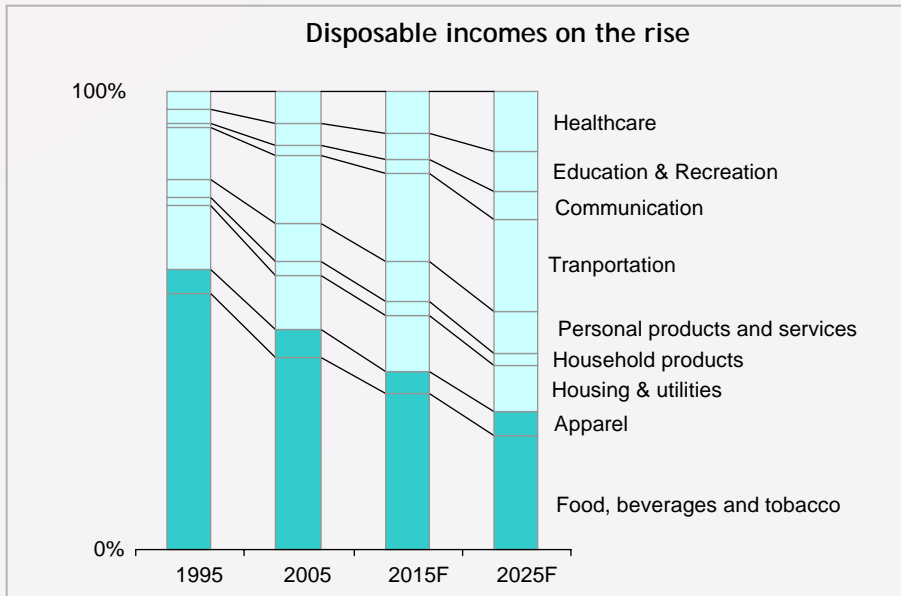
Presently, 5th largest pharma market in the emerging world...

Country	Rank	Market sales (£ bn)*	Share of EM region (%)	Market growth (%)
China	1	10.7	25	27
Mexico	2	4.9	11	4
Turkey	3	4.9	11	10
Brazil	4	4.8	11	13
India	5	3.7	8	11
Russia	6	2.7	6	9
Venezuela	7	1.7	4	32
Argentina	8	1.6	4	22
South Africa	9	1.0	2	12
Algeria	10	0.8	2	21

*Source: GSK; 2008 sales

India at the centre of EM rush...

...with demand drivers firmly in place for accelerated growth



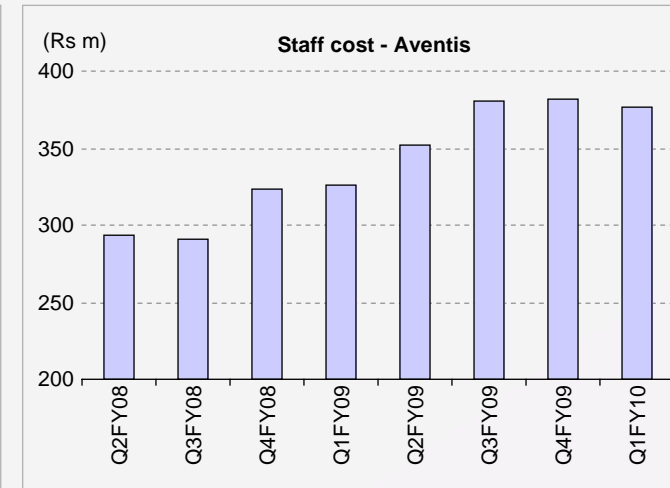
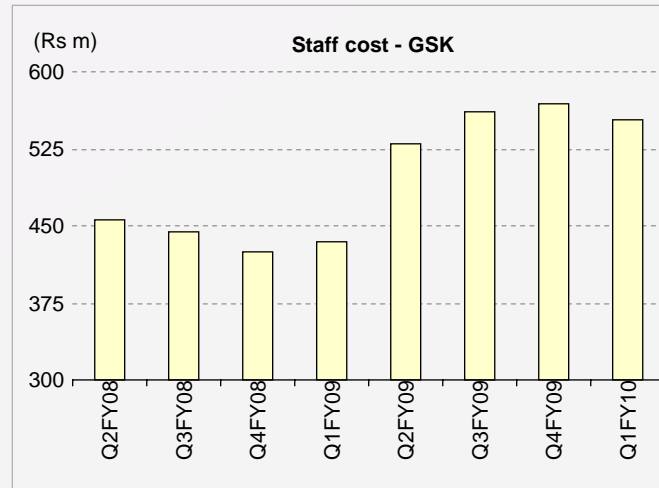
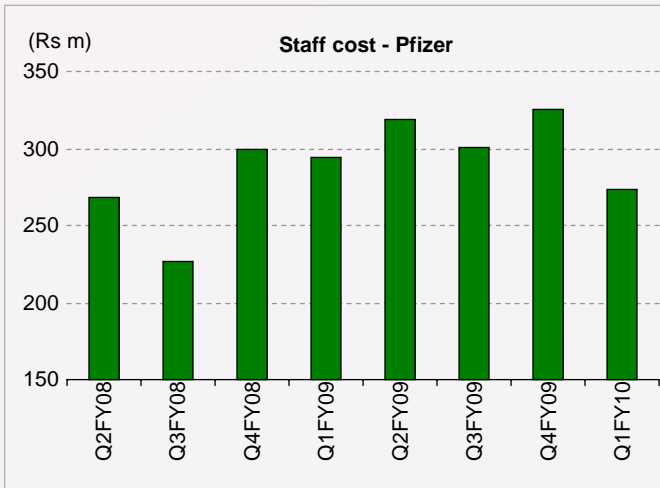
India at the centre of EM rush...

