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Morgan Stanley India Company
Private Limited+

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Stock Rating
Overweight

Industry View
In-Line

Biocon Ltd

Story Getting Entrenched: Updating Model, Remain OW

What's Changed

| | |
|-------------------|------------------------------|
| Price Target | Rs392.00 to Rs482.00 |
| FY14e/15e/16e EPS | Up 7.7% / 6.2% / 4.4% |

We see two key value drivers for Biocon: 1) improving base business, which should sustain midteen earnings growth, and 2) progression of biosimilar portfolio for global markets. Our new, higher price target of Rs482 implies 23% upside.

Base business drivers – The share of faster-growing domestic formulations, insulin and immunosuppressants and contract research is rising in Biocon's overall sales, which should foster midteen earnings growth for the next 2-3 years, in our view. We expect flat margins, as we anticipate rising research spend. We also note that Biocon is an API supplier to a few pharma companies for the upcoming sirolimus patent expiry in the US.

Steady progression in bio-similar portfolio –

According to Biocon, the company has met primary (Hba1c level) and secondary (hypoglycemia) endpoints in the EU insulin phase III trials. However, Biocon plans its EU regulatory submission in harmony with its US submission, which could happen in 2015. Biocon's trastuzumab (Herceptin) has been approved for the Indian market (other EMs in 12-24 months), and the launch is planned for 1Q14. Its clinical trial for US/EU markets is under way. The company launched its proprietary molecule – itolizumab (Alzumab) for psoriasis – in India in October.

We have updated our earnings model and raised our F14/15/16 EPS estimates by 7.7%, 6.2% and 4.4%, respectively, largely on account of higher other income and lower depreciation. We have raised our PT to Rs482 (18x F16e EPS) to account for the earnings upgrade and one-year forward rollover of target P/E.

Key Ratios and Statistics

Reuters: BION.NS Bloomberg: BIOS IN

India Pharmaceuticals

| | |
|---------------------------------|-----------------|
| Price target | Rs482.00 |
| Up/downside to price target (%) | 23 |
| Shr price, close (Dec 17, 2013) | Rs392.30 |
| 52-Week Range | Rs404.20-208.10 |
| Sh out, dil, curr (mn) | 200 |
| Mkt cap, curr (mn) | Rs78,460 |
| EV, curr (mn) | Rs69,002 |
| Avg daily trading value (mn) | Rs152 |

| Fiscal Year ending | 03/13 | 03/14e | 03/15e | 03/16e |
|---------------------------|--------|--------|--------|--------|
| ModelWare EPS (Rs)# | 16.22 | 19.59 | 23.15 | 26.76 |
| Prior ModelWare EPS (Rs) | - | 18.19 | 21.79 | 25.62 |
| Consensus EPS (Rs)§ | 17.35 | 19.63 | 23.10 | 27.68 |
| Revenue, net (Rs mn) | 24,853 | 28,889 | 33,504 | 38,634 |
| EBITDA (Rs mn) | 5,430 | 6,472 | 7,545 | 8,824 |
| ModelWare net inc (Rs mn) | 3,245 | 3,917 | 4,629 | 5,352 |
| P/E | 16.8 | 20.0 | 16.9 | 14.7 |
| P/BV | 2.0 | 2.6 | 2.4 | 2.1 |
| Div yld (%) | 1.8 | 1.3 | 1.4 | 1.5 |
| FCF yld ratio (%) | 1.5 | 1.9 | 3.2 | 0.2 |
| Leverage (EOP) (%) | (37.5) | (38.5) | (40.9) | (35.4) |

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).

= Our pension accounting has changed in ModelWare, which will affect ModelWare EPS figures for some stocks under coverage. Visit www.ms.com/mw.pdf for details

§ = Consensus data is provided by Thomson Reuters Estimates.

