Pharma Sector Note

India Research

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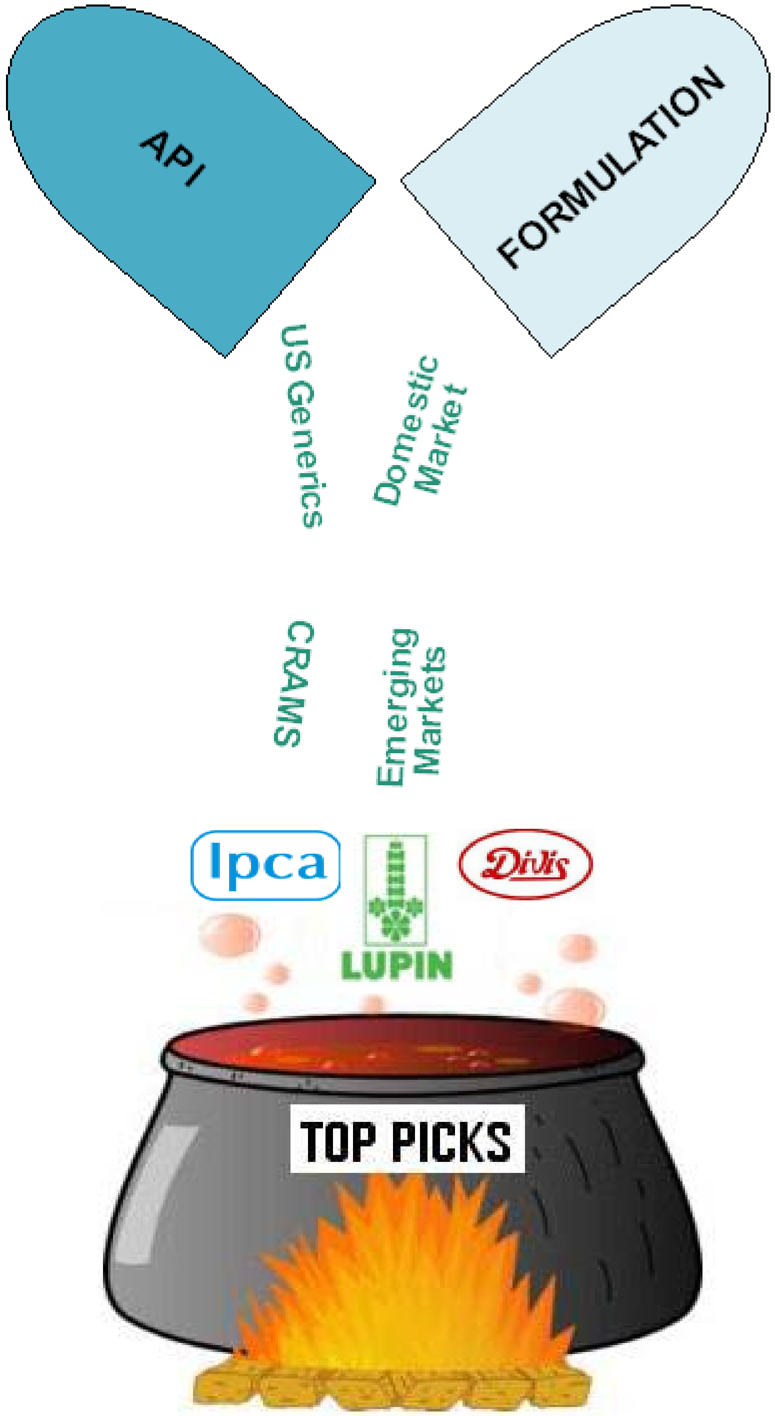
Pharma Sector



Growth Recipe...!!!

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Domestic formulations in a recovery phase

We expect the domestic pharma industry (DPI) growth to rebound to mid teens (14%-15%) during FY13, from low double digit growth during FY12. Over the medium term, we believe 14% growth to be sustainable. Our assumption is based on market share gains in life-style related products; increased pace of new product launches and higher penetration in tier III cities and rural markets.

We have observed sales force attrition levels to have come off their peaks while our channel checks indicate gradual absorption of underlying inventory (anti-infectives in particular). We expect Lupin and Sun Pharma to sustain market outperformance (>16-17% growth) while others, Torrent and IPCA in particular, to witness a stronger FY13E (albeit on low base) on the back of higher MR (marketing representative) productivity and increased focus on faster growing segments. The National Pharmaceutical Pricing Authority (NPPA) / Drug Price Control Order (DPCO) stance to expand the drug coverage list for pricing control and recovery of arrears remains an overhang.

Increased sales from US generics to propel growth

The key regulated markets - US and EU - are due to witness continuing mass generic penetration. The upcoming patent cliff coupled with pro-generic healthcare reforms places the US generic market in a sweet spot. On the contrary, stringent price control interventions and intense competition makes Europe less a profitable market. Our research highlights that CY12 will see the largest wave of US patent expirations (for drugs worth USD 33.6bn) and Indian players - Dr. Reddy's, Sun Pharma and Lupin - are well-prepared to capitalize on a majority of these opportunities. Despite intense competition and other growth constraints, we expect these companies to be major beneficiaries (Refer Annexure - Generic Opportunities).

Favourable currency movement adding to conviction

The Rupee depreciation against the Dollar (14% in FY12) works in the favour of most of these drug makers on account of higher realization on their export receivables (eg. Sun Pharma, Dr. Reddy's, Divi's Labs, etc.). At the same time, select companies will see this benefit being offset by high MTM losses on their forex liabilities (eg. Ranbaxy, Cadila, Glenmark, etc.).

MNC Tie ups for EMs to aid topline growth FY13E onwards

Looming patent expiries (blockbuster products) and low R&D productivity (poor visibility on product pipeline) has led to MNC companies increasing their thrust on branded generics. The frequency of long-term supply deals with local generic manufacturers as a result has increased. We anticipate revenue contribution from some of the past deals entered into (Cadila – Abbott; Torrent- Astrazeneca) to aid topline growth in FY13E and scale up thereafter.

In this scenario we expect Lupin, Divi's & IPCA Labs to outperform.

Name	Investment Rationale	Valuation PE (x) FY12E	PE (x) FY13E	PE(x) FY14E	Target Price
Divi's Labs	Divi's Labs is a credible player in CRAMS business. An India-centric asset play on custom synthesis & API manufacturing with unstinted focus in process optimisation is at the core of its long term profitable growth. Ramp-up at Vizag SEZ will lead to higher operating leverage. We add Divi's to our coverage.	20.0	16.3	13.6	923
Lupin	Integrated global generic player with emphasis on selective launches in niche therapeutic areas. Export formulations to grow by 26% CAGR over FY11-14E led by monetisation of generic pipeline and consolidation in Japanese market. Growth trajectory in domestic formulations appears sustainable.	24.8	20.0	16.3	608
IPCA Labs	Export formulations to grow at 30% CAGR over FY11-14E. Higher contribution from institutional (tender based) sales (42% CAGR over FY11-14E) and US generics (USFDA approval to its Indore SEZ facility) are key growth drivers. Recovery in domestic formulations is on track.	12.9	11.6	10.0	402

We add Dr. Reddy's (*play on US generic opportunity; Betapharm no longer a drag*) and Torrent Pharma (*balanced play on growing domestic formulation opportunity and international formulations*) to our coverage.

Domestic Pharma Market

Growth drivers include market share gains in life-style segment; new launches and higher penetration in Tier 3 cities and rural markets..

Domestic formulations - Growth momentum to accelerate hereon

We expect the domestic pharma industry (DPI) growth to rebound to mid teens (14%-15%) during FY13, from low double digit growth during FY12. Over the medium term, we believe 14% growth to be sustainable. Our assumption is based on market share gains in life-style related products; increased pace of new product launches and higher penetration in tier III cities and rural markets.

Lupin, Sun Pharma to sustain market outperformance..

Companies stinted towards chronic segment to benefit in long run.

The key therapeutic segments viz. Anti-infectives, Gastro (together hold 30% of DPI) have seen growth rates dwindling in the past, primarily led by seasonal factors, intense competition from small players and inventory pile-ups in trade channels. Cipla, Ranbaxy and Dr. Reddy's in particular, with higher contribution from these segments, have thus reported sluggish growth rates. Relatively, key lifestyle therapeutic segments such as Anti-diabetes, CVS, and Dermatology have done well. We expect Lupin and Sun Pharma to sustain market outperformance (>16-17% growth) while others, Torrent and IPCA in particular, to witness a stronger FY13E (albeit on low base) on the back of higher MR productivity and increased focus on faster growing segments.

MNCs continue to be aggressive over front tie-ups with local companies..

MNCs tie-ups - Augurs well for domestic companies at large

The MNCs continue to be aggressive over supply-based tie-ups with local companies. The intent is clearly to leverage on the underlying growth potential in the domestic branded generics segment. These tie-ups enable local companies to fulfill/strengthen their existing product offerings. The Eli Lily-Lupin deal (anti-diabetes) for instance garners revenue of ₹ 100mn per month for Lupin and is expected to gain further traction with market share gains. We expect this trend to be a win-win for both MNCs and local companies.

Implementation of New Pricing Policy remains a key overhang

The circulated draft National Pharmaceuticals Pricing Policy 2011, (pending approval) if implemented in its present form, may lead to sales loss to the tune of ₹ 15bn (₹ 10bn contributed by retail trade). Some of the major drugs to be impacted due to price reduction include Augmentin (GSK), Storvas (Ranbaxy), Asthalin (Cipla), Aten (Cadila) and Omez (Dr. Reddy's). The National Pharmaceutical Pricing Authority (NPPA) / Drug Price Control Order (DPCO) stance to expand the coverage list for pricing control and recovery of arrears remains an overhang. There have been recently suggested alternatives for pegging the ceiling price at (a) average of bottom three brands, (b) government procurement rates or (c) average of all brands in a segment. Further clarity on the matter is expected around the corner.

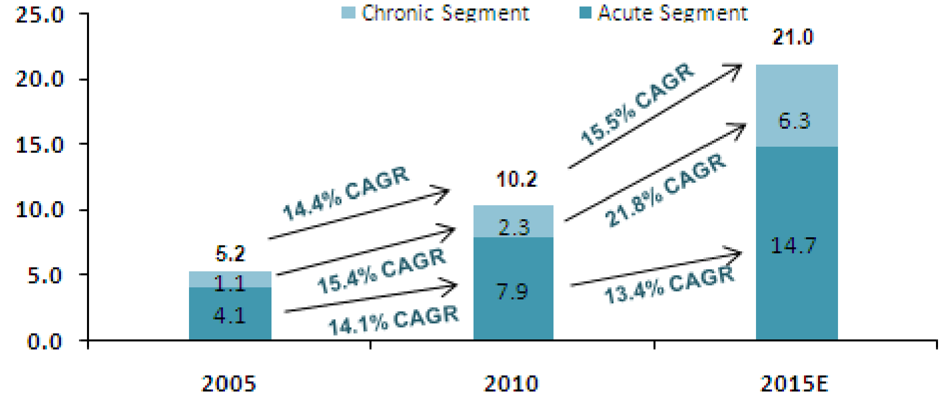
USD 21bn opportunity by 2015E!

Domestic Pharma Market - Play to Win..!

The India domestic formulations market, valued at ₹ 482bn (USD 10.2bn) has grown at CAGR of 14% (Source: ORG - IMS) over 2007-11. The key drivers of this strong growth have been the new product introductions as well as volume growth. We expect these trends to continue to sustain over the medium term. We also believe that the branded generics, c90% of industry sales, shall continue to be the key driver of domestic growth. The sustained double digit growth rates over the last few years have propelled domestic companies as well as pharma MNCs to extend their distribution reach, scale up operations and fill portfolio gaps.

Domestic market to grow 15% CAGR and reach size of USD 21bn by 2015

Fig. in USD bn



Source: Industry, Dolat Research

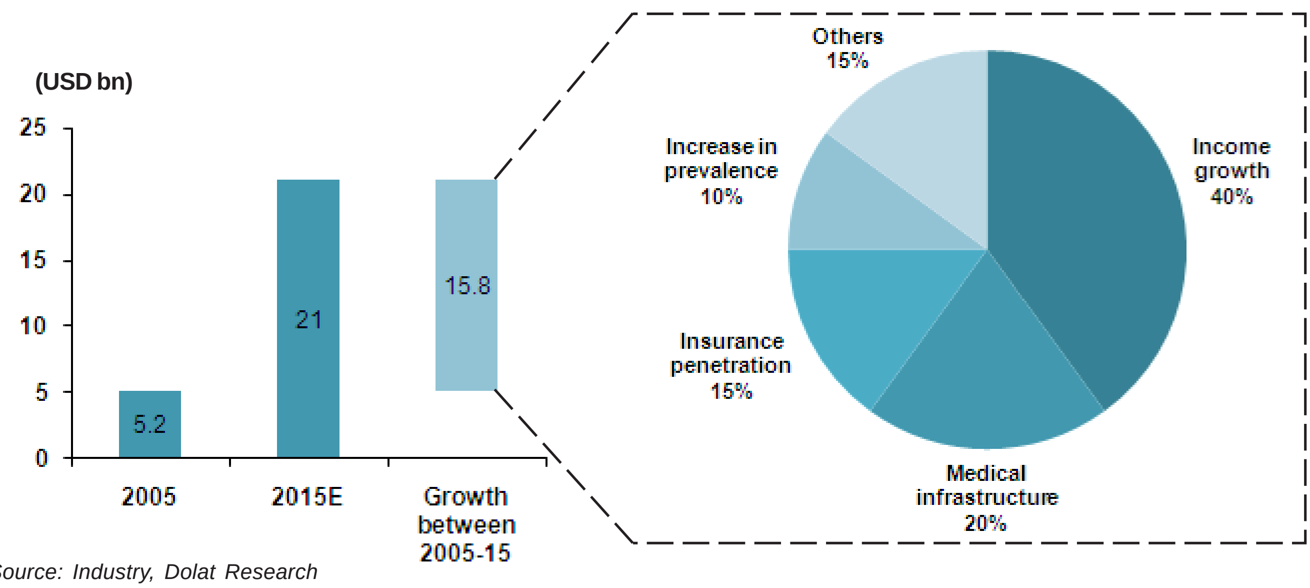
Domestic formulations to grow at 15% CAGR – Growth drivers intact

We expect the domestic market to grow at 15% CAGR and reach size of USD 21bn by 2015. The key factors driving this growth include:

a) rising household incomes leading to higher spending on health
b) changing demographics and rising prevalence of chronic diseases
c) rapidly growing healthcare delivery market
d) heavy investments in healthcare infrastructure
e) growing health insurance penetration
f) rising penetration in tier II to IV towns and rural areas.

Affordability and Medical Infrastructure to Drive Growth

Market growth 2005-15E **Sources of growth (in %)**



Source: Industry, Dolat Research

Domestic formulation segment continues to be one of the most profitable for Indian pharma companies. To ensure growth sustains in a market characterized with high price-sensitivity and intense competition, companies have resorted to:

a) Therapy-wise demarcation - enabling them to increase thrust on mature and fast growing products,

b) Outlined strategies to increase penetration and doctor coverage and

c) Foray in new therapies through in-licensing/tie-ups.