In realization, MNCs have begun to pursue multiple strategies to re-gain foothold in the Indian pharmaceutical market

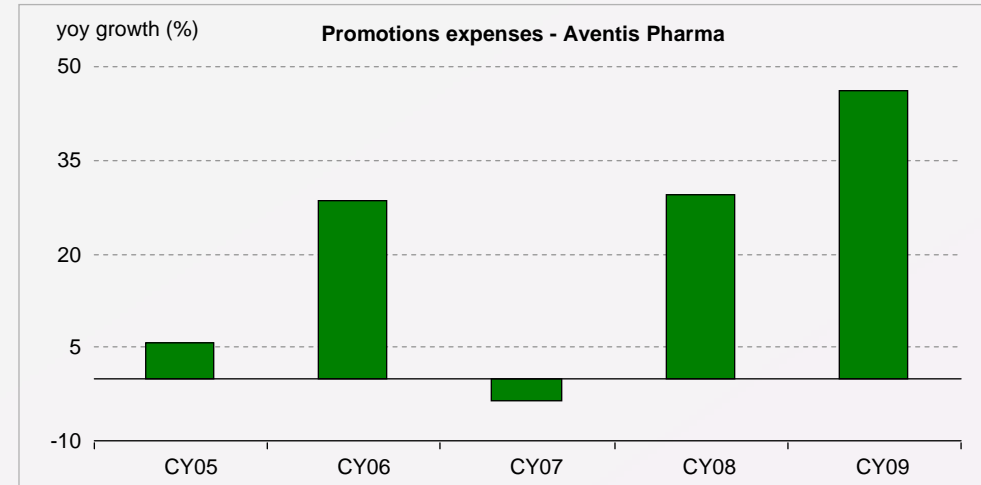
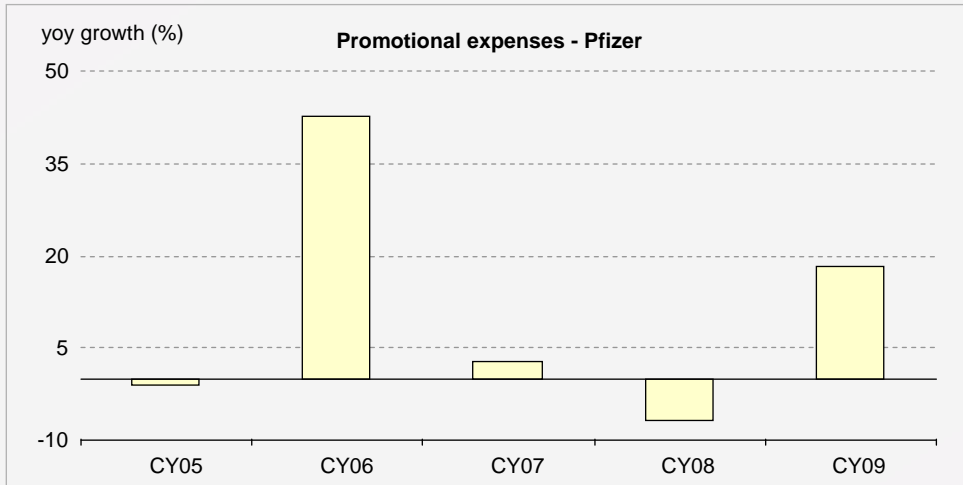