e = Morgan Stanley Research estimates

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Financial Summary

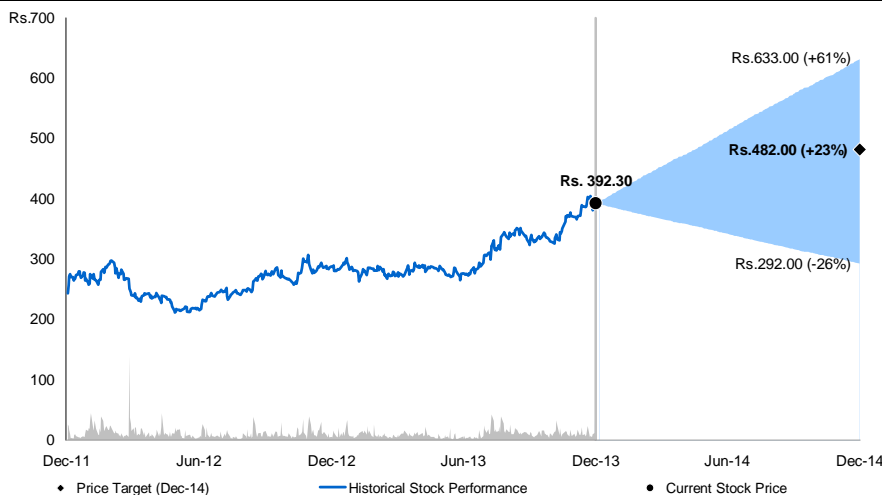
| Income Statement | | | | | Cash Flow Statement | | | | |
|-----------------------------|--------------|--------------|--------------|--------------|---------------------------------------|----------------|----------------|----------------|----------------|
| (Rs million) | 2013 | 2014E | 2015E | 2016E | (Rs million) | 2013 | 2014E | 2015E | 2016E |
| Sales | 24,853 | 28,889 | 33,504 | 38,634 | Profit after tax | 5,062 | 3,917 | 4,629 | 5,352 |
| Cost of Goods Sold | 12,775 | 14,878 | 17,255 | 19,897 | Add : Depreciation | 1,820 | 2,063 | 2,213 | 2,553 |
| Gross Profit | 12,078 | 14,011 | 16,249 | 18,738 | Add : Inc in Def Tax Liability | 490.0 | - | - | - |
| R&D Expenses | 1,640 | 2,022 | 2,680 | 3,477 | Extraordinary Items | 907 | - | - | - |
| Personnel Costs | 3,894 | 4,361 | 4,885 | 5,471 | Net change in Wrk capital | (1,680) | (3,639) | (2,863) | (1,573) |
| SG&A | 2,754 | 3,178 | 3,819 | 4,443 | Net cash from operations | 6,599 | 2,341 | 3,979 | 6,331 |
| Operating Profit | 5,430 | 6,472 | 7,545 | 8,824 | Capital Expenditure | (3,445) | 158 | (620) | (5,351) |
| Non-Operating Income | 527 | 851 | 851 | 851 | Dec/(Inc) in Investments | (3) | - | - | - |
| EBITDA | 5,957 | 7,323 | 8,396 | 9,675 | Net cash from Investing | (3,448) | 158 | (620) | (5,351) |
| Interest Expenses | 81 | 22 | 21 | 21 | Issue of equity shares | - | - | - | - |
| Depreciation & Amortization | 1,820 | 2,063 | 2,213 | 2,553 | Dividends paid including dividend tax | (1,170) | (1,170) | (1,287) | (1,404) |
| Pretax Profit | 4,056 | 5,238 | 6,163 | 7,101 | Net cash from financing | (1,170) | (1,170) | (1,287) | (1,404) |
| Income Tax | 773 | 1,205 | 1,417 | 1,633 | Net Inc/(Dec) in Net Debt | (1,981) | (1,329) | (2,072) | 424 |
| Minority Interest | 38 | 116 | 116 | 116 | Opening Net Debt | (7,447) | (9,466) | (10,796) | (12,868) |
| Net Profit | 3,245 | 3,917 | 4,629 | 5,352 | Closing Net Debt | (9,466) | (10,796) | (12,868) | (12,444) |
| Extraordinary item | 1,817 | | | | | | | | |
| Reported Net profit | 5,062 | 3,917 | 4,629 | 5,352 | | | | | |
| Effective Tax Rate | 19% | 23% | 23% | 23% | | | | | |
| EPS (ex-extraordinary) | 16.2 | 19.6 | 23.1 | 26.8 | | | | | |
| DPS | 5.0 | 5.0 | 5.5 | 6.0 | | | | | |