Attrition level has come off peaks; settling at approx 18%

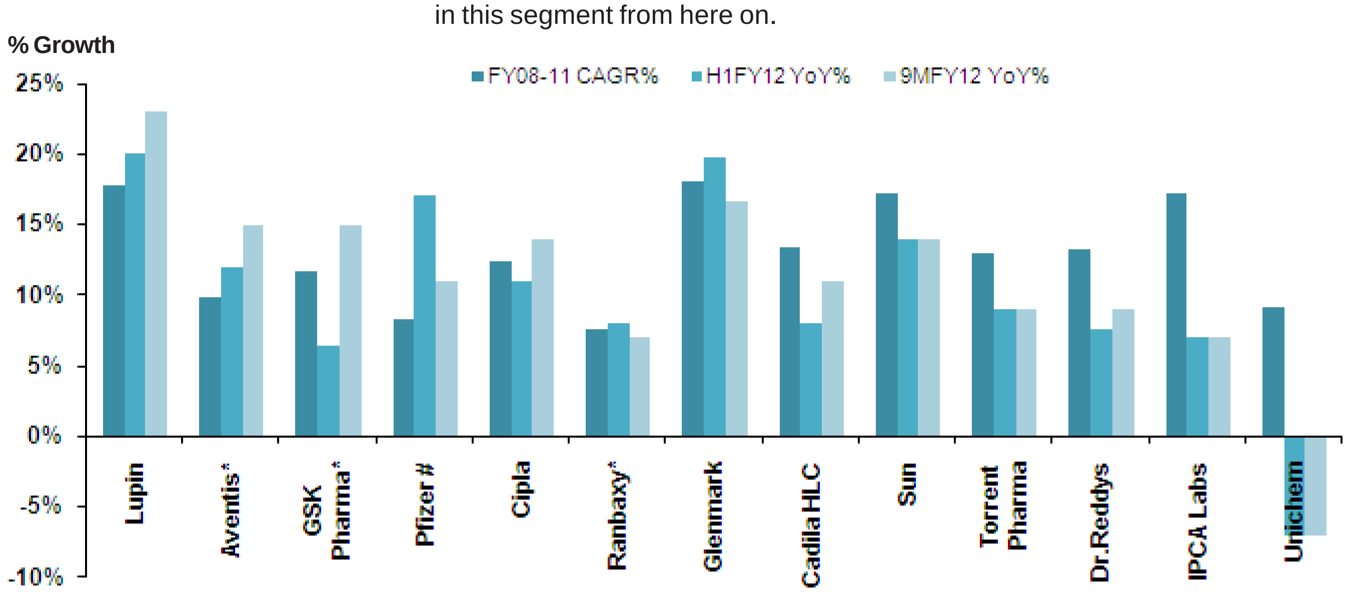
We take comfort in gradual liquidation of inventory (anti-infectives in particular) while field force attrition levels are easing off from their highs.

- Increasing demand for medical reps to expand doctor coverage and pressure to meet challenging sales targets led to field force attrition levels going as high as 30%. This has, however, now come off peaks settling at approx 18%. Going forward, we expect field force consolidation and focus on higher productivity levels.

Gradual absorption of underlying stocks in trade channels (anti-infectives in particular) is underway

- Our channel checks indicate that gradual absorption of underlying inventory (anti-infectives in particular) is underway, which will lead to the segment sustaining 10-11% growth in the interim.

These positive trends get confirmed in the growth figures outlined by companies during 9MFY12 vis-à-vis the H1FY12 numbers. We anticipate further acceleration in this segment from here on.



**Year ending December; # Accounting year changed to Mar 11;*

Source: Industry, Dolat Research

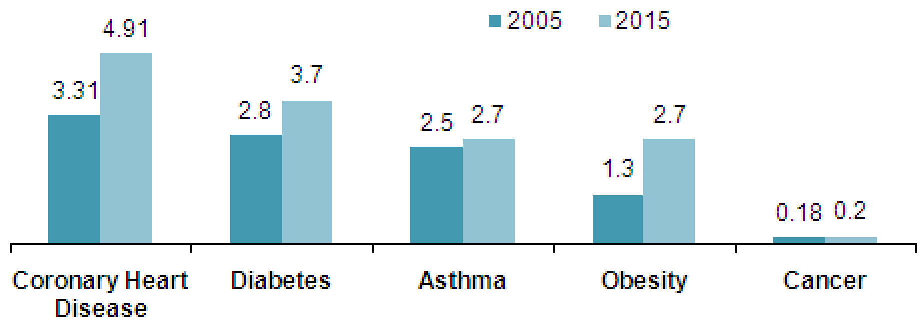
Chronic led growth in the long run

Higher discretionary spending, rising urbanization boosts prescription sales volumes for chronic ailments

Chronic segment to benefit in long run

Chronic therapies including cardiac, diabetics and neuro-psychiatry, c. 27% of market, have been growing at 18%, faster than the industry growth of 15% (MAT March 2011). Higher discretionary spending, rising urbanization and consequent epidemiological changes reflect in such high growth in prescription sales for chronic ailments.

Increasing prevalance of chronic diseases (% of population)



Source: Industry, Dolat Research

Notably, anti-diabetics is emerging as the fastest growing segment...

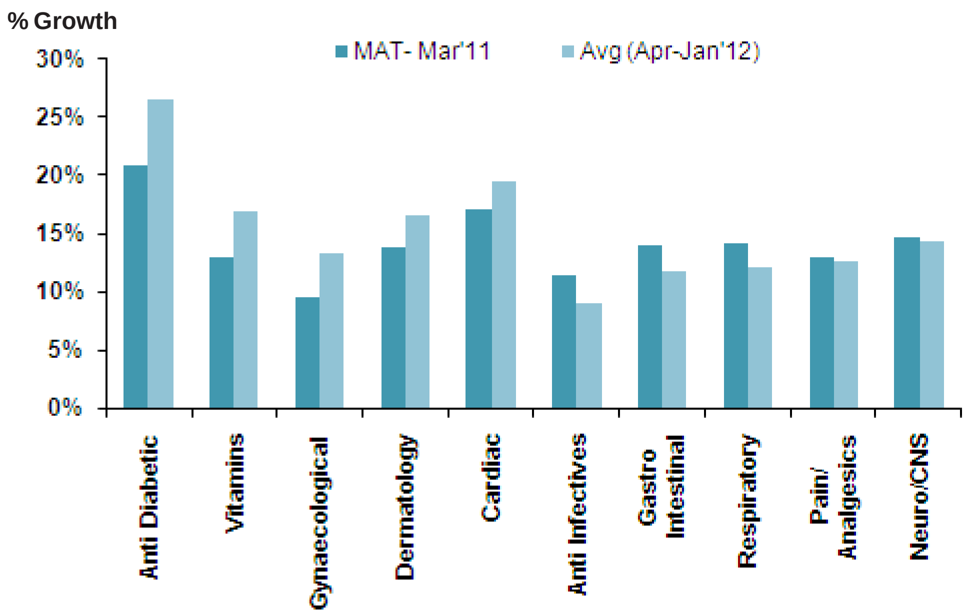
Notably, anti-diabetics, though relatively smaller in size (6% contribution), is emerging as the fastest growing segment. India has the largest pool of diabetic patients in the world, with more than 41 million people suffering from the disease; this is projected to reach 73.5 million in 2025. The growing size of the Indian geriatric population will be a key factor in influencing the growth of the chronic segment.

Anti-infectives & Gastro (together hold 30% of DPI) have seen growth rates dwindling over the last few years...

On the flip side, Anti-infectives & Gastro (together hold 30% of DPI) have seen growth rates dwindling over the last few years due to intense competition from small players and inventory pile-ups in trade channels.

Notably, Cipla, Ranbaxy and Dr. Reddy's in particular, with higher contribution from these segments, have thus reflected sluggish growth rates while Sun Pharma and Lupin stand to gain with leadership and increased focus in lifestyle segments.

Performance of Key Therapeutic Areas



Source: Industry, Dolat Research

Growth in key Therapeutic Areas (TAs)

TAs	MAT Mar'11	Average Apr-Jan'12	Difference	Performance	Company Exposure
Anti-diabetic	21.0%	26.6%	5.0%		Sun Pharma (14%), Lupin (6%)
Gynecology	9.6%	13.3%	3.5%	Growing	Cadila HLC (11%), Cipla (10%), Sun Pharma (7%)
Vitamins	13.1%	17.0%	3.7%		Pfizer (12%), GSK Pharma (9%)
Anti-infectives	11.5%	9.2%	-2.5%		Cipla (21%), Ranbaxy (33%), GSK Pharma (25%)
Gastro	14.0%	11.9%	-2.5%	Slowing	Dr. Reddy's (24%), Cadila HLC (19%), Torrent Pharma (19%)
Respiratory	14.2%	12.2%	-1.9%		Cipla (28%), Pfizer (21%), Cadila HLC (11%)

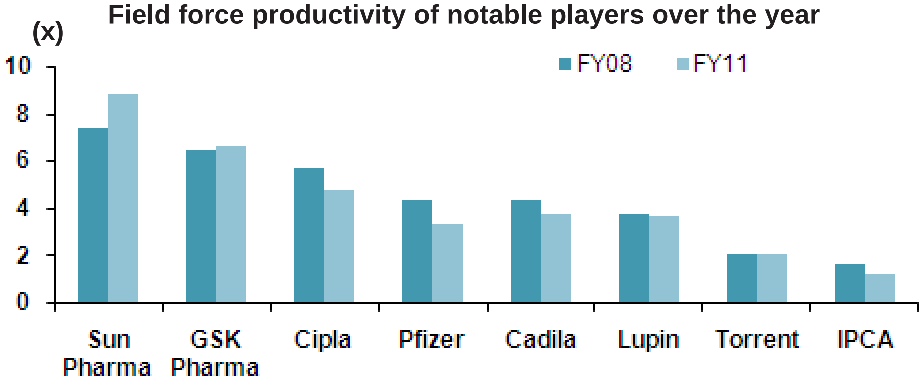
Source: Industry, Dolat Research

Relatively, key lifestyle therapeutic segments such as Anti-diabetes, CVS, and Dermatology have done well. We expect Lupin, Sun Pharma to sustain market outperformance (>16-17% growth) over medium term. We may mention here that IPCA & Torrent Pharma shall report relatively stronger FY13E led by low base and on the back of higher MR productivity.

Improvement in field force productivity to drive sales growth

Last couple of years witnessed high attrition levels in field force, which we believe has impacted domestic sales growth to an extent. Pfizer, IPCA and Torrent Pharma were amongst those which were impacted by this issue. However, our interaction with managements indicate that the industry is now showing signs of stability in this regard. Restructuring initiatives and consolidation in field force levels are measures undertaken to maximize productivity to overcome this issue.

Field force productivity of notable players over the year



Note: Productivity is determined by dividing domestic sales with number of marketing representatives; Source: Industry, Dolat Research

MNCs tie-ups - Augurs well for domestic companies at large

We see acceleration in tie-ups by pharma MNCs with domestic companies. The intent is clearly to leverage on the underlying growth potential in the domestic branded generics segment. These tie-ups in turn enable local companies to fulfill/ strengthen their existing product offerings and leverage on their domain knowledge.

The Eli Lilly-Lupin deal (anti-diabetes) for instance garners revenue of ₹ 1.2bn p.a. and is expected to gain further traction with market share gains. We expect this trend to be a win-win for both MNCs and local companies.

Snapshot: Recent Deals

Companies	JV	Comments
Sun Pharma	MSD	Develop, manufacture and commercialise new combinations and formulations of innovative branded generics in the EMs. SPARC to provide proprietary platform technologies. Merck will use its clinical development and registration expertise. To commercialize sitlagliptin & its combination with Metformin.
Cadila HLC	Bayer	Distribute branded formulations in domestic market. To sell brands brought in from both companies
Lupin	Eli Lilly	Distribute Huminsulin range of products in India & Nepal

Source: Industry, Dolat Research

The proposed New Pharma Pricing Policy (NPPP) 2011 aims to bring 663 formulations under price control, c.60% of the domestic market by value. The NPPP 2011 is proposed to be regulated by three key principles: (a) essentiality of drugs; (b) market based pricing; and (c) control of formulation prices. The salient features of the policy are as follows:

Essentiality of drugs

DPCO 1995 controls pricing of 74 molecules; will remain in practice for two more years

The essentiality criterion for the NPPP is addressed by the National List Essential Medicines (NLEM), which currently lists 348 drugs. The NLEM is proposed to be modified every five years. Of these, only 34 are subject to price control through the Drug Price (Control) Order (DPCO) 1995 which is the current regulation to control drug prices. DPCO 1995 controls pricing of 74 molecules and will remain into practice for two more years from the adoption date the new pricing policy. After this period, the 34 common drugs will come under the purview of NPPP 2011, while the remaining 40 products will be out of price control. As per the department of pharmaceuticals, 27 of these 40 products are out of production.

Switchover from cost-based to market-based pricing and price control on formulations

NPPP 2011 proposes to only regulate prices of formulations through 'market-based' pricing method

While the DPCO regulated prices of active pharmaceutical ingredients (APIs), the NPPP 2011 proposes to only regulate prices of formulations and not any upstream products such as bulk drugs or intermediates. The prices of formulations would be regulated through a 'ceiling price', which would use publicly available data. The price fixing mechanism under the NPPP will capture market forces through 'market based pricing' (MBP). This is different from the current principle of 'cost based pricing' (CBP) adopted by the DPCO. Under MBP, pricing information would be available through the public domain. This is expected to make the price determination process fair and transparent.

Ceiling Price: The mechanism for price control

The NPPP proposed price control would be through the mechanism of a 'ceiling price' (CP). Manufacturers would be free to price their products at or below the CP. The CP would be fixed on dosage basis (tablet/capsule/injection) and not on package basis.

Ceiling price based on weighted average price of the top three brands by value, revised annually up to the limit of the change in WPI

- The CP shall be fixed at the weighted average price (WAP) of the top three brands by value (MAT basis) of a single ingredient formulation drug on per standard dosage basis.
- The CP shall be revised annually up to the limit of the change in the Wholesale Price Index (WPI) of manufactured goods. For instance, a decline in the WPI would trigger a corresponding reduction in the CP and vice versa. The highly competitive nature of the industry has ensured that the average price rise in the pharma market has by and large trailed the change in the WPI. The flexibility to increase prices in proportion to the WPI will provide an advantage to the industry.
- The revision of the CP on the basis of MAT would be carried out only once in five years.

The department of pharmaceuticals estimates that 52% of the 348 molecules listed in NLEM 2011 would see negligible impact on the price of their most expensive brand – expected to reduce by upto 5%. Price decrease would be the steepest for 32% of the molecules, whose most expensive brand's price is estimated to fall by more than 20%.

Range of Reduction in Ceiling Price

Price Impact on Highest Priced Brand	% of molecules to be regulated
between 0-5%	52%
between 5-10%	7%
between 10-15%	5%
between 15-20%	4%
more than 20%	32%

Source: Industry, Dolat Research

- The policy proposes to allow increase up to 15% annually for selected drugs outside the purview of price control, compared to 10% earlier.
- There is no specific proposal for controlling prices of patented drugs.

Portfolio exposure to NPPP

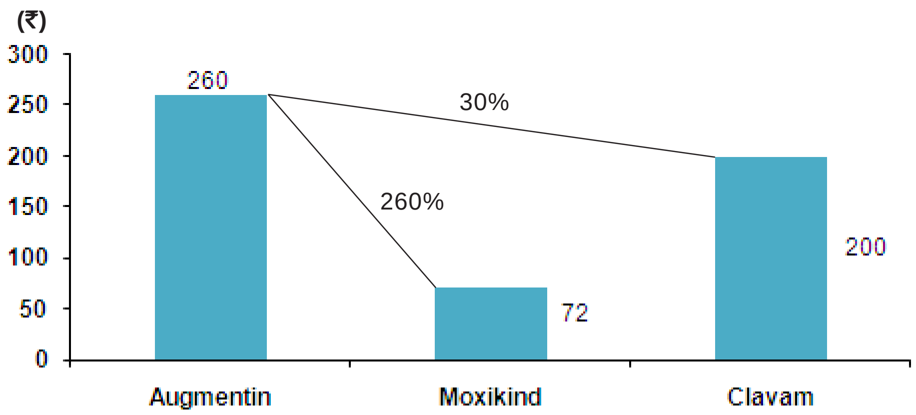
Company	Top 5 brands		Approx % of domestic sales
GSK	Augmentin	Amoxycillin + clavulanic acid	7%
	Calpol	Paracetamol	5%
	Zinetac	Ranitidine	5%
	Eltroxin	Levothyroxine	3%
Aventis	Combiflam	Ibuprofen + Paracetamol	10%
	Clexane	Enoxaparin	6%
Ranbaxy	Storvas	Atorvastatin	5%
	Volini	Diclofenac	5%
	Mox	Amoxycillin	4%
	Cifran	Ciprofloxacin	4%
Cipla	MTP Kit	Mifepristone + misoprostol	4%
	Asthalin	Asthalin Salbutamol	3%
	Novamox	Amoxycillin	3%
Lupin	Tonact	Atorvastatin	4%
	R Cinex	Rifampicin + isoniazide	2%
Sun Pharma	Pantocid	Pantoprazole	3%
	Glucored	Glibenclamide + metformin	2%
	Gemer	Glimepiride + metformin	2%
Cadila	Aten	Atenolol	4%
	Atorva	Atorvastatin	3%
	Pantodac	Pantoprazole	3%
	Falcigo	Artesunate	3%
Dr. Reddy's	Omez	Omeprazole	10%
	Stamlo	Amlodipine	5%
	Omez D	Domperidone + omeprazole	3%
	Stamlo Beta	Atenolol + amlodipine	3%
Unichem	Losar H	Losartan hydroclorthiazide	11%
	Losar	Losartan	10%
	Ampoxin	Ampicillin	9%
	Trika	Alprazolam	5%
Torrent	Alprax	Alprazolam	4%
	Dilzem	Diltiazem	4%
	Domstal	Domperidome	3%
	Telma H	Telmisartan + hydroclorthiazide	6%
Glenmark	Candid B	Beclomethasone + clotrimazole	5%
	Ascoril Plus	Guaifenesin + terbutaline + bromhexine	5%
	Ascoril	Guaifenesin + terbutaline + bromhexine	3%

Source: Industry, Dolat Research

Possible implication of the policy

At the industry level at large, the scope of NPPP now widens to ₹ 290bn (USD 6.3bn) or c60% of the domestic market, against the c20% coverage of the DPCO, 1995. If implemented in its present form in its present form, may lead to sales loss to the tune of ₹ 15bn (₹ 10bn contibuted by retail trade). We do not anticipate the implementation of NPPP 2011 to lead to substantial downgrades - thanks to the intensely competitive market, which has ensured that most brands stay below the proposed CP. However, we do believe that multinational companies who maintain a premium pricing on their products face greater downside risk from the proposed policy.