India at the centre of EM rush...

After years of stagnation, MNCs have begun to aggressively add feet on the ground...



Supported by growing promotional spends...



India at the centre of EM rush...

...as also increased deal flow...

Date	Details
Jan-07	Mylan buys 76% stake in Matrix for a cash and stock deal of US\$736m
Apr-08	Fresenius Kabi buys 73% stake in Dabur Pharma for Rs8.7bn
Jun-08	Daiichi buys 34.8% stake in Ranbaxy for US\$2.4bn at 5x sales
Jun-10	Abbott buys Piramal's formulation business for US\$3.7bn at 9x sales

...and strategic tie-ups

Date	Details
July-08	GSK enters a licensing and supply agreement with Strides Arcolab for supplies to 95 emerging market countries
June-09	GSK partners with Dr Reddy's to develop and market generics and formulations in emerging markets
May-09	Pfizer acquired rights from Aurobindo Pharma for 39 generic finished-dose products in the US and 20 in Europe, plus an additional 11 in France. Supply pact later extended for another 60 products for other countries
May-09	Pfizer entered into a partnership with Claris Lifesciences, an injectable drug-maker, to commercialize off-patent drugs in developed markets
Mar-10	Under agreement with Torrent Pharma, AstraZeneca to purchase and market authorization for 18 products in 9 countries. Agreement likely to be extended to more products and geographies.
May-10	Abbott signs deal with Zydus, wherein former will gain rights to at least 24 Zydus products in 15 key emerging markets. Abbott has option to add 40 more products
Jan -10	Strides Arcolab signs a major licensing and supply deal with Pfizer to source 40 patent-free medicines mostly injectable cancer therapies for sale in the US

Translating into steady increase in growth rates

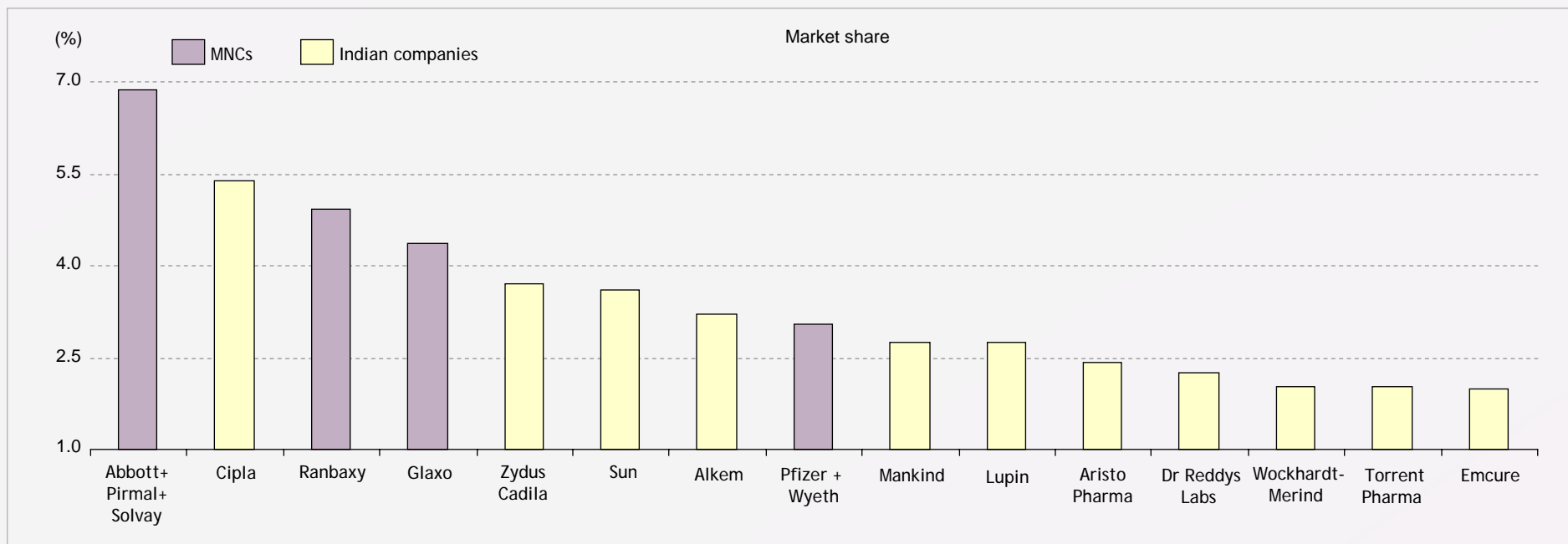
Particulars (%chg yoy)	Jan08-Dec08	Jan09-Dec09	Oct09-Dec09	Jan10-Mar10
Astra	14.6	13.0	21.0	19.1
Fulford	9.3	2.7	7.9	24.8
GlaxoSmithKline Pharma	5.3	12.7	20.6	18.4
Pfizer	(1.6)	12.0	9.1	9.0
Aventis Pharma	10.0	12.4	6.5	21.7