| Balance Sheet | | | | | Ratio Analysis | | | | |
|--|---------------|---------------|---------------|---------------|-----------------------------------|-------|-------|-------|-------|
| (Rs million) | 2013 | 2014E | 2015E | 2016E | | 2013 | 2014E | 2015E | 2016E |
| SOURCES OF FUNDS | | | | | Profitability Ratios | | | | |
| Equity Capital | 1,000 | 1,000 | 1,000 | 1,000 | Gross Margin | 48.6% | 48.5% | 48.5% | 48.5% |
| Reserves & Surplus | 25,946 | 28,693 | 32,036 | 35,984 | Operating Margin | 21.8% | 22.4% | 22.5% | 22.8% |
| Networth | 26,946 | 29,693 | 33,036 | 36,984 | Pre-tax Margin | 16.3% | 18.1% | 18.4% | 18.4% |
| Minority Interest | 653 | 653 | 653 | 653 | Net Margin | 20.4% | 13.6% | 13.8% | 13.9% |
| Debt | 2,488 | 800 | 300 | 300 | Sales Growth | 26.7% | 16.2% | 16.0% | 15.3% |
| Deferred tax | 412 | 412 | 412 | 412 | Net Profit growth | -4.1% | 20.7% | 18.2% | 15.6% |
| Total | 30,499 | 31,558 | 34,401 | 38,349 | Valuation Ratios | | | | |
| APPLICATION OF FUNDS | | | | | P/E | 24.2 | 20.0 | 16.9 | 14.7 |
| Net Block | 14,880 | 12,233 | 11,520 | 13,218 | P/BV | 2.9 | 2.6 | 2.4 | 2.1 |
| Capital WIP | 2,054 | 2,480 | 1,600 | 2,700 | ROE | 20.4% | 13.8% | 14.8% | 15.3% |
| Intangible assets | 1,290 | 1,290 | 1,290 | 1,290 | ROCE | 14.8% | 17.0% | 18.7% | 19.6% |
| Net Fixed Assets | 18,224 | 16,003 | 14,410 | 17,208 | EV/EBITDA | 15.5 | 12.4 | 10.6 | 9.2 |
| Investments | 645 | 645 | 645 | 645 | Leverage Ratios | | | | |
| Cash & Cash Equivalents | 11,954 | 11,596 | 13,168 | 12,744 | Net Debt/Equity | -0.4 | -0.4 | -0.4 | -0.3 |
| Inventories | 3,984 | 5,936 | 6,884 | 7,939 | Total Debt/Equity | 0.1 | 0.0 | 0.0 | 0.0 |
| Receivables | 5,097 | 6,727 | 7,802 | 8,997 | Turnover Ratios | | | | |
| Loans & Advances | 4,257 | 2,889 | 3,015 | 2,704 | Inventory (days of net sales) | 60 | 60 | 60 | 60 |
| <i>Current Assets</i> | <i>13,338</i> | <i>15,552</i> | <i>17,702</i> | <i>19,640</i> | Receivables (days of net sales) | 41 | 41 | 41 | 41 |
| Less: Current Liabilities & Provisions | 13,662 | 12,237 | 11,524 | 11,889 | Cash cycle (days of net sales) | 101 | 101 | 101 | 101 |
| Net Current Assets | (323) | 3,315 | 6,178 | 7,751 | Net working capital (x net sales) | -17 | 19 | 52 | 66 |
| Total | 30,499 | 31,559 | 34,401 | 38,349 | | | | | |

Source: Company data, Morgan Stanley Research. E=Morgan Stanley Research estimates.

Risk-Reward Snapshot: Biocon Ltd (BION.NS, Rs392.3, OW, PT Rs482)

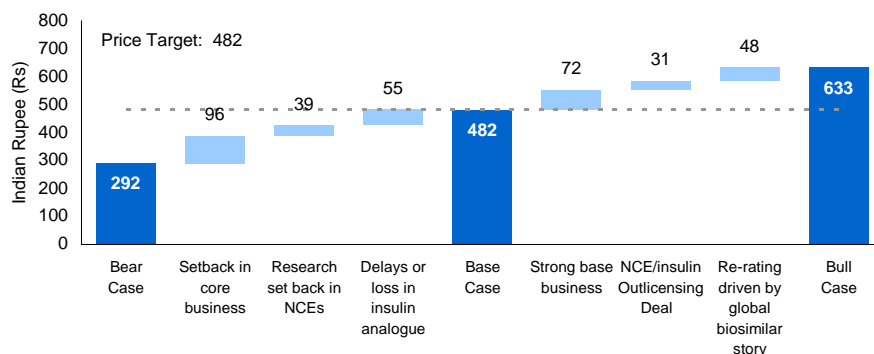
Risk-Reward View: Interplay Between ST Profit and LT R&D Upside



Source: Thomson Reuters, Morgan Stanley Research estimates.

| | | |
|---------------------------|------------------|---|
| Price Target Rs482 | | Base-case scenario, P/E multiple. |
| Bull Case Rs633 | Sum of the parts | Value unlocking in novel biological pipeline: Bull case assumes stronger base business (Rs72/share), driven by emerging markets (especially insulin) and Deficid surprise, NCE out-licensing deal (Rs31/share), and re-rating driven by global biosimilar story (Rs48/share), which could enrich valuations. |
| Base Case Rs482 | P/E multiple | Gradual base business ramp-up, steady IPR build-up: Base case assumes 15.8% sales CAGR for the base business and 18.1% earnings CAGR, F2013-16. We apply a P/E of 18x to our FY16e EPS of Rs26.8. |
| Bear Case Rs292 | Sum of the parts | Commoditization of base business: Bear case assumes setback in core business (Rs96/share), research setback in NCEs (Rs39/share) and delay or loss in insulin analogs (Rs55/ share). |

Bear to Bull: Unlocking Value in Research



Source: Thomson Reuters, Morgan Stanley Research estimates.