A case in point is **Augmentin** (amoxicillin+clavulanate), GSK Pharma's leading brand contributing 7% of the company total domestic sales. The brand is priced at ₹ 260 and enjoys a premium to most of its players. Mankind Pharma's **Moxikind** and Alkem's **Clavam** are available for ₹ 72 and ₹ 200, representing a premium of 260% and 30% respectively.



Source: Industry, Dolat Research

There have been recently suggested alternatives for pegging the ceiling price at (a) average of bottom three brands, (b) government procurement rates or (c) average of all brands in a segment. Further clarity on the matter is expected round the corner.

Conclusion

We believe that Sun Pharma and Lupin will continue to sustain their growth momentum in the domestic market in the near future owing to their superior product portfolio (chronic driven), new launches and their India-focused collaborations with MNCs.

On the other hand, Torrent Pharma and IPCA Labs are expected to witness growth recovery in their domestic business from a low base, aided by higher field force productivity, new launches, aggressive penetration strategies and ramp-up in field force productivity levels.

We feel that the new drug pricing policy, the most critical factor to impede growth in the new future, if implemented in its current form will impact the MNC pharma companies more than the local players.

Notably, amongst the domestic companies, revenue exposure of Sun Pharma and Lupin to NPPP appear to be at the lower end. This reinforces our conviction on their outperformance.

US Generics Opportunity

US remains favourable for generic players while price control mechanism in key EU markets are a deterrent

Slowdown in advanced economies - paves way for generics

Impending debt crisis and burgeoning fiscal deficits are a common dilemma faced by economies of major regulated markets, inducing the Governments of these nations to down-size their budget for healthcare expenditure. This will have varied impact on US and EU markets which together account for 53% of the global pharma market. While the regulatory environment in the US remains favourable for generic players to enter it, stringent price control mechanism in key EU markets are a deterrent to future growth.

US Government's pro-generic stance, patent expirations and a depreciating rupee work in favor of generic makers

US generic market continues to be preferred destination for growth

The US pharma market is the world's largest in terms of value (contributing approx. 40%) and is about to witness genericization of major blockbuster brands by 2015. The generic market in US is expected to grow by 12-13% CAGR over 2011-2015. In the wake of the ongoing patent-cliff, the US government continues to maintain a pro-generic stance, facilitating smooth entry of generic products in the market. We thus believe that US generic market will be the major growth driver for leading Indian pharma players over the medium term. Further, a depreciating Rupee will only add to the momentum. Adherence to manufacturing and quality standards becomes all the more important to capitalize on this growth potential and drug shortages.

Products worth USD 33.6bn going off-patent in 2012 itself

With the patent-cliff at its peak, probable growth triggers are in sight

Drugs worth USD 59.2bn are expected to go off-patent over 2012-2014. Over the next two years, Indian players are expected to leverage on the patent cliff with an addressable market worth USD 47.5bn. Key brands like Plavix, Lexapro, Actos and Diovan are set to go off-patent in H1FY13 itself. Indian companies have been preparing to tap the market of these brands over the past decade. These launches will act as key growth triggers and timely launch will be actively monitored over the next 12 months. Aggressive ring-fencing strategies (Enbrel, case in point) adopted by MNC companies stand to be a risk to the upside potential.

Dr. Reddy's and Lupin slated to outperform their peers

Dr. Reddy's and Lupin slated to outperform in near term

Securing timely approval, overcoming long-drawn litigations and regulatory compliance have been the major challenges for Indian generic manufacturers focusing in the US generic market. Only a handful of players have been able to amply prepare themselves to realize growth targets in US. Of them, we find Dr. Reddy's and Lupin to outperform the peers in the near-term, based on their pipeline of launches over the next 12 months.

Global generics opportunity

The US and EU healthcare markets constitute more than half of the global market in value terms. The governments of these markets are finding ways to curb expenditure on healthcare on the back of fiscal deficit issues. This has augured well for the low-cost generic drug manufacturers that are focused on these high value markets.

USFDA recently recommended methods to speed up the generic drug approval process and issued draft guidelines for biosimilar drug approvals

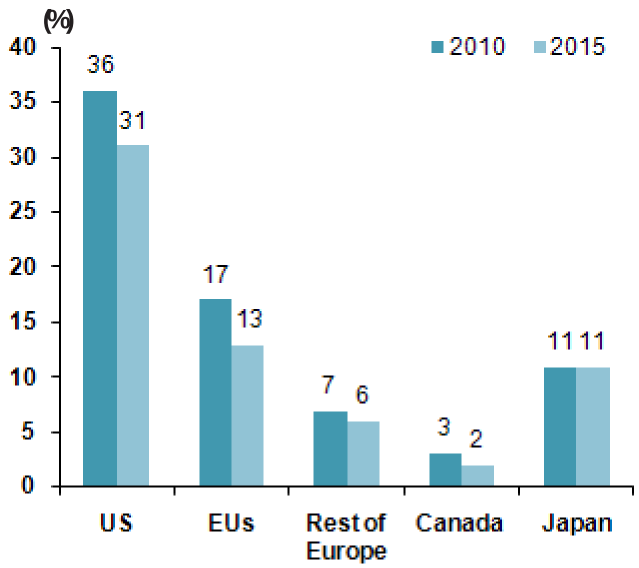
Appealing market forces have made the US more attractive than other regulated markets

The US government pro-generic stance is evident through the FDA's recent recommendations to speed up the generic drug approval process and draft guidelines issued for biosimilar drug approvals. Moreover, the much-discussed patent-cliff is at its peak with at least USD 33.6bn worth of drugs going off-patent in 2012. Despite the presence of large players like Teva, Mylan, Watson and Sandoz, we believe Indian players are well prepared to tap on this US generic opportunity. Keeping in mind these dynamics, we believe that companies with larger focus on the US generic market will witness higher top line growth, compensating for the moderate-to-low growth expected from other advanced markets.

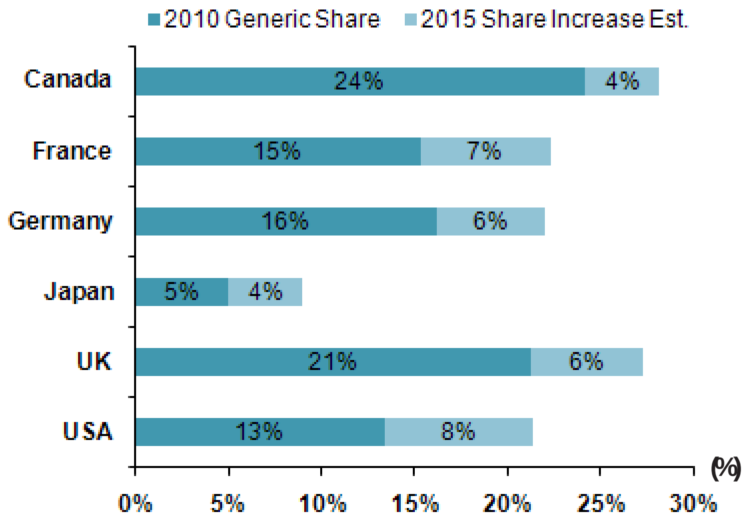
Drug-pricing mechanism in European markets have diminished potential for generics

On the other hand, the existing drug pricing mechanism in major European markets of Germany, Greece & Spain, has diminished the value potential of the generic industry. Most of these markets have a tender-based drug procurement model, where competitive pricing is a major criterion. This has led to intense competition, further squeezing the margins for market entrants. We thus do not expect a significant bottomline contribution from these markets for Indian generic players in the near future.

Reducing budget expenditure on healthcare



Expected increase in % share of generic drugs



Source: Industry, Dolat Research

Around 280 drugs are under shortage in US, resulting in delayed surgeries and cancer treatments

Pro- Generic Stance of US Government

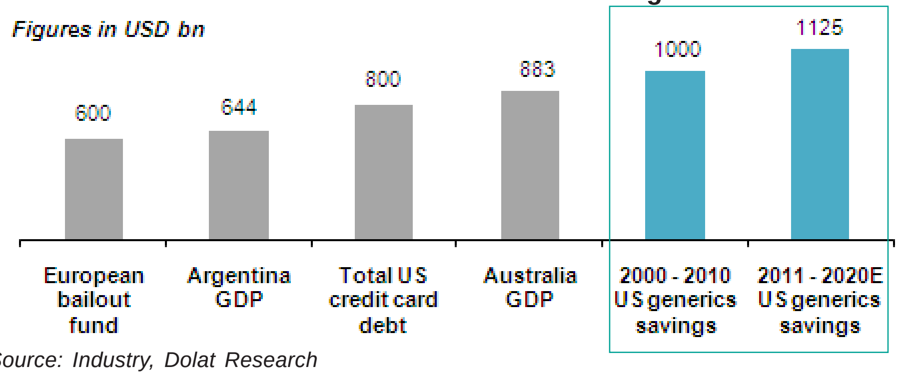
Recent healthcare reforms and initiatives undertaken by the US government reflect the underlying importance of generic drugs usage, which enables them to reduce healthcare expenditure and curtail fiscal deficit. The US FDA also has raised eyebrows on "pay-for-delay" agreements struck between innovator and generic companies that may postpone launch of generics. The ongoing drug shortage has opened up another growth avenue for injectable manufacturers. We find this trend to be highly conducive for Indian generic manufacturers who comply with manufacturing standards.

Increased Importance of generics

The Patient Protection and Affordable Care Act (PPACA), passed in March 2010 in the US, aims to increase patient coverage under insurance and reduce fiscal deficit at the same time. Initially, the estimated reduction in deficit by 2020 was pegged at USD 143bn. However, this figure is now being questioned after the abandonment of CLASS Act in October 2011 that was supposed to earn substantial revenues for the government in the form of insurance premiums. This has increased the vitality of the role to be played by generic drugs in bringing down the fiscal deficit.

PPACA initially aimed to reduce deficit by USD 143bn in 10 years - an indication of US Government's stance to curb healthcare costs

Generics offer mass cost-saving



Source: Industry, Dolat Research

Speeding up the ANDA approval process

The US FDA is working to develop a system in which manufacturers of generic drugs will pay fees to the FDA when applying for ANDA approval. Charging generic manufacturers "user fees" will enable the FDA to increase the resources it needs to inspect generic drug manufacturing facilities in a timely manner, promptly conduct scientific evaluations of ANDA applications and to establish periodic inspections of generic drug manufacturing facilities. The FDA believes that user fees would go far in speeding up the ANDA approval process to ensure quicker introduction of new generic medicines in the market than the current procedures allow. Industry experts believe that the FDA may take between 12 to 24 months to implement such a user fee system. If implemented, this may result in a win-win for both the agency and industry at large.

User fees could significantly speed up the ANDA approval process, ensuring quicker entry of generic drugs in the market

Paving way for biosimilars

The US FDA recently released the long-awaited draft guidelines for crystallizing the approval process for biosimilar or equivalent version of biotech drugs which currently generates USD 87bn from sales in the US market. This is a positive development for the biotech companies that are preparing to capitalize on the biosimilars opportunity. As per the guidelines, the FDA will set milestones on a case-by-case basis for manufacturers intending to market biosimilar drugs in the US. These milestones will be set as per the manufacturer's analytical skill and manufacturing capabilities and will thus be unique to each applicant. While, the draft only gives a vague guidance for the process to get necessary approvals, it is nonetheless a step forward in the FDA's and the US Government's endeavour to promote entry of generic drugs.

Biosimilar market in US is worth approx. USD 87bn in sales.

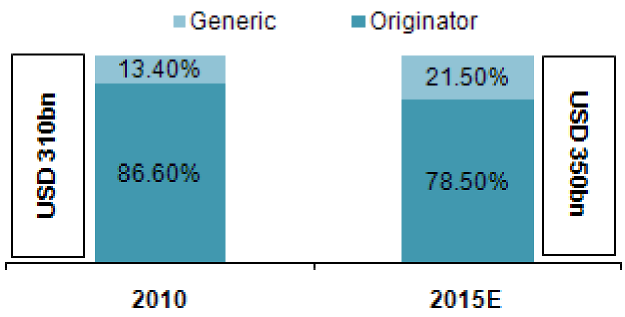
Sizing the opportunity for Indian players

US generic market to grow by CAGR of 12-13% to USD 350bn by 2015.

US generic market: Leveraging on the market potential

The US pharmaceutical market is estimated at USD 310bn (36% of global pharma market) and is expected to grow to USD 350bn by 2015E. Generic drugs account for only 13.4% of the market and their share is expected to increase to 21-22% over the next five years, implying CAGR of 12-13%. Majority of this growth will be realized in the near term, driven by the largest wave of patent expiration to be witnessed over the next 12 months.

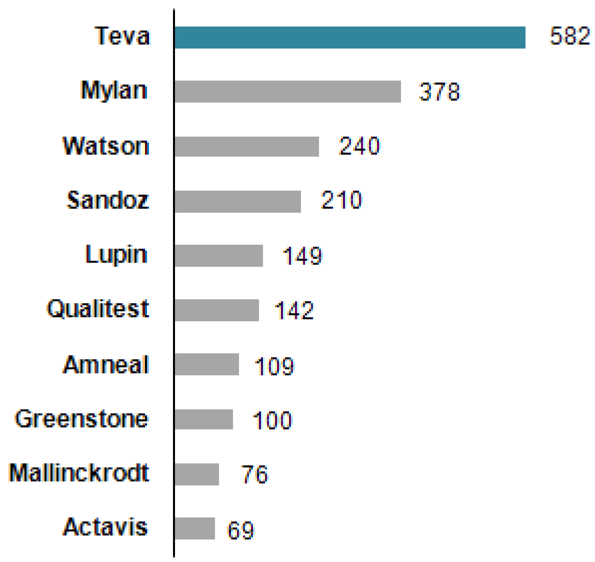
Expected change in US market share



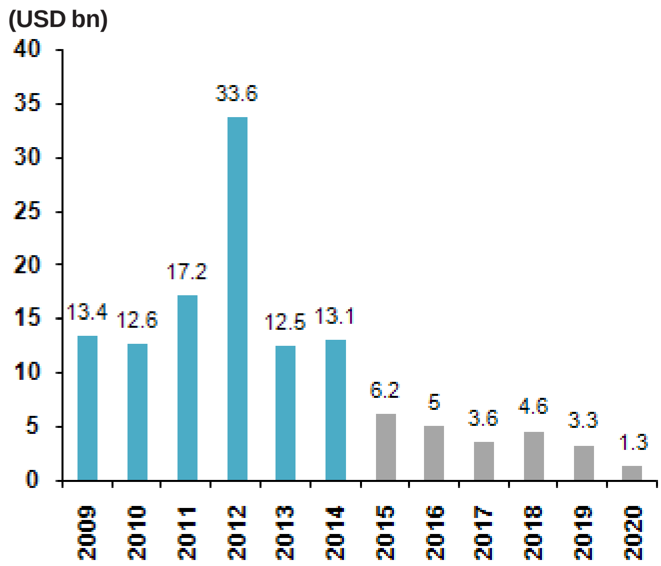
Source: Industry, Dolat Research

The patent cliff from 2012 to 2014 throws open an opportunity of **USD 59.2bn** worth of innovator product sales going off-patent, with **drugs worth USD 33.6bn losing exclusivity in 2012 itself.** Despite the presence of large generic players like Teva, Mylan, Sandoz and Watson the opportunity continues to be lucrative given the limited penetration of Indian players in this market.