Source: Company

The new pecking order...MNCs begin to dominate

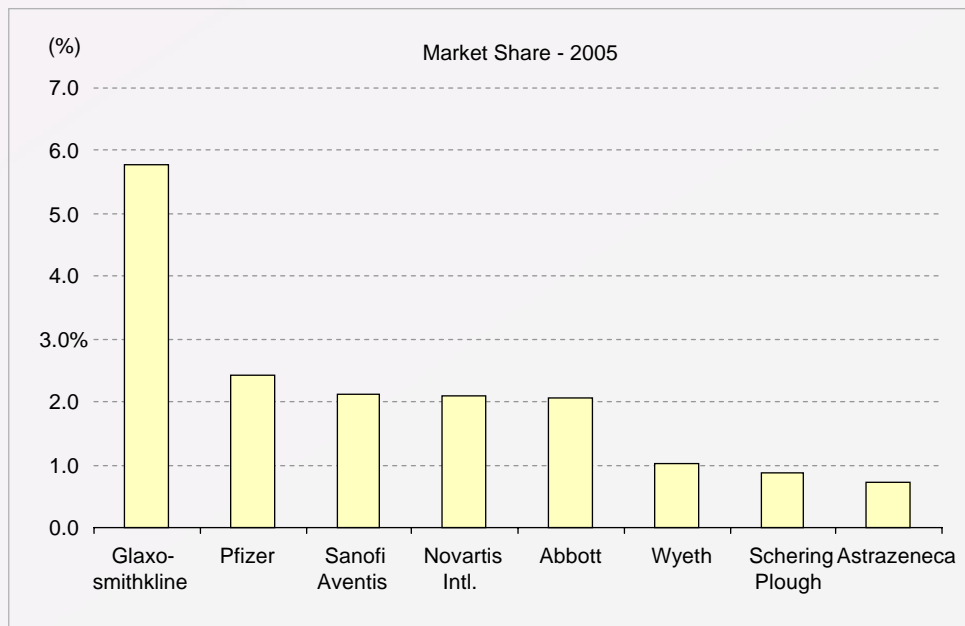
- ❑ 3 of the top 4 are now MNCs (against only 1 two years ago)
- ❑ 4 of the top 8 Indian pharma players are now MNCs (against only 1 two years back)