Investment Thesis - OW

- Improving base business fundamentals
- Various growth platforms in pipeline, including insulin (especially human insulin in the EU), MAbs and immunosuppressants.
- There is locked value in the new chemical entity (NCE) pipeline.
- Longer term, Biocon is positioning itself as a key biotech player in both the biosimilar and proprietary space.
- Immunosuppressants, insulin, and biosimilar monoclonal antibodies in the EM hold the key to medium-term earnings, in our view.
- Reasonable valuations – the stock trades at 20.0x/ 16.9x our F14e/ F15e EPS, about a 10% discount to the industry average.

Key Value Drivers

- Successful human insulin phase III trials in Europe, primary (HbA1c) and secondary (safety) endpoints met.
- Progress on insulin analogs in clinical trials (tied up with Mylan).
- Progress in biosimilars for regulated markets (tied up with Mylan).
- Insulin and immunosuppressants are the drivers of the biopharm business.
- Contract research is a growing business.

Potential Catalysts

- Filing of human insulin in EU and US
- Progress on glargine phase III trials
- Commercialization of insulin facility, Malaysia (about 50% of \$160 mln in phase I already spent)
- Progress on Herceptin global trial (approved in India)
- Biosimilar MAbs clinical trial progress
- Fidaxomicin ramp in US and Europe

Key Risks to Our Price Target

- Setbacks in core business, NCE research; delay/loss in insulin analogs

Investment Case

Summary & Conclusions – Overweight

We see two key value drivers for Biocon:

1) Improving base business, which should sustain midteen earnings growth for the next 2-3 years – driven by fast-growing domestic formulations, insulin and immunosuppressants and contract research.

2) Progression of biosimilar portfolio for global markets – The company has met primary and secondary endpoints in the EU insulin phase III trials. However, Biocon plans its EU regulatory submission in harmony with its US submission, which could happen in 2015. Biocon's trastuzumab (Herceptin) has been approved for the Indian market (other EMs in 12-24 months), and the launch is planned for 1Q14. Its clinical trial for US/EU markets is under way. The company launched its

proprietary molecule – itolizumab (Alzumab) for psoriasis – in India in October.

Revised price target of Rs482 (up from Rs392), implies 23% upside. Our price target increase is driven by rolling forward our target EPS to FY16 and raising our F16 earnings estimate by 4.4%.

Model changes

FY14e/ FY15e/ FY16e EPS up 7.7%/ 6.2%/ 4.4%

We have increased our FY14e/ FY15e/ FY16e revenues by 0.8%/ 0.7%/ 0.4% and revised operating profits by 0.7%/ -0.3%/ 0.1%, respectively. Our earnings estimate increase is largely driven by lower depreciation expenses and higher other income.

Exhibit 1

Biocon: What's Changed

| What's Changed | F14e | | | F15e | | | F16e | | |
|-------------------|--------|--------|----------|--------|--------|----------|--------|--------|----------|
| | New | Old | % change | New | Old | % change | New | Old | % change |
| Revenues | 28,889 | 28,665 | 0.8% | 33,504 | 33,271 | 0.7% | 38,634 | 38,470 | 0.4% |
| <i>Growth</i> | 16.2% | 15.3% | 0.9% | 16.0% | 16.1% | -0.1% | 15.3% | 15.6% | -0.3% |
| Operating profits | 6,472 | 6,427 | 0.7% | 7,545 | 7,569 | -0.3% | 8,824 | 8,812 | 0.1% |
| <i>Growth</i> | 19.2% | 18.4% | 0.8% | 16.6% | 17.8% | -1.2% | 16.9% | 16.4% | 0.5% |
| <i>Margins</i> | 22.4% | 22.4% | 0.0% | 22.5% | 22.7% | -0.2% | 22.8% | 22.9% | -0.1% |
| Net profits | 3,917 | 3,637 | 7.7% | 4,629 | 4,357 | 6.2% | 5,352 | 5,124 | 4.4% |
| <i>Growth</i> | -22.6% | -28.1% | 5.5% | 18.2% | 19.8% | -1.6% | 15.6% | 17.6% | -2.0% |
| <i>Margins</i> | 13.6% | 12.7% | 0.9% | 13.8% | 13.1% | 0.7% | 13.9% | 13.3% | 0.5% |

Source: Morgan Stanley Research. E=Morgan Stanley Research estimates.

Valuation and Price Target Methodology

Biocon trades at 20.0x our F2014 and 16.9x our F2015 EPS estimates, about a 10% discount to the industry average.