Total US Rx in million* (as of Oct 2011)



Projected Brand Revenue Loss



Source: Industry, Dolat Research

Estimating Generic opportunity

In our study, we have identified the monetizable opportunities over the next two years where Indian majors shall be competing at the time of market formation for a generic launch. Our search narrowed down to 34 innovator brands losing patent exclusivity during this time-frame, collectively holding a market size of USD 47.8bn. We anticipate domestic companies to ride on this generic wave through FY14-15E and prepare themselves to play on biosimilar patent expirations thereon.

Key Launches in the next 24 months

Limited competition opportunities

#	Brand	Addressable Market (USD Mn)	Treatment	Launch expected in	Innovator	Indian Participants
1	Geodon*	1340	Schizophrenia	Mar-12	PFE	Lupin (FTF), DRL (FTF)
2	Comtan+Stalevo	231	Parkinson's Disease	Apr-12	NVS	Sun (FTF), Wockhardt (FTF)
3	Provigil	961	Narcolepsy	Apr-12	Cephalon	Ranbaxy (FTF)#, Sun, Aurobindo, Alembic
4	Tricor	1300	Blood thinning drug	Jun-12	ABT	Ranbaxy (FTF)#, Lupin (FTF)
5	Clarinex	250	Anti-allergy	Jul-12	Merck	DRL (FTF), Lupin, Glenmark, Orchid, Zydus, Ranbaxy
6	Actos	3312	Diabetes	Aug-12	Takeda	Ranbaxy (FTF)#, Torrent, DRL, Wockhardt, Aurobindo
7	Propecia	148	Hair loss	Nov-12	MRK	DRL (FTF), Sun, Hetero Drugs
8	Prandin	200	Antidiabetic (oral)	Dec-12	Novo	Sun (FTF)
9	Valcyte	195	AIDS	Mar-13	Roche	Ranbaxy (FTF)#
10	Asacol	500	Anti-inflammatory	Jul-13	Warner Chillcott	Lupin (FTF)
11	Precedex	140	Sedative	Jul-13	Hospira	Sun (FTF)
12	Renvela	330	Kidney Disease	Aug-13	Genzyme	Lupin (FTF)
13	Niaspan	1000	Cholesterol lowering	Sep-13	Abbott	Sun (FTF)
14	Lunesta	787	Insomia	Nov-13	SEPR	Glenmark (FTF), Orchid (FTF), Sun
15	Temodar	370	Oncology	Feb-14	Merck	Sun (FTF)
	TOTAL	**11064**				

*Source: Industry, Dolat Research; *Recently launched; #Launch uncertain as per the terms of the FDA consent decree*

Moderate-to-high competition opportunities

#	Brand	Addressable Market (USD Mn)	Treatment	Launch expected in	Innovator	Indian Participants
1	Seroquel	4000	Schizophrenia	Mar-12	AZN	DRL
2	Zyprexa	2495	Schizophrenia	Apr-12	LLY	DRL (Launched), Torrent
3	Lipitor	5329	Cholestrol-lowering	May-12	Pfizer	Ranbaxy (Launched), DRL
4	Plavix	5961	Antiplatelet agent	May-12	BMY/SNY	DRL, Sun, Torrent
5	Combivir	222	AIDS, Hepatitis B	May-12	GSK	Lupin, Strides, Cipla,Auro and 3 more
6	Maxalt	460	Migraine	Jun-12	MRK	Cipla
7	Eloxatin	1400	Colorectal cancer	Aug-12	SNY	Strides, Sun
8	Singulair	3200	Asthema/COPD	Aug-12	MRK	Glenmark, Torrent
9	Lexapro	2259	Anti-depression	Aug-12	FRX	Sun, DRL, Lupin, Cadila, Torrent
10	Diovan	2520	Hypertension	Sep-12	NVS	Ranbaxy
11	Avandia	300	Diabetes	Sep-12	GSK	DRL
12	Boniva	506	Osteoporosis	Sep-12	GSK	Sun, Orchid, DRL
13	Avapro/Avalide	588	Hypertension	Sept-12	SNY/BMS	Cipla, Lupin, Cadila, Alembic
14	Zometa	721	Cancer related bone loss	Mar-13	NVS	Sun, DRL
15	Aciphex	1185	GERD	May-13	JNJ/Esai	DRL
16	Cymbalta	3500	Depression	Jun-13	LLY	Multiple players (7)
17	Lyrica	1424	Anticonvulsant	Oct-13	PFE	Lupin, Sun
18	Yaz	173	Oral contraceptive	Apr-12	Bayer	Sun, Lupin
19	Avelox	497	Anti-infective	Mar-14	BYR	DRL, Torrent
	TOTAL	**36740**				

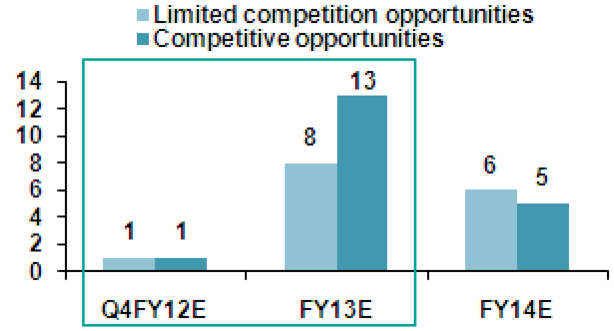
Source: Industry, Dolat Research

Indian Cos. to launch generic versions of 21 notable brands worth USD 32.6bn in the US market in FY13E

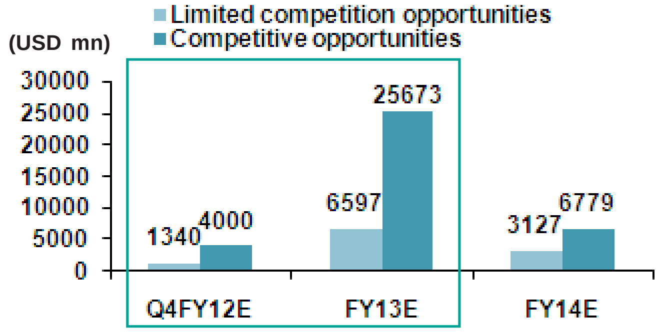
Indian generic players to address USD 47.8bn generic opportunity over next two years

Of the 34 products, Indian players are expected to introduce generic versions of 21 notable brands worth USD 32.6bn in the US market by FY13E. Incremental revenues from these launches provide strong revenue visibility. Our study shows that Indian players will face limited competition in at least 15 opportunities worth USD 11.1bn (9 between now and end of FY13E worth USD 7.9bn). This reinforces our positive view on US generics market over the medium-term.

No. of products losing patent protection by FY14E



Addressable market for the products going off-pattent

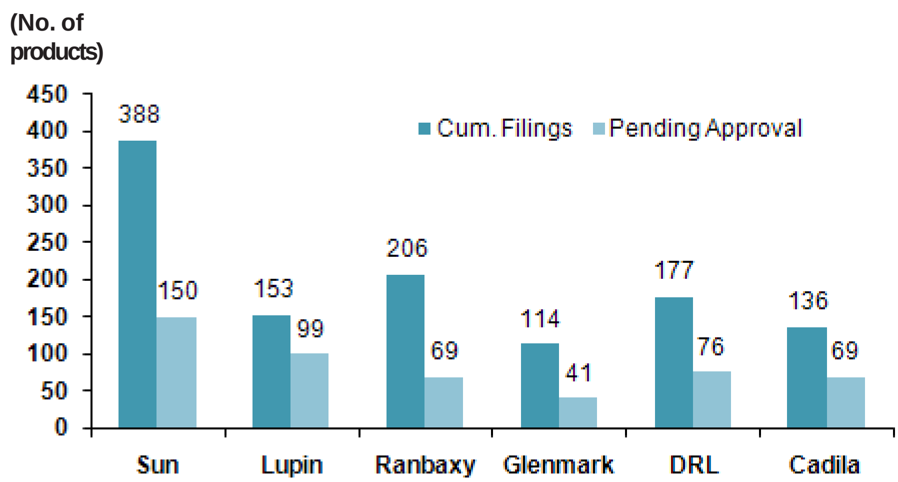


Source: Industry, Dolat Research

Indian companies well geared to encash on the generic boom

Indian players will face limited competition in at least 15 cases over the next two years

Indian companies have taken well-planned efforts to capitalize on, and play a marquee role in, this market's inevitable genericization. During the year 2011, Indian players have cornered 35% of the total FDA approvals. Major players collectively have an enriching pipeline of 504 ANDAs pending approval by the FDA.



Source: Companies, Dolat Research

As of 31st December, 2011

Observations from the monetizable opportunities

- We anticipate **Dr. Reddy's** (DRL) to outperform its peers over the medium term, given its lucrative pipeline. The company has three FTF opportunities - Geodon, Clarinex and Propecia - which collectively cater to USD 1.73bn of innovator sales. The company exclusively introduced generic Zyprexa (20mg strength) along with Teva and has shown higher-than-expected growth in its Q3FY12 results. Besides, DRL will launch 12 products in a competitive market over the next 24 months and shall monetize over generic Plavix, Lipitor and Lexapro. Moreover, we believe that Aciphex will be a limited competition opportunity.
- **Sun Pharma** is set to capitalize on atleast five limited competition opportunities - Stalevo, Prandin, Precedex, Niaspan and Temodar - by FY14E collectively worth USD 1.94bn. Of these, generic Stalevo will be launched in April 2012. Besides, it will launch a bouquet of generic versions post exclusivity for key brands like Lexapro, Eloxatin and Plavix.
- Despite overcoming litigation hurdles and securing exclusivity for blockbusters like Tricor, Actos and Provigil, **Ranbaxy** can't seem to free itself from regulatory cobwebs. The recent settlement with the FDA requires the generic giant to shell out USD 500mn as settlement charges, and if this was not adequate, Ranbaxy has agreed to renounce exclusivity rights on three FTF opportunities. The uncertainty over these launches will be a key overhang on valuation.
- We expect **Lupin** to garner significant upside from generic launches of Geodon, Tricor, Asacol and Renvela. It shall also enter the generic market of Lexapro post Teva's exclusivity. We continue to remain optimistic on its ability to capitalize on the forthcoming generic opportunities which shall also include a bouquet of Oral Contraceptives.
- Despite being a late entrant in the US market, **Torrent Pharma** (TPL) seems to have gained considerable traction in getting its ANDA pipeline moving. Almost all of its filings have Para III application and address a collective market size of atleast USD 18bn. This augurs well for TPL.

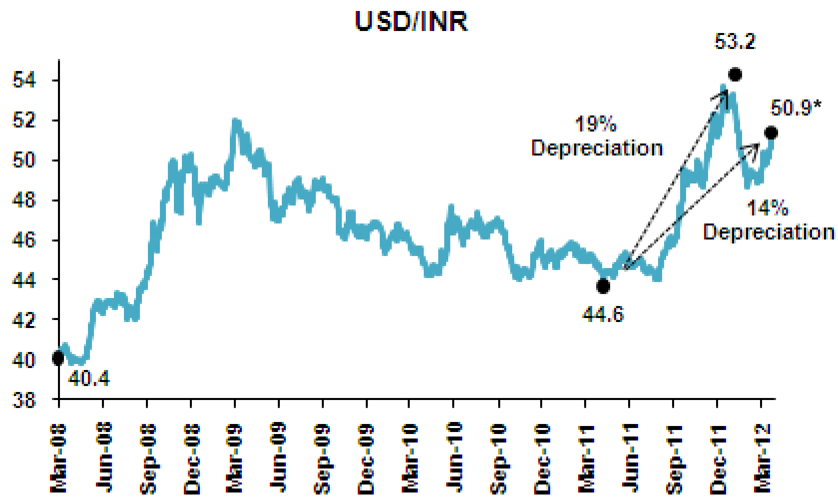
Growth constraints

While we lay confidence in generic companies having high US exposure and expect them to garner incremental revenues from new launches in the US over FY12-14, we also believe that the upside will be restricted due to some unavoidable factors.

- Innovators adopt aggressive marketing strategies to limit generic penetration, especially during the 180-day exclusivity period. This was prominent in Lipitor's case where Pfizer started offering huge discounts through "co-pay" card mechanism to retain its market share.
- Innovators also authorize third-party generic players (AG) to enter the market along-with the first filer. Case in point, Apotex appointed as AG for generic Arixtra while Dr. Reddy's holds first-to-file rights.
- "Ever greening" of patents is another tactic used by innovators to delay generic launches. A recent case in point was Amgen's Enbrel patent that got extended to 2028 from its earlier set expiry in 2017.
- Timely final approvals remain a key monitorable.

Rupee depreciation adds to the glow

Rupee has weakened by 14% against the US Dollar in FY12 to ₹ 50.9/USD. Any further depreciation, or even a slight appreciation to 50/USD, will only lead to higher realization from US generic sales for Indian players. However, companies having large dollar-denominated debt on books will report MTM losses that could erode profitability.



*As on 30 March, 2012

Hedging Strategies

Companies	Remarks	Net Impact
Sun Pharma	One year cover of net exports, negligible debt	Positive
Ranbaxy	Fx Debt at USD 400mn. Translational losses on open derivatives position is USD 750mn. To realize losses on fair value of derivatives.	Negative
Lupin	Net exposure of USD450mn on P&L while hedges stand at USD330m.	Insignificant
Cadila HLC	Forex loans of USD 120mn. Forward Cover of USD 190mn.	Negative
Dr. Reddy's	Fx hedge worth USD 775mn (6 months cover at USD/INR 45-49). B/S hedge of ~USD 280mn and Fx loans of ~USD 220mn.	Positive
Glenmark	No hedge on exports. Fx loans of USD 350mn. To incur MTM loss.	Negative
Torrent Pharma	80% of receivables hedged at 47.5. Negligible foreign currency debt.	Insignificant
Ipca Labs	Hedges worth USD 129mn covering exposure for next 12 months. Forex loan of USD 63mn.	Insignificant
Divi's Labs	Exports constitute more than 90% of sales and are left unhedged. Negligible forex loan.	Positive
Strides Arcolab	Hedges 50% of exports, forex loans include FCCBs worth USD 80mn in face value due in June 2012.	Insignificant

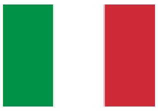
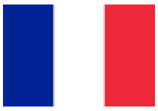
A snapshot of price cut measures in EU

European nations have resorted to austere measures to battles debt crisis and survive the looming economic slowdown

EU Generics - No safeguard against price erosions

Important markets in European Union have resorted to austere measures to battles debt crisis and survive the looming economic slowdown. Respective Governments have instated/strengthened mechanisms to reduce pharmaceutical drug prices through discounts and rebates. Most of these markets have a tender-based drug procurement model, where price control is implemented by awarding the tender to the most competitive bidder (lowest possible bid). This further increases the intensity of competition and puts pressure on profit margins. Given these market conditions, we do not expect significant bottomline contribution from these geographies for Indian generic players in the near future.

Price cut measures by key geographies

Country	Price change	Details
	-27%	**The most aggressive price cuts were in Greece**. For drugs priced over EUR 100, the cut will be 27% and the cuts reduce as the wholesale price decreases. Drugs priced between EUR 5-20 are subject to a 20% cut.
	-10%	**Germany** implicates an **increase in required discount on all non-fixed priced products from 6-10%**, in addition to a ban on price increasewithin this perceived "free-pricing" market.
	-10%	**Italy announced a plan for EUR 2.2bn of savings to be made on medicines**, primarily from the hospital sector. This follows a series of staggered price cuts in 2009 that amounted to an approximate decrease in prices by 10%.
	-8%	**Spain is enforcing a 7.5% discount off the list-price**, which limits the impact of the measure on the many countries referencing this market.
	N/A	**Portugal** is increasing margins to 20% for the pharmacists and 8% for wholesalers without allowing an increase in retail price as of June 2010. This will cause manufacturers to lower ex-factory pricing to accommodate the new supply chains allowances.
	N/A	**France is advancing the implementation of price cuts originally for 2011** by forcing a reduction of price on all medicines within any therapeutic category with a first-in-class drug off patent.