Industry begins to consolidate... MNCs on their way to increase dominance

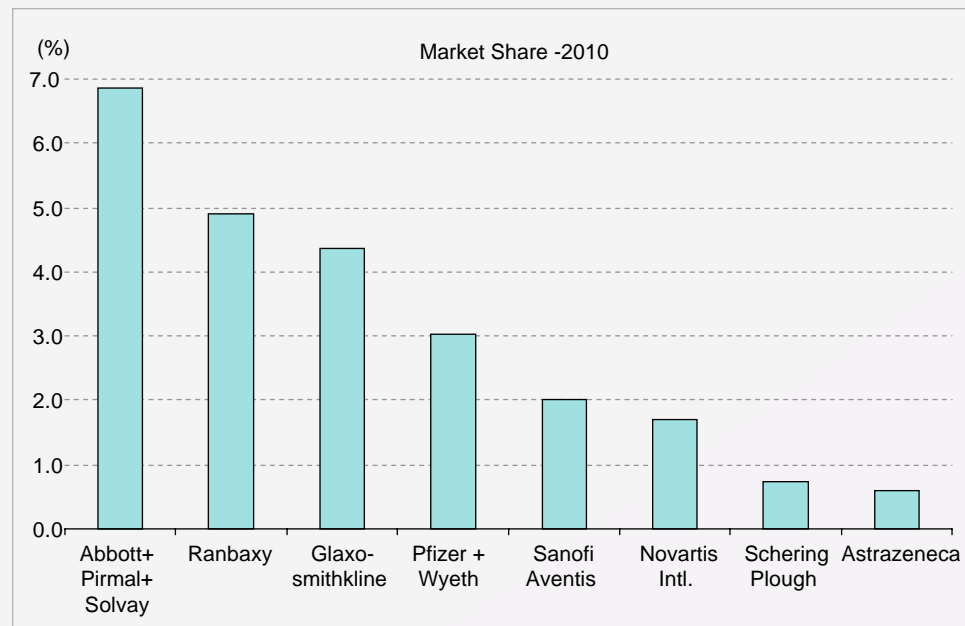


MNCs - Increasingly an uneven playing field...