We arrive at our new price target of Rs482 (up from Rs392) by applying a P/E multiple of 18x (unchanged) to our FY16 EPS estimate of Rs26.8 (vs FY15e EPS earlier). Our price target change is driven by rolling forward our target EPS by one year and the 4.4% increase in F16e EPS.

Our target multiple is at a marginal discount to its historical average (Exhibit 3) and ~15% discount to the India pharma

group average valuation. We argue for 18x P/E target multiples for Biocon in view of...

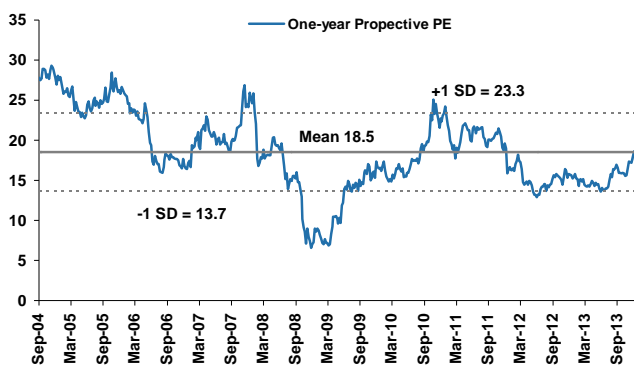
- **Steady base business fundamentals** – lower statin dependence and domestic formulations scaling up – gives visibility of midteen earnings CAGR, F14-16.
- **Prospects of global biosimilar opportunities** coming to fruition in ensuing years (2015-25).
- **Biocon's steady preparedness to monetize its biosimilar assets** – human insulin phase III trials, steady drawdown in capex for dedicated Malaysian facility, partnership with significant global generic player (Mylan)

...although these positive factors also imply challenges:

- **Monetizing biosimilar assets** – These include clinical trials, regulatory approval, manufacturing scale-up and market acceptance. First EU filing (human insulin) in 2015.
- **Base business is in large part API sales to institutional customers** (i.e., limited retail branding) which carry risk of sudden loss of sales and/or margins.

Exhibit 2

Biocon: One-Year-Forward P/E



Source: Thomson Reuters, Morgan Stanley Research.

Key downside risks to our price target include: Delays in product development and regulatory approvals – especially human insulin and analogs for EU, and biosimilars in India and EM; litigation risk on pen devices; and failure of lead compounds in the proprietary pipeline. Manufacturing scale-up

and market access in EU for biosimilars are other credible challenges. Slowdown in RoW sales of insulin and immunosuppressants is the key risk to earnings, in our view.

Bull and Bear Case Scenarios

Bull case – Value unlocking in novel biological pipeline (Rs633, up from Rs521): Key drivers for this scenario include:

- 1) Stronger base business driven by emerging markets (especially insulin) and Deficid surprise (Rs72/ share, up from Rs59/ share);
- 2) NCE/ rh insulin out-licensing deals (Rs31/ share, unchanged); and
- 3) Re-rating driven by global biosimilar story, faster regulatory pathway for EU/ US biosimilars, which could enrich valuations (Rs48/share, up from Rs39/share).

Bear case – Commoditization of base business (Rs292, up from Rs227): Key drivers for this scenario include:

- 1) Setback in core business (Rs96/share, up from Rs78/share);
- 2) Research setback in NCEs (Rs39/ share, up from Rs31/share); and
- 3) Delay or loss in insulin analogs (Rs55/ share, unchanged).