Source: Industry, Dolat Research

Conclusion

We believe among the regulated markets, US offers significant headroom for growth and is favoured to EU markets given their stringent regulations.

In US, we anticipate the pace of ANDA approvals to increase over the coming years as generic substitution continues to be the major avenue for cost reduction. The proposal to establish user fee will enable the FDA to speed up the process of reviewing applications (average approval time taken is 2 years).

As for the impending patent cliff opportunity, we note that MNCs have become increasingly creative in defending their franchise and thus achieving higher market share gains is getting rather difficult.

Thus, we believe a rollout of limited competition niche products coupled with FTFs (high certainty of monetisation) will play a crucial role in sustaining the growth trajectory.

We believe Dr. Reddy's and Lupin are well placed in this regard. Their leadership in prescription market, enriching pipelines and vertically integrated operations enable them to benefit from this opportunity in the near term.

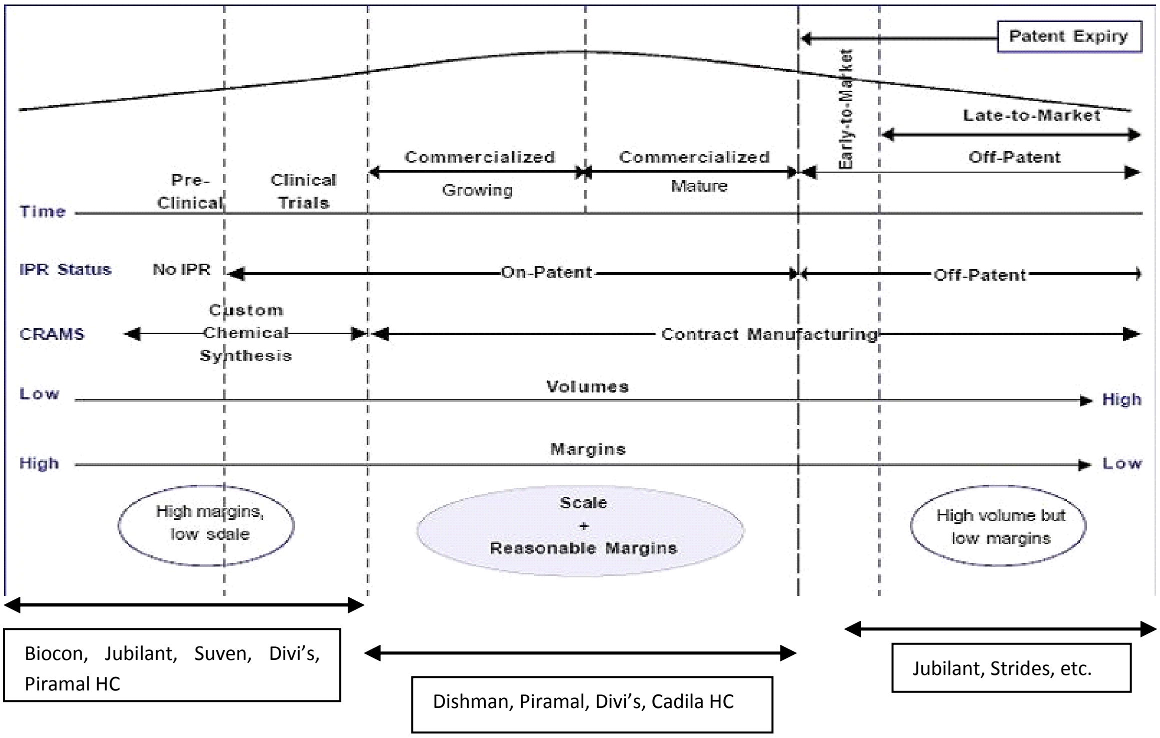
Contract Research & Manufacturing (CRAMS) – Need of the hour

Outsourcing is a strategic imperative for pharmaceutical companies across the globe. Over the past two decades, there has been a shift in the pattern of outsourcing. MNC companies have moved from outsourcing non-core functions to routinely outsourcing a number of core functions such as drug discovery and development.

Currently the key area of strength in outsourcing is the manufacture of APIs. India CRAMS market is expected to grow at a CAGR of c20.5% to USD8bn during 2011-15E, due to its cost competitiveness, skilled manpower and established reputation in strong process chemistry.

The Big Pharma companies have built huge capacities over the years and with products moving to the late lifecycle, plants are operated at ~20–30% capacity. As a result, more companies are looking at divesting such plants and outsourcing while retaining marketing rights for the products thereby reducing their fixed costs.

CRAMS Value Chain



The economic slowdown in 2010 affected growth in the CRAMS space significantly on account of inventory destocking across the supply chain. However, with customer de-stocking activities almost over and cost-cutting initiatives in the industry increasing, the overall outsourcing environment is turning favorable. While on the generics side, large patent expiries in 2012-14 are likely to have a positive impact on low-cost competitive contract manufacturers. We expect companies with strong client base, higher expertise in chemistry skills and flexible scalability to outperform peers.

MNC Tie-ups augur well

MNC Tie ups for EM's to aid topline growth FY13E onwards

Looming patent expiries (blockbuster products) and low R&D productivity (poor visibility on product pipeline) has led to MNC companies increasing their thrust on Branded Generics. The frequency of long-term supply deals with local generic manufacturers as a result has increased. We anticipate revenue contribution from some of the past deals entered into (Cadila – Abbott; Torrent- Astrazeneca) to aid topline growth in FY13E and scale up thereafter.

Recent Acquisitions / Alliances

gsk	**Dr.Reddy's**	Supply Tie-up (Branded Generics – EM)
Pfizer	**Aurobindo Pharma**	Supply Tie-up (Branded Generics – EM)
	Claris Lifescience	Supply Tie-up (Branded Generics – EM)
	Strides Arcolab	Supply Tie-up (Branded Generics – EM)
ABBOTT	**Piramal Healthcare**	Acquired Domestic Formulations biz. - $3.7bn
	Cadila Healthcare	Supply Tie-up (Branded Generics – EM)
AstraZeneca	**Torrent Pharmaceuticals**	Supply Tie-up (Branded Generics – EM)
	Aurobindo Pharma	Supply Tie-up (Branded Generics – EM)
	Intas Pharma	Supply Tie-up (Branded Generics – EM)
MYLAN	**Biocon**	Supply Tie-up (Generic Biologics)
sanofi aventis	**Shanta Biotech**	Acquired Vaccines biz.- $783mn

Source: Industry, Dolat Research

Competitive Landscape

Rating Scale on competitive strength	Domestic Formulations	Generics (DTM)			CRAMS		CRAMS / Tie-ups (JV etc.)		R&D		
		US	EU	EM	US	EU	Regulated	EM	Generics	Biosimilars	Innovative
Sun Pharma.	High	High	Low	Moderate				Moderate	High		
Ranbaxy Labs.	Moderate	High	High	High					Moderate		Low
Dr. Reddy's Labs.	Moderate	High	Moderate	High				Moderate	High	High	Moderate
Glenmark Pharma	Moderate	High	Moderate	High					Moderate	Low	High
Aurobindo Pharma		Low	Low	Low			Moderate	Moderate	Low		
Lupin	High	High	Moderate	High	Low	Low		Low	High	Low	Moderate
Cadila Healthcare	Moderate	High	Moderate	Moderate			Moderate	Moderate	Moderate	Moderate	Moderate
Torrent Pharma.	Moderate	Moderate	Moderate	High				Moderate	Moderate		Moderate
Biocon	Moderate			Moderate	Moderate	Moderate	High	High	Moderate	High	High
Strides Arcolab	Low			Moderate			High	High	Moderate	Moderate	Low
Cipla	Moderate						High	Moderate	High	Moderate	
IPCA Labs.	Moderate	Moderate	Moderate	Moderate		Moderate			Low		
Unichem Labs.	Moderate	Moderate	Moderate	Low	Moderate	Moderate			Low		
Divi's Lab					High	High			Low		
Dishman Pharma					High	High					
Piramal Healthcare	Moderate	Low	Low	Low	Moderate	High			Low		Moderate
GSK Pharma	Moderate										
Aventis Pharma	Moderate										
Pfizer	Moderate										
Suven Life Science					Moderate	Moderate					High
Sun Pharma Advanced Research								Moderate	High		High

Competitive strength	Interpretation
High	Better placed than peers in these markets
Moderate	Growing business segment, yet to achieve maturity
Low	Inadequate ingredients to exploit the opportunity
None	Virtually absent in these markets

DOLAT CAPITAL

Valuation Matrix

Name of Company	Mcap (₹Mn)	Sales (₹mn)			EBIDTA (₹mn)			PAT (₹mn)			EPS Estimates			Mcap/Sales (x)		
		FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E
Frontlines																
Ranbaxy #*	175,147	99,583	114,845	112,660	12,249	20,533	13,167	(28,994)	16,420	12,550	na	39	30	1.8	1.5	1.6
Sun Pharma #	596,506	76,564	90,325	104,749	29,116	32,661	38,052	22,939	26,859	31,023	22	25	29	7.8	6.6	5.7
Dr.Reddys	289,269	96,263	111,251	117,025	26,477	27,034	26,682	14,932	16,265	16,212	88	96	96	3.0	2.6	2.5
Cipla#	232,038	69,453	79,931	91,255	15,699	18,674	21,859	11,218	13,446	15,839	14	17	20	3.3	2.9	2.5
LargeCaps																
Lupin	232,232	68,469	82,997	101,083	14,139	17,413	21,227	9,383	11,610	14,288	21	26	32	3.4	2.8	2.3
Cadila Healthcare	153,561	51,984	62,647	71,846	10,412	12,843	15,088	6,997	7,604	9,000	34	37	44	3.0	2.5	2.1
Glaxo Pharma*	187,617	23,380	26,481	29,947	7,824	9,152	10,494	6,314	7,070	8,006	75	83	95	8.0	7.1	6.3
Divi's	98,198	16,783	21,147	25,176	6,231	7,938	9,568	4,908	6,042	7,206	37	46	54	5.9	4.7	3.9
MidCaps																
Torrent Pharma	52,294	26,690	30,689	36,206	5,105	5,831	6,952	3,475	3,821	4,597	41	45	54	2.0	1.8	1.5
IPCA Labs	42,110	23,614	27,515	31,520	5,342	6,119	6,934	3,273	3,644	4,209	26	29	33	1.8	1.5	1.3
Strides Arcolab*	34,444	25,769	23,226	27,322	5,176	4,994	5,738	1,750	2,628	3,092	30	45	53	1.4	1.5	1.3
Biocon	46,000	20,087	22,346	26,114	5,280	6,302	7,312	3,222	3,798	4,391	16	19	22	2.3	2.1	1.8

Name of Company	ROE (%)			ROCE (%)			P/E Ratio (x)			EV/EBITDA (x)		
	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E
Frontlines												
Ranbaxy #*	na	32.0	14.0	19.0	25.0	13.0	na	10.7	14.0	11.7	8.1	10.5
Sun Pharma #	22.0	23.0	23.0	23.0	24.0	24.0	26.2	23.3	19.6	19.8	17.8	15.4
Dr.Reddys	28.4	24.6	20.1	27.6	25.0	21.1	19.4	17.8	17.8	11.3	10.6	10.2
Cipla#	15.6	16.5	18.0	17.0	18.0	18.0	20.8	17.2	14.6	15.1	12.7	10.8
LargeCaps												
Lupin	25.6	25.6	25.4	24.0	25.3	26.1	24.8	20.0	16.3	17.0	13.7	11.1
Cadila Healthcare	28.8	25.7	25.3	21.3	20.2	21.2	21.9	20.2	17.1	16.3	13.2	11.1
Glaxo Pharma*	32.8	34.9	35.3	40.7	45.2	46.3	29.7	26.5	23.4	21.4	18.3	15.7
Divi's	25.1	26.0	26.0	30.7	31.6	31.9	20.0	16.3	13.6	15.8	12.4	10.3
MidCaps												
Torrent Pharma	30.7	28.1	28.2	24.6	23.4	24.1	15.0	13.7	11.4	10.5	9.0	7.4
IPCA Labs	27.5	24.6	23.2	25.7	24.2	23.8	12.9	11.6	10.0	8.9	7.8	6.8
Strides Arcolab*	16.9	17.8	17.9	11.0	11.7	14.6	19.7	13.1	11.1	11.1	9.2	8.0
Biocon	13.1	12.6	13.4	13.9	13.9	14.7	14.3	12.1	10.5	8.0	6.8	5.9

*# Bloomberg Consensus; * December year ending*

Dr. Reddy's Laboratories

DOLAT CAPITAL

CMP: ₹ 1706 Target Price: ₹ 1912 Accumulate

The Right Prescription…!

Dr. Reddy's Laboratories (DRL) continues to build upon its generics capability on selective niche products and biosimilars. The company's key strength lays in its complex chemistry skills supported by a captive mine of APIs, making it a dominant player in the global generics market. DRL is among the biggest beneficiaries of the patent cliff in US. Key launches (Geodon, Clarinex, Seroquel) with limited competition shall add fuel to the base business growth momentum. We anticipate growth trajectory in Russia (17% CAGR over FY11-14E) to sustain mainly led by increasing contribution from OTC's and new launches. DRL has gained traction in biosimilars in emerging markets and is gearing itself for the next wave of opportunity in the regulated markets (2014E onwards).

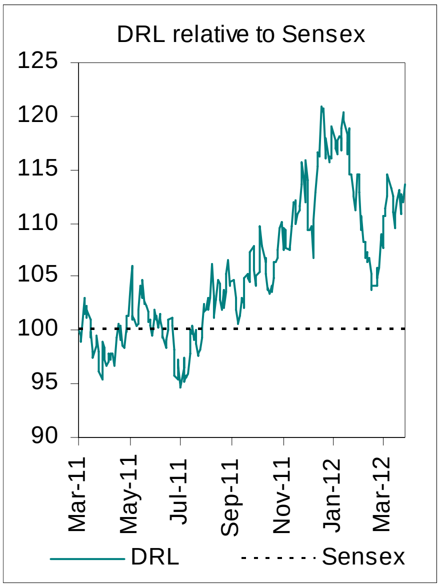
BSE Sensex	17,478
NSE Nifty	5,318

Scrip Details

Equity	₹ 848mn
Face Value	₹ 5/-
Market Cap	₹ 289.3bn
	USD 5.9bn
52 week High / Low	₹ 1771 / 1387
Avg. Volume (no)	306,655
BSE Code	500124
NSE Symbol	DRREDDY
Bloomberg Code	DRRD IN
Reuters Code	REDY.BO

Shareholding Pattern as on Dec'11(%)

Promoter	25.6
MF/Banks/FIs	13.8
FIIs	27.2
Public / Others	33.5



Investment Rationale

Riding the US generic opportunity from the front

We anticipate US generics segment (36% of sales) to be the key growth driver in the near future. DRL ranks among the top-three in market share for 24 prescription products. It has cornered 20% market share in some of the key generic launches over last three years – g-Olanzapine ODT (AG + 3 players(p)), g-Lansoprazole (3p), g-tacrolimus (4p). We anticipate similar reflections in other FTF opportunities – Geodon and Clarinex – which collectively cater to USD 1.6bn of innovator sales. Besides, it will participate in quiet a few other opportunities - Plavix, Seroquel, Lipitor and Lexapro over the next 12 months. This offers higher revenue visibility for DRL from the US market. We estimate US sales to peak off from USD 875mn in FY13E and settle at USD 855mn in FY14E.

Cohesive approach in emerging markets ensures smooth growth

DRL has entered into notable alliances and partnerships with GSK, Cipla and Vitabiotics. We expect revenue contribution to increase from this segment going forward (currently 15%), led by new launches and market share gains in some of the key markets – India, CIS in particular while incremental tie-up based revenues shall add to revenue growth.

Preparing for the next-big-thing: Biosimilars

The much discussed patent-cliff will phase out after FY14 and will be succeeded by a wave of generic opportunity in the Biosimilars space. DRL has already launched three products – Reditux, Cresp, and PeGrafeel – in 12 countries and is constantly working towards expanding its product offerings. The company is well positioned to benefit from the opening up of the biosimilar entry in the US.