Then.. MNCs (barring Glaxo) were near equals

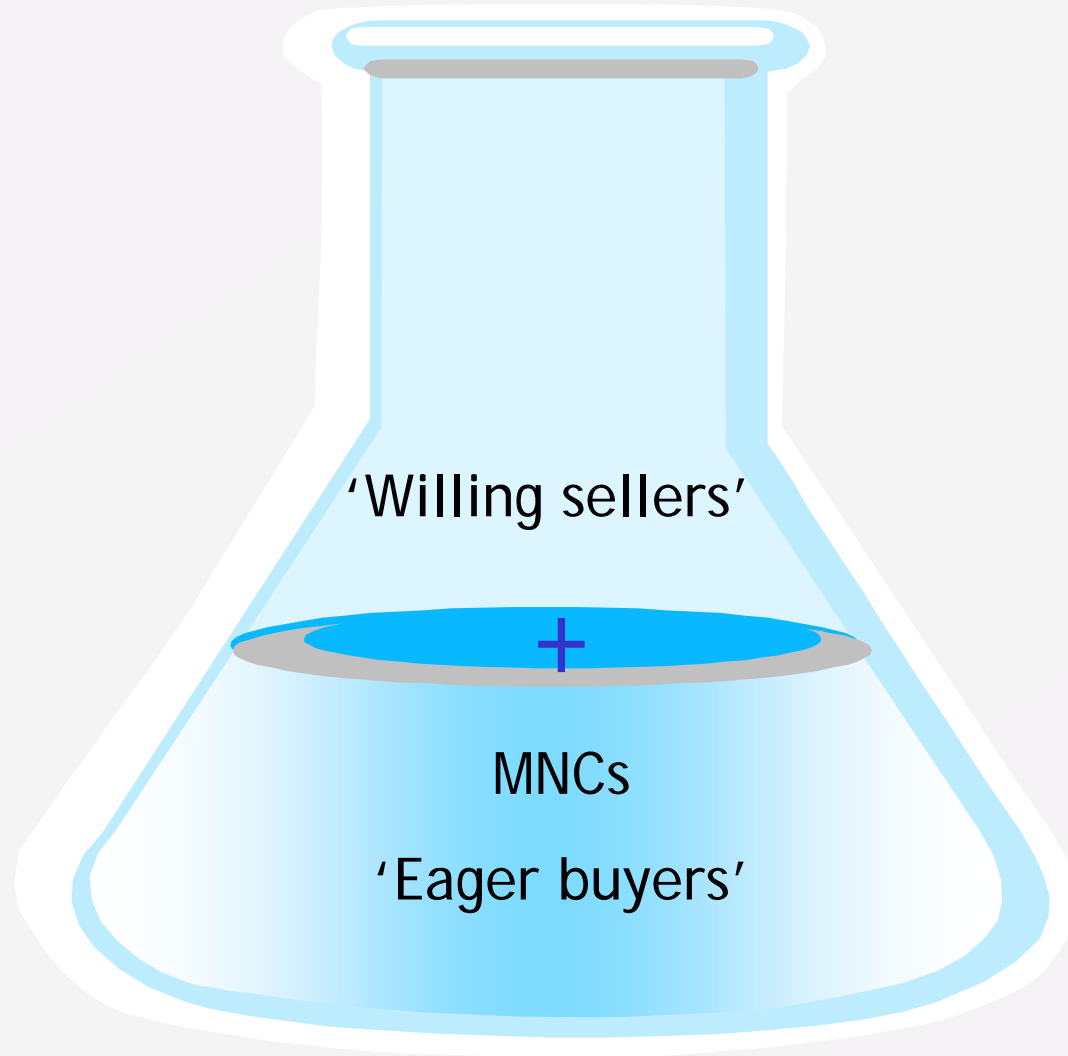


Now... Top 3 are distinctly ahead of the pack..



- ❑ Pursuing inorganic growth in Indian market no longer an option but an imperative for all MNCs (outside of top 3) looking to take a 15-20 year bet on Indian market
- ❑ Organic growth can deliver only limited market share gains; even in a fragmented market, <3% market share may be sub-optimal to deliver long-term strategic goals

India Pharma: Stage set for intense M&A activity



Indian Companies: Growing incentive to sell out...

❑ Increasing competition in domestic market

- Most mid-large size companies beginning to refocus on the domestic market and invest aggressively
- MNCs clearly stepping up gas from steady state to high investment phase

❑ Mid-size companies face question of survival, given...

- Drying product pipe lines - post product patent regime (in 2005)
- High promotional costs on the back of increased competition

❑ Alternate business interest of promoters or second generation

- Ranbaxy promoters diversifying into healthcare and financial services
- Piramals and Dabur Pharma's Burman family have several other interests

❑ Attractive valuations

- Piramal-Abbott transaction at 9x sales
- Ranbaxy-Daiichi transaction at 5x sales

...and Big Pharma will be keen to acquire

❑ Companies with **strong presence in domestic formulation space**

- Indian pharma market to be \$30bn by 2020; “to be” market from medium- to long-term perspective
- Companies with at least 1-1.5% market share to be attractive for an MNC buyer
- Piramal-Abbott deal valuations - clear indicator that value is attached to scale

❑ Companies with **strong presence in emerging markets**

- 70% of market growth to come from emerging markets; Indian companies best placed to leverage
- E.g. Ranbaxy-Daiichi - rationale to target generic exports as also cater to domestic market