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Biocon Ltd

Exhibit 3

Indian Pharma Companies: Valuation Parameters

| Company | Price (Rs) | Market | | EPS | | | 3-yr EPS | | P/E | | | F2013 P/E |
|------------------------------------|------------|---------------|--------|--------|--------|--------|--------------|-------------|-------------|-------------|-------------|------------|
| | 12/17/2013 | Cap (US\$m) | F2013 | F2014E | F2015E | F2016E | Grth (13-16) | F2013 | F2014E | F2015E | F2016E | to growth |
| BSE Sensex | 20,612 | 539,472 | 1,323 | 1,493 | 1,757 | NA | 15.2%# | 15.6 | 13.8 | 11.7 | NM | 1.0 |
| Indian companies | | | | | | | | | | | | |
| Large Cap | | | | | | | | | | | | |
| Cipla | 388 | 4,962 | 19.2 | 21.2 | 21.9 | 25.2 | 9.5% | 20.2 | 18.3 | 17.7 | 15.4 | 2.1 |
| Cadila Healthcare | 739 | 2,412 | 32.0 | 36.2 | 44.7 | 51.8 | 17.4% | 23.1 | 20.4 | 16.5 | 14.3 | 1.3 |
| Divi's Laboratories | 1,154 | 2,441 | 45.4 | 56.0 | 66.3 | 75.5 | 18.5% | 25.4 | 20.6 | 17.4 | 15.3 | 1.4 |
| Dr Reddy's Labs | 2,427 | 6,531 | 98.8 | 117.7 | 132.2 | 150.5 | 15.1% | 24.6 | 20.6 | 18.4 | 16.1 | 1.6 |
| Glenmark | 525 | 2,258 | 22.7 | 24.1 | 29.7 | 35.8 | 16.4% | 23.1 | 21.8 | 17.7 | 14.7 | 1.4 |
| Lupin Ltd | 881 | 6,251 | 29.4 | 36.6 | 45.9 | 51.6 | 20.7% | 30.0 | 24.1 | 19.2 | 17.1 | 1.4 |
| Ranbaxy Laboratories* | 440 | 2,946 | 21.8 | 18.8 | 29.3 | 25.2 | 4.9% | 20.2 | 23.4 | 15.0 | 17.5 | NM |
| Sun Pharmaceuticals | 556 | 18,357 | 14.4 | 23.8 | 27.3 | 32.8 | 31.5% | 38.6 | 23.4 | 20.4 | 17.0 | 1.2 |
| Mid cap | | | | | | | | | | | | |
| Aurobindo Pharma | 355 | 1,507 | 10.1 | 26.3 | 33.3 | 39.5 | 57.5% | 35.1 | 13.5 | 10.6 | 9.0 | 0.6 |
| Biocon | 392 | 1,250 | 16.2 | 19.6 | 23.1 | 26.8 | 18.1% | 24.2 | 20.0 | 16.9 | 14.7 | 1.3 |
| Dishman | 81 | 104 | 12.4 | 14.2 | 17.3 | 19.9 | 17.1% | 6.5 | 5.7 | 4.7 | 4.1 | 0.4 |
| IPCA | 683 | 1,376 | 25.7 | 38.6 | 46.6 | 54.0 | 28.1% | 26.6 | 17.7 | 14.7 | 12.6 | 0.9 |
| Jubilant Lifesciences | 119 | 303 | 24.0 | 20.5 | 29.3 | 37.7 | 16.2% | 5.0 | 5.8 | 4.1 | 3.2 | 0.3 |
| Piramal Healthcare | 540 | 1,800 | (12.1) | (3.7) | 11.5 | 4.8 | NM | NM | NM | 47.0 | 112.6 | NM |
| Strides Arcolabs | 902 | 859 | 29.2 | 20.0 | 28.0 | 47.9 | 17.9% | 30.9 | 45.1 | 32.2 | 18.8 | 1.7 |
| Orchid | 51 | 54 | - | (10.7) | 0.8 | N/A | NM | NM | (4.8) | 64.1 | NM | NM |
| MNCs | | | | | | | | | | | | |
| Aventis Pharma* | 2,782 | 1,021 | 76.7 | 96.1 | 111.7 | 161.5 | 28.2% | 36.3 | 29.0 | 24.9 | 17.2 | 1.3 |
| GlaxoSmithKline Pharma* | 2,926 | 3,949 | 79.6 | 88.9 | 100.0 | 112.2 | 12.1% | 36.7 | 32.9 | 29.3 | 26.1 | 3.0 |
| Novartis | 450 | 229 | 56.4 | 29.1 | 24.5 | N/A | NM | 8.0 | 15.5 | 18.4 | NA | NM |
| Indian Companies- Large cap | | 46,158 | | | | | 19.1% | 28.1 | 22.0 | 18.6 | 16.5 | 1.5 |
| Indian Companies- Mid cap | | 7,254 | | | | | 27.2% | 18.8 | 15.6 | 16.0 | 13.2 | 0.7 |
| MNCs | | 5,200 | | | | | 15.6% | 31.6 | 32.0 | 28.3 | 23.6 | 2.0 |
| ALL | | 58,611 | | | | | 20.0% | 27.5 | 21.7 | 18.8 | 16.4 | 1.4 |

E = Morgan Stanley Research estimates, except Bloomberg / Thomson consensus estimates for F2014, F2015 and F2016 EPS for Aurobindo, Aventis, Cadila, Divi's Lab, Piramal, Dishman, Jubilant, Orchid, and Novartis.

For Sensex, EPS growth is calculated for 2 years, F13-15 and accordingly F2013 P/E to growth.

* F2013 implies year ended Dec 31, 2012; same for other years.

For Others - F2013 implies year ended March 31, 2013; same for other years. Source: Company data, Bloomberg, Thomson, Morgan Stanley Research.