Valuation

DRL leverages on its chemistry skills to identify and capitalize on niche opportunities with limited competition. The company has built significant API capabilities that support its fast growing generic formulations business. Notably, dependence on Betapharm has reduced significantly (14% of sales), and is unlikely to be a further drag on overall financials. At CMP, the stock trades at 19.4x FY12E & 17.8x FY13E earnings. We initiate coverage on Dr. Reddy's with Accumulate recommendation and a target price of ₹ 1912 (20x to FY14E EPS).

Financials

Year	Net Sales	%growth	EBITDA	OPM%	PAT	%growth	EPS(₹)	%growth	PER(x)	ROANW(%)	ROACE(%)
FY11	74,693	6.3	15,661	21.0	11,040	14.2	65.1	14.2	26.2	24.8	19.6
FY12E	96,263	28.9	26,477	27.5	14,932	35.3	88.1	35.3	19.4	28.4	27.6
FY13E	111,251	15.6	27,034	24.3	16,265	8.9	95.9	8.9	17.8	24.6	25.0
FY14E	117,025	5.2	26,682	22.8	16,212	(0.3)	95.6	(0.3)	17.8	20.1	21.1

Figure in ₹ mn

INCOME STATEMENT ₹ mn

Particulars	Mar11	Mar12E	Mar13E	Mar14E
Income from Operations	**74,693**	**96,263**	**111,251**	**117,025**
FTF Sales#	0	7,430	4,844	0
Other income	1,115	566	0	0
Total Income	**75,808**	**96,829**	**111,251**	**117,025**
Total Expenditure	59,032	69,786	84,217	90,344
EBIDTA (excl. Other Income)	**15,661**	**26,477**	**27,034**	**26,682**
Core EBITDA#	**15,661**	**22,150**	**23,159**	**26,682**
EBIDTA (incl. Other Income)	**16,776**	**27,043**	**27,034**	**26,682**
Interest Expense	256	757	778	770
Interest Income	(68)	0	0	0
Net Interest Exp./(Inc.)	188	757	778	770
Gross Profit	**16,588**	**26,286**	**26,256**	**25,912**
Depreciation & Amortization	4,148	6,587	5,403	5,897
Profit Before Tax	**12,440**	**19,699**	**20,852**	**20,015**
Tax	1,403	4,809	4,588	3,803
Profit After Tax	**11,037**	**14,889**	**16,265**	**16,212**
Profit / (loss) from associates	3	43	0	0
Net Profit	**11,040**	**14,932**	**16,265**	**16,212**
Adj. Net Profit (Ex. Fx Loss)	**11,040**	**14,932**	**16,265**	**16,212**
Core PAT#	**11,040**	**10,772**	**13,552**	**16,212**

 # Contribution from exclusive sales determined from Q3FY12 onwards

Note: Products added to base business US sales in FY13E and FY14E - Fondaparinux, Quetiapine, Olanzapine, Ziprasidone, Atorvastatin, Clopidogrel, Desloratadine, Escitalopram, Finasteride (1mg) and Duloxetine

BALANCE SHEET

Particulars	Mar11	Mar12E	Mar13E	Mar14E
Sources of Funds				
Equity Capital	846	848	848	848
Share Premium / Allotment	20,683	20,683	20,683	20,683
Other Reserves	24,461	37,525	51,840	66,021
Net Worth	**45,990**	**59,056**	**73,371**	**87,551**
Secured Loans	5,283	5,271	5,261	224
Unsecured Loans	18,220	14,374	15,434	15,026
Loan Funds	**23,503**	**19,645**	**20,695**	**15,250**
Deferred Tax Liability	87	87	87	87
Total Capital Employed	**69,580**	**78,788**	**94,153**	**102,888**
Applications of Funds				
Gross Block	69,961	76,331	82,571	88,331
Less: Accumulated Depreciation	33,250	38,127	43,531	49,428
Net Block	**36,711**	**38,204**	**39,040**	**38,903**
Capital Work in Progress	5,997	5,997	5,997	5,997
Investments	346	346	346	346
Goodwill	2,180	2,180	2,180	2,180
Current Assets, Loans & Advances				
Inventories	16,059	17,934	20,336	21,257
Sundry Debtors	17,615	19,780	21,336	20,840
Cash and Bank Balance	5,729	10,054	22,696	32,620
Loans, Adv. & Other Current Assets	7,207	7,207	7,207	7,207
Other Current Assets	1,226	1,226	1,226	1,226
sub total	**47,836**	**56,201**	**72,800**	**83,151**
Current Liabilities & Provisions				
Trade Payables	8,480	8,967	10,804	12,046
Provisions & Other Liabilities	1,355	1,587	1,821	2,057
Other Current Liabilities	13,655	13,586	13,586	13,586
sub total	**23,490**	**24,140**	**26,211**	**27,689**
Net Current Assets	**24,346**	**32,061**	**46,590**	**55,462**
Total Assets	**69,580**	**78,788**	**94,153**	**102,888**

E-estimates

CASH FLOW

Particulars	Mar11	Mar12E	Mar13E	Mar14E
Profit before tax	**12,440**	**19,699**	**20,852**	**20,015**
Depreciation & w.o.	4,148	6,587	5,403	5,897
Net Interest Exp (Int. Exp- Int. Inc)	188	757	778	770
Direct taxes paid	(1,403)	(4,809)	(4,588)	(3,803)
Chg in Working Capital	(6,534)	(3,390)	(1,887)	1,053
(A) CF from Operating Activities	**8,839**	**18,843**	**20,559**	**23,932**
Capex	(12,810)	(6,370)	(6,240)	(5,760)
Free Cash Flow	**(3,971)**	**12,473**	**14,319**	**18,172**
Inc./ (Dec.) in Investments	3,564	0	0	0
(B) CF from Investing Activities	**(9,246)**	**(6,370)**	**(6,240)**	**(5,760)**
Issue of Equity/ Preference	256	2	0	0
Inc./(Dec.) in Debt	8,847	(3,858)	1,051	(5,445)
Dividend Paid (Incl. Tax)	(2,219)	(2,289)	(2,374)	(2,459)
Other (Bal.Fig)	(7,332)	(2,003)	(354)	(343)
(C) CF from Financing	**(448)**	**(8,149)**	**(1,678)**	**(8,247)**
Net Change in Cash	(855)	4,325	12,642	9,925
Opening Cash balance	6,584	5,729	10,054	22,696
Closing Cash balance	**5,729**	**10,054**	**22,696**	**32,620**

E-estimates

IMPORTANT RATIOS

Particulars	Mar11	Mar12E	Mar13E	Mar14E
(A) Measures of Performance (%)				
Contribution Margin				
EBIDTA Margin (excl. O.I.)	21.0	27.5	24.3	22.8
Core EBIDTA Margin (excl. O.I.)	21.0	24.9	21.8	22.8
EBIDTA Margin (incl. O.I.)	22.5	28.1	24.3	22.8
Interest / Sales	0.3	0.8	0.7	0.7
Gross Profit Margin	22.2	27.3	23.6	22.1
Tax/PBT	11.3	24.4	22.0	19.0
Net Profit Margin	14.8	15.5	14.6	13.9
Core Net Profit Margin	14.8	12.1	12.7	13.9
(B) Measures of Financial Status				
Debt / Equity (x)	0.5	0.3	0.3	0.2
Interest Coverage (x)	65.5	35.7	34.7	34.7
Average Cost Of Debt (%)	1.3	3.5	3.7	3.9
Debtors Period (days)	86	75	70	65
Closing stock (days)	78	68	67	66
Inventory Turnover Ratio (x)	4.7	5.4	5.5	5.5
Fixed Assets Turnover (x)	2.0	2.5	2.8	3.0
Working Capital Turnover (x)	3.1	3.0	2.4	2.1
Non Cash Working Capital (₹ Mn)	18,617	22,007	23,894	22,841
(C) Measures of Investment				
Adj. EPS (₹) (excl EO)	65.1	88.1	95.9	95.6
Core EPS	65.1	63.5	79.9	95.6
EPS (₹)	65.2	88.1	95.9	95.6
CEPS (₹)	89.8	126.9	127.8	130.4
DPS (₹)	13.1	13.5	14.0	14.5
Dividend Payout (%)	20.1	15.3	14.6	15.2
Profit Ploughback (%)	79.9	84.7	85.4	84.8
Book Value (₹)	271.8	348.3	432.7	516.3
RoANW (%)	24.8	28.4	24.6	20.1
RoACE (%)	19.6	27.6	25.0	21.1
RoAIC (%) (Excl Cash & Invest.)	21.7	30.9	30.9	29.3
(D) Valuation Ratios				
CMP (₹)	1,706	1,706	1,706	1,706
P/E (x)	26.2	19.4	17.8	17.8
P/Core EPS	26.2	26.9	21.3	17.8
Market Cap. (₹ Mn)	288,655	289,269	289,269	289,269
MCap/ Sales (x)	3.9	3.0	2.6	2.5
EV (₹ Mn)	306,429	298,860	287,269	271,899
EV/Sales (x)	4.1	3.1	2.6	2.3
EV/EBDITA (x)	19.6	11.3	10.6	10.2
P/BV (x)	6.3	4.9	3.9	3.3
Dividend Yield (%)	0.8	0.8	0.8	0.8

E-estimates

Torrent Pharma

DOLAT CAPITAL

CMP: ₹ 618 Target Price: ₹ 706 Accumulate

Unplugging the Torrents!

Torrent pharma (TPL) has a unique hub-spoke business model wherein its expertise in chronic ailments - CVS and CNS are centric to its growth mantra. It has successfully leveraged on its capabilities in these TAs and is well penetrated in fast growing emerging markets (25% of FY11 sales). We anticipate sales from regulated markets to register 25% growth over FY11-14E. The US generic market in particular is expected to see high growth, aided by key generic launches (Zyprexa, Singulair ODT, Lexapro) and market share gains in existing products. We anticipate domestic formulations to regain its lost ground and grow by 12% over FY11-14E. We expect 19% earnings growth over the same period aided by non dilutive capex.

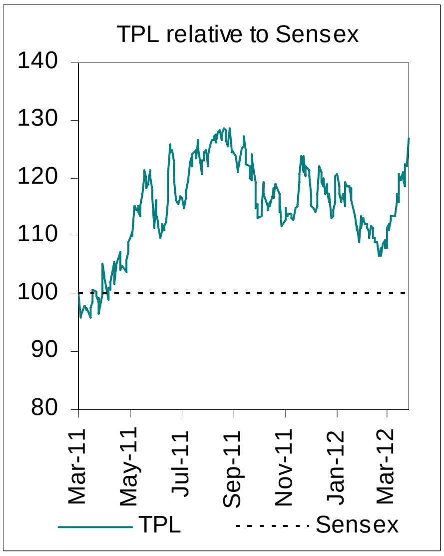
BSE Sensex	17,478
NSE Nifty	5,318

Scrip Details

Equity	₹ 423mn
Face Value	₹ 5/-
Market Cap	₹ 52.3bn
	USD 1.1bn
52 week High / Low	₹ 687 / 499
Avg. Volume (no)	13,886
BSE Code	500420
NSE Symbol	TORNTPHARM
Bloomberg Code	TRP IN
Reuters Code	TORP.BO

Shareholding Pattern as on Dec'11(%)

Promoter	71.5
MF/Banks/FIs	11.8
FIIs	5.3
Public / Others	11.3



Investment Rationale

Domestic biz to grow on new launches and improving marketing efficiency

TPL is a well established player in the domestic market (ranked 18th) with leadership position in select molecules and a dominative product portfolio in CVS and CNS. The company's exposure to slowing TAs - anti-infectives and GI in particular has led to slowdown in growth momentum (YTD - 9% growth YoY against FY09-11 CAGR of 16%). We estimate sales to pick up and grow by 12% during FY11-14E as the management takes corrective measures to increase doctor coverage and territorial reach supported by new launches.

Emerging markets to add stability

The company is among the leading Indian players present in Brazil (16% of sales) which is the second-most profitable division for the company after India. Revenue contribution from Brazil is expected to see healthy growth driven by increased penetration and new launches (approx. 30 by FY15E). Torrent is also present in Russia, CIS, Mexico and other Asia Pacific markets (collectively 9% of sales) and is actively looking to tap newer markets like Thailand & Romania. Supply-based arrangements with MNCs further add visibility to topline. We expect the entire EM basket (25% of sales) to clock a 20% CAGR over FY11-14E.

US to drive growth in regulated markets

Torrent is among the few Indian companies to have successfully established a stronghold in Germany (14% of sales). However, given the ongoing economic slowdown and increasing pricing pressure, we expect revenue contribution from European markets to see a stagnated growth over the next two years. This will be compensated by increasing contribution from US where it has prepared to genericize some marquee drugs over the next two years (Zyprexa, Singulair ODT, Lexapro to name a few). Revenue from regulated markets (25% of sales) is expected to grow 25% CAGR over FY11-14E.

Valuation

TPL's tangible growth strategy is backended by its healthy cash flows supported by efficient working capital management and low debt burden. At CMP the stock trades at 15.0x and 13.7x FY12E and FY13E earnings estimates respectively. We initiate coverage on Torrent Pharma with Accumulate recommendation and a target price of ₹ 706 (13x FY14E EPS).

Financials

Year	Net Sales	%growth	EBITDA	OPM%	PAT	%growth	EPS(₹)	%growth	PER(x)	ROANW(%)	ROACE(%)
FY11	22,265	16.2	4,092	18.4	2,702	16.9	31.9	16.9	19.4	29.2	23.3
FY12E	26,690	19.9	5,105	19.1	3,475	28.6	41.1	28.6	15.0	30.7	24.6
FY13E	30,689	15.0	5,831	19.0	3,821	9.9	45.2	9.9	13.7	28.1	23.4
FY14E	36,206	18.0	6,952	19.2	4,597	20.3	54.3	20.3	11.4	28.2	24.1

Figure in ₹ mn

INCOME STATEMENT

₹ mn

Particulars	Mar11	Mar12E	Mar13E	Mar14E
Net Sales	**21,220**	**25,590**	**29,839**	**35,356**
Other Operational income	1,045	1,100	850	850
Income from Operations	**22,265**	**26,690**	**30,689**	**36,206**
Total Expenditure	18,173	21,585	24,858	29,255
EBIDTA (Excl. Other Income)	**4,092**	**5,105**	**5,831**	**6,952**
Other Income	81	100	80	90
EBIDTA (Incl. Other Income)	**4,173**	**5,205**	**5,911**	**7,042**
Interest	121	76	132	149
Gross Profit	**4,052**	**5,128**	**5,779**	**6,893**
Depreciation	626	810	1,003	1,146
Profit Before Tax & EO Items	**3,427**	**4,319**	**4,776**	**5,746**
Profit Before Tax	3,427	4,319	4,776	5,746
Tax	725	844	955	1,149
Net Profit	**2,702**	**3,475**	**3,821**	**4,597**

BALANCE SHEET

Particulars	Mar11	Mar12E	Mar13E	Mar14E
Sources of Funds				
Equity Capital	423	423	423	423
Share Premium	428	428	428	428
Other Reserves	9,373	11,535	13,944	16,933
Net Worth	**10,224**	**12,386**	**14,795**	**17,784**
Minority Interest	16	16	16	16
Secured Loans	4,285	4,785	5,013	5,513
Unsecured Loans	1,436	1,440	1,940	1,940
Loan Funds	**5,721**	**6,225**	**6,953**	**7,453**
Deferred Tax Liability	480	649	840	1,069
Total Capital Employed	**16,440**	**19,276**	**22,604**	**26,322**
Applications of Funds				
Gross Block	9,643	12,078	14,328	16,378
Less: Accumulated Depreciation	3,287	4,097	5,100	6,246
Net Block	6,355	7,982	9,229	10,132
Capital Work in Progress	1,818	1,600	1,500	1,500
Advances for capital exp	368	400	300	200
Investments	1,460	1,460	1,460	1,460
Current Assets, Loans & Advances				
Inventories	5,048	5,959	6,540	7,265
Sundry Debtors	3,404	5,258	5,722	6,296
Cash and Bank Balance	4,788	5,089	6,736	8,599
Loans and Advances	1,428	1,595	1,790	1,980
Other Current Assets	678	825	945	1,010
sub total	15,346	18,726	21,734	25,151
Current Liabilities & Provisions				
Current Liabilities	7,479	9,347	9,975	10,280
Provisions	1,427	1,545	1,643	1,840
sub total	8,907	10,892	11,619	12,120
Net Current Assets	6,439	7,834	10,115	13,030
Total Assets	**16,440**	**19,276**	**22,604**	**26,322**