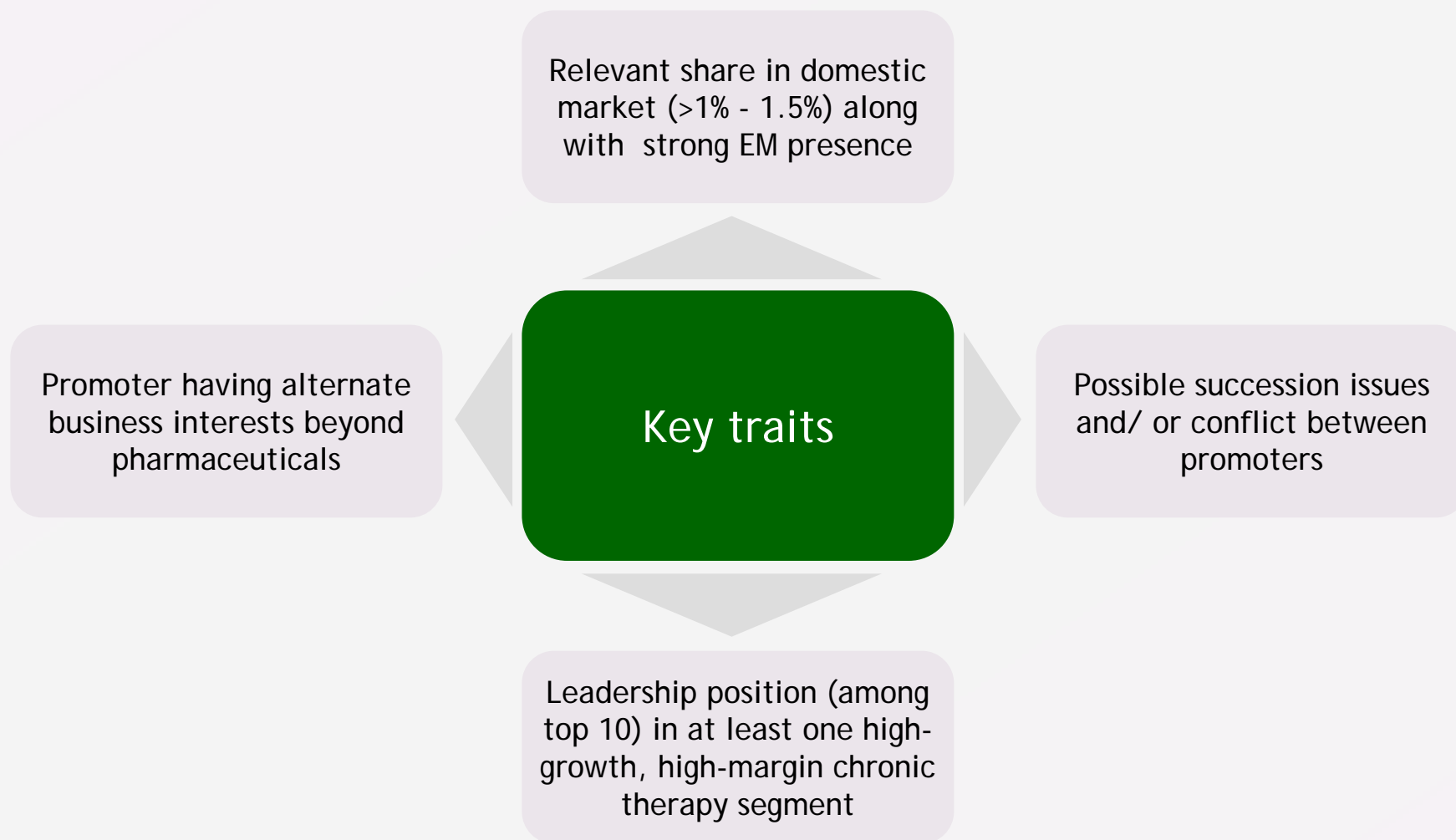
❑ Companies offering presence in **high-margin and faster growing chronic therapy segments**

- CVS, CNS, Diabetes, Respiratory

❑ Companies **with strong business momentum**

- Buyers keen on “better quality” assets despite premium valuations; limited appetite for turnaround stories

Which companies make good acquisition candidates?



6-8 companies in listed space meet these criteria

Companies* strong in domestic and EM formulations

Company	Domestic Formulation Sales (Rs bn)	Formulation RoW Exports (Rs bn)	Domestic formulation (as % of sales)	Domestic + Export formulation (as % of sales)
Cipla	25	11	46	66
Sun Pharma	18	5	45	57
Lupin	13	2	27	32
Ipca Laboratories	6	1	38	47
Glenmark	8	7	30	57
Ranbaxy	18	22	26	58
Dr Reddy's	10	12	14	32
Torrent Pharma	7	6	40	71

Source: IDFC Securities; * Analysis limited to IDFC Securities Pharma Universe excluding MNCs

Leaders in high-margin chronic segments

Rank	CVS	ANTI-DIABETIC	CNS	Respiratory
1	Sun Pharma	Abbott	Sun Pharma	Cipla
2	Torrent	U S V	Intas	Zydus Cadila
3	Zydus Cadila	Sanofi Aventis	Torrent	Lupin
4	Unichem	Sun Pharma	Abbott	Franco Indian
5	Cipla	Eli Lilly	Piramal	Ranbaxy
6	Ranbaxy	Piramal	Sanofi Aventis	Sun Pharma
7	Lupin	Micro	Pfizer	Modi Mundi
8	Sanofi Aventis	Lupin	Ranbaxy	GSK
9	U S V	MSD	Unichem	Macleods
10	Emcure	Wockhardt	Micro	Dr Reddy's