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Biocon Ltd

Exhibit 4

Indian Pharma Companies: Valuation Parameters (Cont'd)

| Company Name | P/ Book value | | | P/Sales | | | ROE | | |
|------------------------------------|---------------|------------|------------|------------|------------|------------|--------------|--------------|--------------|
| | F2013 | F2014E | F2015E | F2013 | F2014E | F2015E | F2013 | F2014E | F2015E |
| Indian companies | | | | | | | | | |
| Large Cap | | | | | | | | | |
| Cipla | 3.5 | 3.1 | 2.8 | 3.8 | 3.3 | 2.9 | 15.9% | 15.9% | 15.9% |
| Cadila Healthcare | 5.1 | 4.2 | 3.4 | 2.1 | 1.8 | 1.6 | 21.9% | 20.5% | 20.8% |
| Divi's Laboratories | 6.0 | 5.1 | 4.3 | 6.1 | 5.1 | 4.4 | 23.4% | 24.3% | 24.6% |
| Dr Reddy's Labs | 5.6 | 4.5 | 3.7 | 3.5 | 3.2 | 2.9 | 25.7% | 24.4% | 24.4% |
| Glenmark | 5.1 | 4.3 | 3.5 | 2.4 | 2.0 | 1.8 | 23.8% | 21.4% | 21.9% |
| Lupin Ltd | 7.6 | 5.9 | 4.7 | 4.1 | 3.5 | 2.9 | 28.5% | 27.6% | 27.2% |
| Ranbaxy Laboratories* | 4.6 | 4.0 | 3.2 | 1.5 | 1.6 | 1.4 | 20.1% | 16.2% | 24.0% |
| Sun Pharmaceuticals | 7.7 | 6.0 | 4.8 | 10.2 | 7.4 | 6.5 | 22.0% | 28.7% | 26.0% |
| Mid cap | | | | | | | | | |
| Aurobindo Pharma | 3.9 | 3.3 | 2.6 | 1.8 | 1.4 | 1.2 | 11.0% | 24.1% | 24.1% |
| Biocon | 2.9 | 2.6 | 2.4 | 3.2 | 2.7 | 2.3 | 14.2% | 14.4% | 15.5% |
| Dishman | 0.7 | 0.6 | 0.5 | 0.5 | 0.5 | 0.4 | 10.0% | 10.0% | 10.9% |
| IPCA | 6.9 | 6.9 | 6.9 | 3.1 | 2.6 | 2.2 | 25.8% | 38.4% | 46.5% |
| Jubilant Organosys | 0.7 | 0.7 | 0.6 | 0.4 | 0.3 | 0.3 | 14.6% | 12.3% | 15.1% |
| Piramal Healthcare | 0.8 | 0.9 | 0.9 | 2.7 | 2.1 | 1.9 | -1.9% | 0.4% | 0.7% |
| Strides Arcolabs | 1.6 | 1.5 | 0.9 | 2.4 | 5.6 | 4.8 | 5.5% | 3.4% | 2.9% |
| Orchid | 0.3 | 0.4 | 0.4 | 0.2 | 0.2 | 0.1 | -12.3% | -7.9% | 0.6% |
| MNCs | | | | | | | | | |
| Aventis Pharma* | 4.7 | 4.1 | 3.7 | 3.7 | 3.3 | 2.6 | 13.0% | 14.2% | 14.9% |
| GlaxoSmithKline Pharma* | 12.4 | 11.2 | 10.1 | 9.4 | 8.4 | 7.4 | 34.4% | 35.8% | 36.3% |
| Novartis | 1.4 | NA | NA | 1.6 | 1.5 | 1.4 | 17.3% | NA | NA |
| Indian Companies- Large cap | 5.9 | 4.9 | 4.0 | 4.4 | 3.8 | 3.3 | 23.4% | 24.3% | 23.5% |
| Indian Companies- Mid cap | 1.8 | 1.7 | 1.5 | 1.8 | 1.6 | 1.4 | 5.7% | 7.7% | 9.0% |
| MNCs | 7.4 | 7.9 | 7.5 | 6.2 | 5.6 | 4.8 | 29.3% | 27.1% | 27.5% |
| ALL | 4.5 | 3.9 | 3.3 | 3.8 | 3.3 | 2.9 | 17.0% | 18.9% | 19.2% |

E = Morgan Stanley Research estimates, except Bloomberg / Thomson consensus estimates for F2014, F2015 and F2016 EPS for Aurobindo, Aventis, Cadila, Divi's Lab, Piramal, Dishman, Jubilant, Orchid, and Novartis.

* F2013 implies year ended Dec 31, 2012; same for other years. For Others - F2013 implies year ended March 31, 2013; same for other years.