E-estimates

CASH FLOW

Particulars	Mar11	Mar12E	Mar13E	Mar14E
Profit before tax	3,427	4,319	4,776	5,746
Depreciation & w.o.	626	810	1,003	1,146
Net Interest Exp	121	76	132	149
Direct taxes paid	(725)	(844)	(955)	(1,149)
Chg in Working Capital	577	(1,094)	(634)	(1,052)
(A) CF from Operating Activities	**4,024**	**3,267**	**4,322**	**4,840**
Capex	(2,601)	(2,250)	(2,050)	(1,950)
Free Cash Flow	**1,423**	**1,017**	**2,272**	**2,890**
Inc./ (Dec.) in Investments	(48)	0	0	0
Other (Bal.Fig)	(60)	(259)	(237)	(198)
(B) CF from Investing Activities	**(2,709)**	**(2,509)**	**(2,287)**	**(2,148)**
Inc./(Dec.) in Debt	497	504	728	500
Interest exp net	(121)	(76)	(132)	(149)
Dividend Paid (Incl. Tax)	(787)	(885)	(983)	(1,180)
(C) Cash Flow from Financing	**(411)**	**(457)**	**(387)**	**(829)**
Net Change in Cash	905	301	1,648	1,863
Opening Cash balances	3,883	4,788	5,089	6,736
Closing Cash balances	4,788	5,089	6,736	8,599

E-estimates

IMPORTANT RATIOS

Particulars	Mar11	Mar12E	Mar13E	Mar14E
(A) Measures of Performance (%)				
Contribution Margin				
EBIDTA Margin (excl. O.I.)	18.4	19.1	19.0	19.2
EBIDTA Margin (incl. O.I.)	18.7	19.5	19.3	19.4
Interest / Sales	0.6	0.3	0.4	0.4
Gross Profit Margin	18.2	19.2	18.8	19.0
Tax/PBT	21.2	19.5	20.0	20.0
Net Profit Margin	12.1	13.0	12.4	12.7
(B) As Percentage of Net Sales				
Raw Material	31.3	31.8	32.0	32.5
Employee Expenses	17.5	17.5	17.5	17.0
R&D Expenses	6.2	5.2	6.0	5.8
Mfg, Selling & Adms. Expenses	26.6	26.3	25.5	25.5
Other Expenses (R&D)	6.2	5.2	6.0	5.8
(C) Measures of Financial Status				
Debt / Equity (x)	0.6	0.5	0.5	0.4
Interest Coverage (x)	34.6	68.2	44.7	47.2
Average Cost Of Debt (%)	2.2	1.3	2.0	2.1
Debtors Period (days)	59	75	70	65
Closing stock (days)	87	85	80	75
Inventory Turnover Ratio (x)	4.2	4.3	4.6	4.9
Fixed Assets Turnover (x)	2.2	2.1	2.1	2.2
Working Capital Turnover (x)	3.3	3.3	2.9	2.7
Non Cash Working Capital (₹ Mn)	1,651	2,745	3,379	4,431
(D) Measures of Investment				
EPS (₹)	31.9	41.1	45.2	54.3
CEPS (₹)	39.3	50.6	57.0	67.9
DPS (₹)	8.0	9.0	10.0	12.0
Dividend Payout (%)	25.1	21.9	22.1	22.1
Profit Ploughback (%)	74.9	78.1	77.9	77.9
Book Value (₹)	120.8	146.4	174.8	210.2
RoANW (%)	29.2	30.7	28.1	28.2
RoACE (%)	23.3	24.6	23.4	24.1
RoAIC (%) (Excl Cash & Invest.)	32.5	34.0	32.7	35.1
(E) Valuation Ratios				
CMP (₹)	618	618	618	618
P/E (x)	19.4	15.0	13.7	11.4
Market Cap. (₹ Mn)	52,294	52,294	52,294	52,294
MCap/ Sales (x)	2.5	2.0	1.8	1.5
EV (₹ Mn)	53,227	53,430	52,510	51,148
EV/Sales (x)	2.5	2.1	1.8	1.4
EV/EBDITA (x)	13.0	10.5	9.0	7.4
P/BV (x)	5.1	4.2	3.5	2.9
Dividend Yield (%)	1.3	1.5	1.6	1.9

E-estimates

Divi's Laboratories

DOLAT CAPITAL

CMP: ₹ 740 Target Price: ₹ 923 Buy

The Art Of Synthesis...

Divi's Laboratories (DLL) has positioned itself as India's leading player in CRAMs segment. We like its focus on high value low competition products. Its key business segments viz. Custom synthesis & APIs (95% of sales) is expected to register 23% CAGR over FY11-14E. DLL is one of the few CRAMs players that have refrained from entering the formulation space, to demonstrate its strict adherence to IP policies. This is a reason in itself for its large MNC clientele (20 innovators) to grow their relationship with Divi's. The CS division is expected to be the major growth driver led by ramp up in new Vizag SEZ operations and increased order inflows. The API segment is expected to sustain growth as it leverages on selective patent expirations in US. Gradual scale up in its caretonoids portfolio shall aid overall growth momentum. We estimate 24% CAGR in revenue over FY11-14E aided by turnaround in the CRAMs industry.

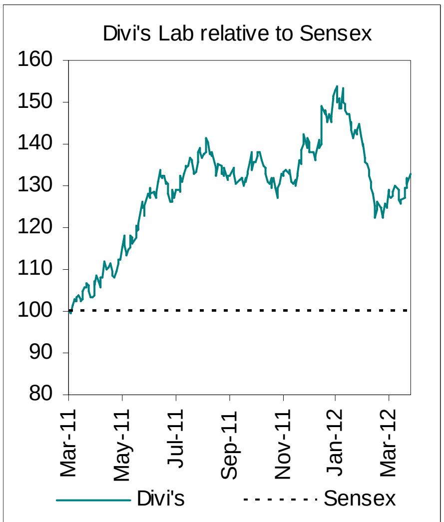
BSE Sensex	17,478
NSE Nifty	5,318

Scrip Details

Equity	₹ 265mn
Face Value	₹ 2/-
Market Cap	₹ 98.2bn
	USD 2bn
52 week High / Low	₹ 843 / 668
Avg. Volume (no)	165,806
BSE Code	532488
NSE Symbol	DIVISLAB
Bloomberg Code	DIVI IN
Reuters Code	DIVI.BO

Shareholding Pattern as on Dec'11(%)

Promoter	52.1
MF/Banks/FIs	17.3
FIIs	10.2
Public / Others	20.4



Investment Rationale

Strong chemistry skills to drive growth and check competition

DLL has marked its presence in the custom synthesis business (CS) through effective demonstration of its inherent chemistry skill sets. This has consequently translated into strong relationships with major pharma MNCs. Further, the company has kept itself from entering the formulation business, adding comfort to its clients. Revenue contribution from this segment declined in FY10 in line with the overall slowdown in CRAM industry. But we anticipate this business to witness high growth in near future on account of increasing cost-pressure faced by innovator companies and low R&D productivity. We expect the CS division to grow by 24% CAGR over FY11-14E aided by ramp up in new Vizag SEZ operations and increased order inflows.

A lean portfolio of APIs to provide stable growth

We believe DLL's strategy to focus only on high-yielding products positions it as the dominant supplier to the innovators. Notably, Divi's maintains dominant market share of 70% in Naproxene and Dexthromethorphan. The company currently has 41 DMF filings and plans to add 3-4 filings every year going forward. Further aided by increased genericization of pharma markets of US and Europe, we believe revenue from APIs to grow by 22% CAGR over FY11-14E.

Increasing contribution from carotenoids adding to growth momentum

The global market for carotenoids is estimated at USD 1bn and is dominated by DSM and BASF with 60% combined share. Carotenoids contribute 5% of DLL's total sales in FY11. The company has created an extensive portfolio of carotenoids like Astaxanthin, Canathaxanthin, Apocarotenal. We expect the segment sales to reach ₹ 1.8bn in FY14E and contribute 7% of the total sales, aided by gradual volume off-take.

Valuation

We expect 24% revenue growth over FY11-14E mainly led by increased order flows and ramp up in its new facility at Vizag SEZ (translates into higher operating leverage). Debt free balance sheet and controlled capex enables Divis to generate healthy cash flows which inturn reflects in its high return ratios. At CMP, the stock trades at 20x FY12E and 16.3x FY13E earnings. We initiate coverage on Divi's Laboratories with a Buy recommendation and a target price of ₹ 923 (17x FY14E EPS).

Financials

Year	Net Sales#	%growth	EBITDA	OPM%	PAT	%growth	EPS(₹)	%growth	PER(x)	ROANW(%)	ROACE(%)
FY11	13,181	36.7	5,025	38.1	4,293	26.1	32.3	26.1	22.9	25.9	27.4
FY12E	16,783	27.3	6,231	37.1	4,908	14.3	37.0	14.3	20.0	25.1	30.7
FY13E	21,147	26.0	7,938	37.5	6,042	23.1	45.5	23.1	16.3	26.0	31.6
FY14E	25,176	19.1	9,568	38.0	7,206	19.3	54.3	19.3	13.6	26.0	31.9

Figure in ₹ mn, # Includes other operating income

INCOME STATEMENT (₹ mn)

Particulars	Mar11	Mar12E	Mar13E	Mar14E
Net Sales	**13,071**	**16,558**	**20,947**	**25,076**
Other Operational income	110	225	200	100
Income from Operations	**13,181**	**16,783**	**21,147**	**25,176**
Other Income	255	636	350	250
Total Income	13,436	17,419	21,497	25,426
Total Expenditure	8,156	10,552	13,210	15,608
EBIDTA (Excl. Other Income)	**5,025**	**6,231**	**7,938**	**9,568**
EBIDTA (Incl. Other Income)	**5,280**	**6,867**	**8,288**	**9,818**
Interest	22	25	15	10
Gross Profit	**5,258**	**6,842**	**8,273**	**9,808**
Depreciation	534	629	720	800
Profit Before Tax	**4,724**	**6,213**	**7,553**	**9,008**
Tax	431	1,305	1,511	1,802
Net Profit	**4,293**	**4,908**	**6,042**	**7,206**

BALANCE SHEET

Particulars	Mar11	Mar12E	Mar13E	Mar14E
Sources of Funds				
Equity Capital	265	265	265	265
Share Premium	965	965	965	965
Other Reserves	16,745	19,957	23,994	28,887
Net Worth	**17,975**	**21,187**	**25,224**	**30,117**
Secured Loans	202	245	150	50
Unsecured Loans	29	30	30	30
Loan Funds	**230**	**275**	**180**	**80**
Net Deferred Tax Liability	500	500	500	500
Total Capital Employed	**18,706**	**21,962**	**25,904**	**30,697**
Applications of Funds				
Gross Block	**8,857**	**11,650**	**12,650**	**13,650**
Less: Accumulated Depreciation	2,958	3,587	4,307	5,107
Net Block	**5,899**	**8,064**	**8,344**	**8,544**
Capital WIP	1,037	0	0	0
Unallocated Expenditure	6	0	0	0
Advances for Capital Works	250	0	0	0
Investments	5,256	5,400	7,750	10,600
Current Assets, Loans & Advances				
Inventories	5,717	7,712	9,182	10,992
Sundry Debtors	3,674	4,536	5,165	5,840
Cash and Bank Balance	177	204	167	179
Loans and Advances	728	836	886	926
Other Current Assets	3	3	3	3
sub total	**10,299**	**13,292**	**15,404**	**17,940**
Current Liabilities & Provisions				
Current Liabilities	2,424	3,012	3,498	3,978
Provisions	1,618	1,782	2,095	2,408
sub total	**4,042**	**4,793**	**5,593**	**6,386**
Net Current Assets	**6,257**	**8,499**	**9,811**	**11,554**
Total Assets	**18,706**	**21,962**	**25,904**	**30,697**

E-estimates

CASH FLOW

Particulars	Mar11	Mar12E	Mar13E	Mar14E
Profit before tax	**4,724**	**6,213**	**7,553**	**9,008**
Depreciation & w.o.	534	629	720	800
Net Interest Exp	22	25	15	10
Direct taxes paid	(431)	(1,305)	(1,511)	(1,802)
Chg in Working Capital	(813)	(2,214)	(1,349)	(1,731)
(A) CF from Operating Activities	**4,036**	**3,348**	**5,428**	**6,286**
Capex	(1,583)	(1,500)	(1,000)	(1,000)
Free Cash Flow	**2,453**	**1,848**	**4,428**	**5,286**
Inc./ (Dec.) in Investments	(844)	(144)	(2,350)	(2,850)
Other	(262)	0	0	0
(B) CF from Investing Activities	**(2,689)**	**(1,644)**	**(3,350)**	**(3,850)**
Issue of Equity/ Preference	326	0	0	0
Inc./(Dec.) in Debt	(98)	45	(95)	(100)
Interest exp net	(22)	(25)	(15)	(10)
Dividend Paid (Incl. Tax)	(1,541)	(1,697)	(2,005)	(2,313)
(C) Cash Flow from Financing	**(1,335)**	**(1,677)**	**(2,115)**	**(2,423)**
Net Change in Cash	12	28	(37)	12
Opening Cash balances	165	177	204	167
Closing Cash balances	**177**	**204**	**167**	**179**

E-estimates

IMPORTANT RATIOS

Particulars	Mar11	Mar12E	Mar13E	Mar14E
(A) Measures of Performance (%)				
Contribution Margin				
EBIDTA Margin (excl. O.I.)	38.1	37.1	37.5	38.0
EBIDTA Margin (incl. O.I.)	40.1	40.9	39.2	39.0
Interest / Sales	0.2	0.2	0.1	0.0
Gross Profit Margin	40.2	41.3	39.5	39.1
Tax/PBT	9.1	21.0	20.0	20.0
Net Profit Margin	32.6	29.2	28.6	28.6
(B) As Percentage of Net Sales				
Raw Materials Consumed	37.0	39.3	39.1	39.0
(Increase)/Decrease in Stocks	1.9	0.0	0.0	0.0
Manufacturing Expenses	8.2	8.7	8.4	8.3
Employees Cost	6.5	6.2	6.3	6.2
Other Expenses	8.3	8.7	8.6	8.5
(C) Measures of Financial Status				
Debt / Equity (x)	0.0	0.0	0.0	0.0
Interest Coverage (x)	240.0	273.6	552.5	981.8
Average Cost Of Debt (%)	7.9	9.9	6.6	7.7
Debtors Period (days)	103	100	90	85
Closing stock (days)	160	170	160	160
Creditor (days)	152	150	140	135
Inventory Turnover Ratio (x)	2.3	2.1	2.3	2.3
Fixed Assets Turnover (x)	1.5	1.4	1.7	1.8
Working Capital Turnover (x)	2.1	1.9	2.1	2.2
Non Cash Working Capital (₹ Mn)	6,080	8,294	9,643	11,374
(D) Measures of Investment				
EPS (₹) (excl EO)	32.3	37.0	45.5	54.3
EPS (₹)	32.4	37.0	45.5	54.3
CEPS (₹)	36.4	41.7	51.0	60.3
DPS (₹)	10.0	11.0	13.0	15.0
Dividend Payout (%)	30.9	29.7	28.6	27.6
Book Value (₹)	135.6	159.7	190.1	227.0
RoANW (%)	25.9	25.1	26.0	26.0
RoACE (%)	27.4	30.7	31.6	31.9
RoAIC (%) (Excl Cash & Invest.)	27.6	31.0	31.9	32.1
(E) Valuation Ratios				
CMP (₹)	740	740	740	740
P/E (x)	22.9	20.0	16.3	13.6
Market Cap. (₹ Mn)	98,121	98,198	98,198	98,198
MCap/ Sales (x)	7.5	5.9	4.7	3.9
EV (₹ Mn)	98,174	98,269	98,211	98,099
EV/Sales (x)	7.5	5.9	4.7	3.9
EV/EBDITA (x)	19.5	15.8	12.4	10.3
P/BV (x)	5.5	4.6	3.9	3.3
Dividend Yield (%)	1.4	1.5	1.8	2.0

E-estimates

Lupin

DOLAT CAPITAL

CMP: ₹ 520 Target Price: ₹ 608 Accumulate

Right Formula (tion)...!!!