Source: IMS, IDFC Securities; MNCs highlighted in Blue; Ranbaxy and Piramal considered as MNCs

- ❑ Leading Indian players in chronic therapies - Sun, Torrent, USV, Lupin, Zydus and Unichem
- ❑ Leading MNCs in chronic therapies - Sanofi Aventis and Abott

Indian companies with the right scale and portfolio

Companies	Market share (>1%)	Among Top10 positions in at least one chronic segment*
Cipla	5.4	CVS, Respiratory
Zydus Cadila	3.7	CVS, Respiratory
Sun	3.6	CVS, CNS, Respiratory, Anti-diabetic
Alkem^	3.2	
Mankind^	2.7	
Lupin Limited	2.7	CVS, Anti-Diabetes, Respiratory
Aristo Pharma^	2.4	
Dr Reddy's Labs	2.2	Respiratory
Wockhardt-Merind^	2.0	
Torrent Pharma	2.0	CVS, CNS
Emcure^	2.0	CVS
Intas Pharma^	1.9	CNS
Alembic	1.9	
Micro Labs^	1.8	
FDC	1.7	
Macleods Pharma^	1.7	
U S V^	1.6	CVS, Anti-diabetic
Unichem	1.5	CVS
Glenmark Pharma	1.4	
Ipca Labs	1.4	
Elder Pharma	1.0	

Above list excludes Piramal & Ranbaxy, *CNS, CVS, Anti-Diabetes and Respiratory, ^unlisted companies; Source: IMS, IDFC Securities

Valuations in the context of domestic formulation sales

Company	Mkt cap (Rs bn)	Domestic formulation sales (Rs bn)	Market Cap/ Domestic formulation sales (x)
Sun Pharma	324	18.6	17.4
Cipla	255	25.1	10.2
Dr Reddy's Laboratories	222	10.2	21.8
Ranbaxy Laboratories	179	17.7	10.1
Lupin	162	13	12.5
Glenmark Pharma	72	7.2	10.0
IPCA Laboratories	36	5.7	6.3
Torrent Pharma	45	7.3	6.2
FDC	18	5.9	3.0
Unichem	16	5.3	3.0
Elder	7	7.0	1.0
Alembic	6	5.8	1.0

Source : IMS, IDFC Securities

Comparative Valuations

Company	Rating	EPS (Rs)			Price/ FDEPS (x)			EV/ EBITDA (x)		
		FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
SUN Pharma	Outperformer	65.2	71.7	84.0	25.9	23.5	20.1	22.6	20.6	16.5
Cipla	Outperformer	12.6	14.8	17.9	25.7	21.9	18.2	18.1	16.0	13.5
Dr Reddys Laboratories	Outperformer	57.4	74.3	87.7	25.5	19.7	16.7	17.7	12.8	10.6
Ranbaxy Laboratories	Outperformer	7.1	25.2	45.0	59.3	16.6	9.3	26.6	13.1	7.2
Glaxosmithkline Pharma	Outperformer	59.6	69.5	80.3	35.3	30.3	26.2	24.8	21.3	18.2
Lupin	Outperformer	77.7	94.1	111.0	24.0	19.8	16.8	18.0	14.4	11.9
Nicholas Piramal India	Outperformer	23.4	25.9	31.6	20.9	18.9	15.5	15.8	13.0	10.7
Glenmark Pharma	Outperformer	12.2	19.2	21.1	21.2	13.4	12.3	13.6	9.9	8.9
Biocon	Outperformer	14.4	17.7	21.3	19.9	16.2	13.4	13.4	10.9	8.8
Aventis Pharma	Neutral	68.4	81.2	93.5	27.4	23.1	20.0	19.9	15.7	12.9
Torrent Pharma	Outperformer	27.3	37.3	47.1	20.8	15.2	12.1	14.8	12.2	9.4
IPCA Laboratories	Outperformer	16.4	20.0	24.2	17.0	13.9	11.5	12.2	10.0	8.2
Dishman Pharmaceuticals	Neutral	14.5	16.2	19.9	13.9	12.4	10.1	10.9	8.7	7.1
SUN Pharma	Outperformer	65.2	71.7	84.0	25.9	23.5	20.1	22.6	20.6	16.5

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