Source: Company data, Bloomberg, Thomson, Morgan Stanley Research



Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations. For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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(as of November 30, 2013)

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| Stock Rating Category | Coverage Universe | | Investment Banking Clients (IBC) | | |
|--------------------------|-------------------|------------|----------------------------------|----------------|----------------------|
| | Count | % of Total | Count | % of Total IBC | % of Rating Category |
| Overweight/Buy | 995 | 34% | 313 | 38% | 31% |
| Equal-weight/Hold | 1283 | 44% | 388 | 47% | 30% |
| Not-Rated/Hold | 109 | 4% | 26 | 3% | 24% |
| Underweight/Sell | 537 | 18% | 99 | 12% | 18% |
| Total | 2,924 | | 826 | | |

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

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Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

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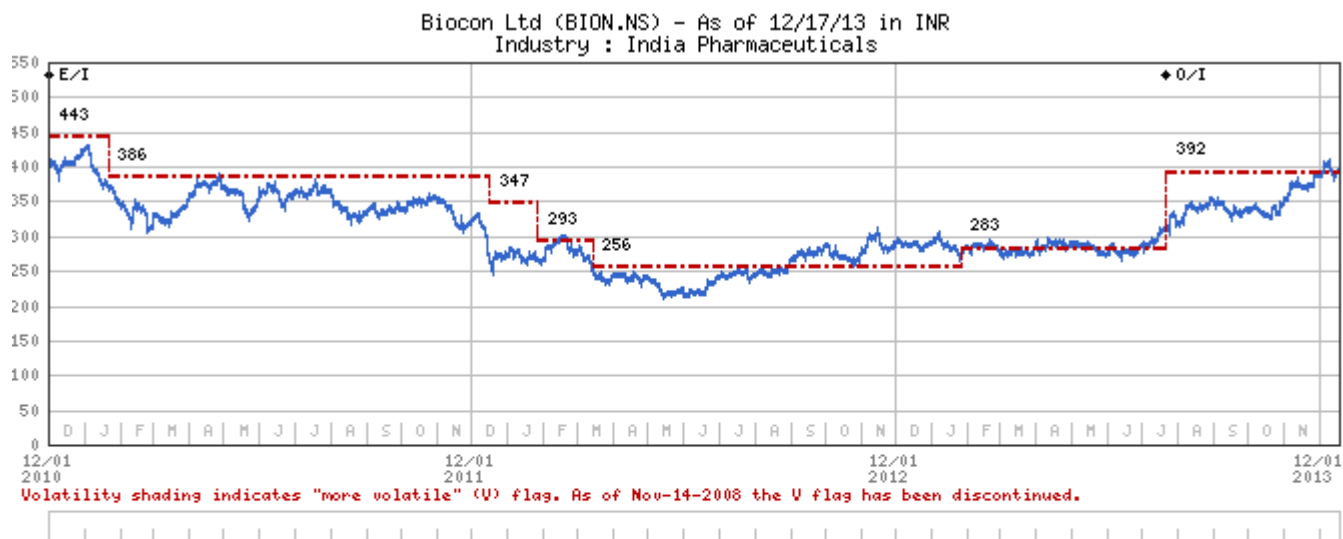
Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

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Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 12/1/10 : E/I; 7/22/13 : 0/I

Price Target History: 10/27/10 : 443; 1/21/11 : 386; 12/16/11 : 347; 1/26/12 : 293; 3/14/12 : 256; 1/26/13 : 283; 7/22/13 : 392

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■
 Stock and Industry Ratings (abbreviations below) appear as + Stock Rating/Industry View
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (U) No Rating Available (NA)
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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Industry Coverage:India Pharmaceuticals

| Company (Ticker) | Rating (as of) | Price* (12/17/2013) |
|--|----------------|---------------------|
| Sameer Baisiwala, CFA | | |
| Biocon Ltd (BION.NS) | O (07/22/2013) | Rs392.3 |
| Cipla Ltd. (CIPL.NS) | U (08/13/2013) | Rs387.8 |
| Dr. Reddy's Lab (REDY.NS) | O (09/13/2010) | Rs2,427.25 |
| Glenmark Pharmaceuticals (GLEN.NS) | O (12/13/2012) | Rs525 |
| Lupin Ltd. (LUPN.NS) | O (10/03/2006) | Rs880.95 |
| Ranbaxy Laboratories (RANB.NS) | E (11/09/2012) | Rs439.8 |
| Sun Pharmaceutical Industries (SUN.NS) | O (09/29/2010) | Rs568.15 |
| Saniel Chandrawat | | |
| Fortis Healthcare Limited (FOHE.NS) | U (08/28/2013) | Rs102.8 |
| GlaxoSmithKline Pharma (GLAX.NS) | U (02/28/2013) | Rs2,949.55 |

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