Lupin has successfully transformed itself from a Tier-II API manufacturer to a fully integrated global generic player. It has managed to deliver superior track record growth (48% CAGR in export formulations; 18% CAGR in domestic formulations over FY08-11) aided by selective launches in niche fast-growing therapeutic areas. We expect the export formulation business to grow by 26% CAGR over FY11-14E led by monetization of its generic pipeline (FTF's and OC's) in the US market and consolidation of its position in the Japanese market. Growth in domestic formulations (20% CAGR over FY11-14E) business will be primarily driven by new launches and incremental sales from Eli Lilly alliance.

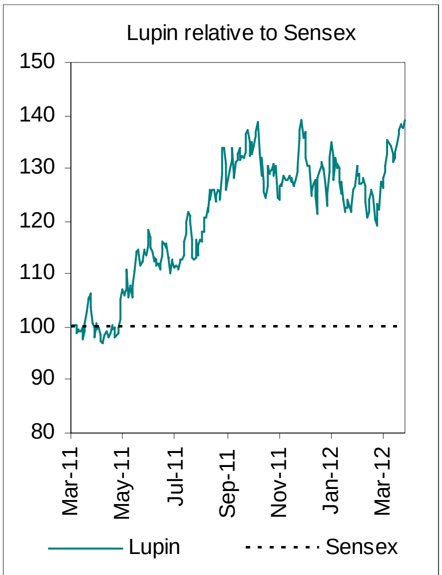
BSE Sensex	17,478
NSE Nifty	5,318

Scrip Details

Equity	₹ 893mn
Face Value	₹ 2/-
Market Cap	₹ 232.2bn
	USD 4.7bn
52 week High / Low	₹ 549 / 404
Avg. Volume (no)	838,567
BSE Code	500257
NSE Symbol	LUPIN
Bloomberg Code	LPC IN
Reuters Code	LUPN.BO

Shareholding Pattern as on Dec'11(%)

Promoter	46.9
MF/Banks/FIs	17.2
FIIs	26.2
Public / Others	9.6



Investment Rationale

Vertically integrated generic player with a balanced business model

Lupin has transformed itself from an API manufacturer to a fully integrated company. Formulations constitute 84% of the product mix with most of the APIs captively sourced. The company has gradually reduced its dependency on Anti-TB, cephalosporin's and increased its focus on high growth lifestyle category – CVS, CNS, etc.

Export formulations – growth engine

The company derives 57% of sales (FY11) from export formulations mainly from regulated markets. Its exceptional track record in US generics (5th largest by prescription) is primarily attributed to selective product launches (limited competition) and increasing contribution from branded formulations. New launches include limited competition opportunities - Geodon, Tricor and Asacol alongwith oral contraceptives (bouquet of 15 products through FY13E) will shall combined drive growth over the next two years. The company has further strengthened its position in Japan post I'rom acquisition (steriles segment) and aims to increase its profitability with captive API sourcing. We estimate export formulations to grow by 26% CAGR over FY11-14E and contribute 64% of sales.

Domestic Formulation business: An Established Cash Cow...

Lupin owns 2.7% market share with leadership in Anti-TB & Anti-Asthma segments. Gradual migration towards fast growing chronic based portfolio and incisive marketing strategies has resulted in consistent outperformance (18% CAGR over FY08-11). Incremental revenue from the Eli Lilly alliance (Huminsulin range of products) complements base revenue growth. We estimate the division to record 20% CAGR over FY11-14E to ₹ 26.5bn.

Valuations

We expect Lupin to register earnings CAGR of 18% over FY11-14E. Its business model enables healthy cash flow generation and augments requisite growth funding. It aspires to be a USD 3bn company by FY15E. The company continues to seek high-potential, low-risk acquisitions in key markets which shall further complement its organic growth momentum. At CMP, the stock trades at 24.8x FY12E and 20.0x FY13E earnings. We recommend Accumulate on the stock with a target price of ₹ 608 (19x FY14E earnings).

Financials

Year	Net Sales#	%growth	EBITDA	OPM%	PAT	%growth	EPS(₹)	%growth	PER(x)	ROANW(%)	ROACE(%)
FY11	58,320	19.7	11,911	20.4	8,626	26.5	19.3	26.5	26.9	29.5	24.2
FY12E	68,469	17.4	14,139	20.7	9,383	8.8	21.0	8.8	24.8	25.6	24.0
FY13E	82,997	21.2	17,413	21.0	11,610	23.7	26.0	23.7	20.0	25.6	25.3
FY14E	101,083	21.8	21,227	21.0	14,288	23.1	32.0	23.1	16.3	25.4	26.1

Figures in ₹ mn, # Includes income from Operations.

INCOME STATEMENT ₹ mn

Particulars	Mar11	Mar12E	Mar13E	Mar14E
Income from Operations	**58,320**	**68,469**	**82,997**	**101,083**
Other Income	89	110	50	50
Total Income	**58,409**	**68,579**	**83,047**	**101,133**
Total Expenditure	46,410	54,330	65,584	79,855
EBIDTA (Excl. Other Income)	**11,911**	**14,139**	**17,413**	**21,227**
EBIDTA (Incl. Other Income)	**12,000**	**14,249**	**17,463**	**21,277**
Interest	325	300	300	280
Gross Profit	**11,675**	**13,949**	**17,163**	**20,997**
Depreciation	1,712	2,180	2,500	3,000
Profit Before Tax	**9,963**	**11,769**	**14,663**	**17,997**
Tax	1,169	2,236	2,933	3,599
Net Profit before MI	**8,794**	**9,533**	**11,730**	**14,398**
Share of Associates	20	0	0	0
Minority Interest	148	150	120	110
Net Profit	**8,626**	**9,383**	**11,610**	**14,288**

E-estimates

BALANCE SHEET

Particulars	Mar11	Mar12E	Mar13E	Mar14E
Sources of Funds				
Equity Capital	893	893	893	893
Share Premium	5,198	5,198	5,198	5,198
Other Reserves	26,721	34,414	44,043	56,076
Net Worth	**32,811**	**40,505**	**50,134**	**62,167**
Secured Loans	7,841	8,541	9,041	9,541
Unsecured Loans	3,783	3,283	2,683	1,883
Loan Funds	**11,624**	**11,824**	**11,724**	**11,424**
Net Deferred Tax Liability	1,411	1,420	1,420	1,420
Minority Interest	515	665	815	965
Total Capital Employed	**46,362**	**54,414**	**64,092**	**75,976**
Applications of Funds				
Gross Block	26,389	33,201	39,701	44,701
Less: Accumulated Depreciation	9,075	11,255	13,755	16,755
Net Block	**17,313**	**21,946**	**25,946**	**27,946**
Capital Work in Progress	5,312	3,500	2,000	2,000
Goodwill on consolidation	3,255	3,255	3,255	3,255
Investments	**32**	**32**	**32**	**32**
Current Assets, Loans & Advances				
Inventories	12,000	14,755	18,399	22,736
Sundry Debtors	12,558	15,677	19,745	24,105
Cash and Bank Balance	4,201	4,269	5,426	8,399
Loans and Advances	6,208	7,046	8,005	9,194
sub total	**34,967**	**41,747**	**51,575**	**64,434**
Current Liabilities & Provisions				
Current Liabilities	11,800	12,991	15,178	17,891
Provisions	2,718	3,074	3,537	3,800
sub total	**14,518**	**16,065**	**18,715**	**21,690**
Net Current Assets	20,450	25,682	32,860	42,744
Total Assets	**46,362**	**54,414**	**64,092**	**75,976**

E-estimates

CASH FLOW

Particulars	Mar11	Mar12E	Mar13E	Mar14E
PBT & extra ordinary items	**9,963**	**11,769**	**14,663**	**17,997**
Depreciation & w.o.	1,712	2,180	2,500	3,000
Net Interest Exp	325	300	300	280
Direct taxes paid	(1,169)	(2,236)	(2,933)	(3,599)
Chg. in Working Capital	(2,401)	(5,165)	(6,021)	(6,911)
(A) CF from Operating Activities	**8,429**	**6,848**	**8,509**	**10,767**
Capex	(5,185)	(5,000)	(5,000)	(5,000)
Free Cash Flow	**3,244**	**1,848**	**3,509**	**5,767**
Inc./ (Dec.) in Investments	233	0	0	0
Other (Bal.Fig)	179	(118)	(166)	(205)
(B) CF from Investing Activities	**(4,773)**	**(5,118)**	**(5,166)**	**(5,205)**
Issue of Equity/ Preference	138	1	0	0
Inc./(Dec.) in Debt	226	200	(100)	(300)
Interest exp net	(325)	(300)	(300)	(280)
Dividend Paid (Incl. Tax)	(1,509)	(1,563)	(1,786)	(2,010)
(C) CF from Financing	**(1,470)**	**(1,663)**	**(2,186)**	**(2,590)**
Net Change in Cash	2,186	68	1,157	2,972
Opening Cash balances	2,015	4,201	4,269	5,426
Closing Cash balances	**4,201**	**4,269**	**5,426**	**8,399**

E-estimates

IMPORTANT RATIOS

Particulars	Mar11	Mar12E	Mar13E	Mar14E
(A) Measures of Performance (%)				
Contribution Margin				
EBIDTA Margin (excl. O.I.)	20.4	20.7	21.0	21.0
EBIDTA Margin (incl. O.I.)	20.6	20.8	21.0	21.0
Interest / Sales	0.6	0.4	0.4	0.3
Gross Profit Margin	20.0	20.4	20.7	20.8
Tax/PBT	11.7	19.0	20.0	20.0
Net Profit Margin	14.8	13.7	14.0	14.1
(B) As Percentage of Net Sales				
Raw Material	38.4	36.6	36.7	37.0
Employee Expenses	13.2	13.5	13.2	13.0
Other Expenses	28.0	29.3	29.1	29.0
(C) Measures of Financial Status				
Debt / Equity (x)	0.4	0.3	0.2	0.2
Interest Coverage (x)	37.0	47.5	58.2	76.0
Average Cost Of Debt (%)	2.8	2.6	2.5	2.4
Debtors Period (days)	80.3	85.0	88.0	88.0
Closing stock (days)	76.7	80.0	82.0	83.0
Inventory Turnover Ratio (x)	4.8	4.6	4.5	4.4
Fixed Assets Turnover (x)	2.2	2.0	2.1	2.2
Working Capital Turnover (x)	2.8	2.6	2.5	2.3
Non Cash Working Capital (₹ Mn)	16,248.1	21,413.0	27,434.1	34,345.0
(D) Measures of Investment				
EPS (₹) (excl EO)	19.3	21.0	26.0	32.0
EPS (₹)	19.3	21.0	26.0	32.0
CEPS (₹)	23.2	25.9	31.6	38.7
DPS (₹)	3.00	3.5	4.0	4.5
Dividend Payout (%)	15.5	16.7	15.4	14.1
Profit Ploughback (%)	84.5	83.3	84.6	85.9
Book Value (₹)	73.5	90.7	112.3	139.2
RoANW (%)	29.5	25.6	25.6	25.4
RoACE (%)	24.2	24.0	25.3	26.1
RoAIC (%) (Excl Cash & Invest.)	26.1	26.1	27.5	29.0
(E) Valuation Ratios				
CMP (₹)	520	520	520	520
P/E (x)	26.9	24.8	20.0	16.3
Market Cap. (₹ Mn)	232,076.0	232,232.0	232,232.0	232,232.0
MCap/ Sales (x)	4.1	3.4	2.8	2.3
EV (₹ Mn)	239,499	239,787	238,530	235,258
EV/Sales (x)	4.2	3.6	2.9	2.4
EV/EBDITA (x)	20.1	17.0	13.7	11.1
P/BV (x)	7.1	5.7	4.6	3.7
Dividend Yield (%)	0.6	0.7	0.8	0.9

E-estimates

Cadila Healthcare

DOLAT CAPITAL

CMP: ₹ 750 Target Price: ₹ 791 Accumulate

Cadila Healthcare – 3d growth…!

Cadila's business model — thrust on export formulations and contract manufacturing, well complemented with a strong domestic franchise. Strategic acquisitions and front end tie-ups has been key to CHL's growth trajectory. CHL entered into several Joint Ventures which has inturn positioned itself as a preferred contract manufacturer for Big Pharma companies. Sustained cash flows from its flagship segment - domestic formulations (38% of sales) permits it to augment international operations. After reaching the 'Healthy Billion' mark, Cadila Healthcare is now embarked on the journey to garner USD 3bn in sales by FY15-16E. Future growth opportunities identified are vaccines, biological & injectables to realise the vision. We also expect CHL to capitalize on the biosimilar opportunity in key markets having an enriching pipeline of 17 products under development.

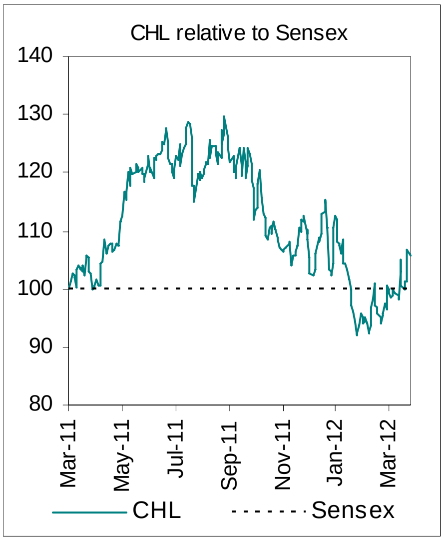
BSE Sensex	17,478
NSE Nifty	5,318

Scrip Details

Equity	₹ 1024mn
Face Value	₹ 5/-
Market Cap	₹ 153.6bn
	USD 3.1bn
52 week High / Low	₹ 984 / 629
Avg. Volume (no)	127,819
BSE Code	532321
NSE Symbol	CADILAHC
Bloomberg Code	CDH IN
Reuters Code	CADI.BO

Shareholding Pattern as on Dec'11(%)

Promoter	74.8
MF/Banks/FIs	12.3
FIIs	5.2
Public / Others	7.7



Investment Rationale

International formulations ready to run at full throttle

Strategic acquisitions have been a key enabler for CHL to consolidate and expand its footprint in key regulated and emerging markets.The company's export formulations business has grown by 33% CAGR over FY09-11 through its distribution tie-ups, complex product filings and cost competencies (back-ended domestic manufacturing). We estimate this division to grow by 20% CAGR over FY11-14E on the back of higher penetration of existing products and increased revenue contribution from recently acquired Nesher Pharma (US). The FDA resolution at its Moraiya plant (post re-inspection concluded in March 2012) is a near term trigger.

Joint ventures – complementing base business growth

The company has been proactive in identifying and capitalizing on partnership opportunities since FY07, when it signed the Nycomed JV - one of the most profitable JV by an Indian player (70%+ net margin) - manufacture pantoprazole intermediates. With increasing genericization of Protonix, the company offset the loss in sales through Hospira JV (oncology injectables) and currently sells five products in EU & three in US under this arrangement. Further growth momentum will be achieved through the Bayer JV which commenced operations in May 2011, while Abbott JV will see revenue contribution H2FY13E onwards.

Domestic Formulation business: Cash COW!

CHL owns 3.8% share and has a leading position in key therapies - CVS, gastro, women health care and respiratory (58% of the portfolio). Despite the initial slowdown witnessed during H1FY12, the division is now showing stabilization in sales. We estimate domestic formulation sales to record 16% CAGR over FY11-14E aided by incremental revenue contribution from Biochem and new launches.

Valuations

Uptick in domestic formulations and traction in formulation exports, along with the JVs yet to realise full potential, ensure higher revenue visibility. However, gradual absorption of integration costs on acquired entities will hold back margin expansion for the near future. Near term trigger is the resolution of the compliance issues at the Moraiya plant. At CMP, the stock trades at 21.9x FY12E and 20.2x FY13E earnings. We maintain our Accumulate rating on the stock with a target price of ₹ 791 (18x FY14E EPS).

Financials

Year	Net Sales#	%growth	EBIDTA	OPM%	PAT*	%growth	EPS(₹)*	%growth	PER(x)	ROANW%	ROACE%
FY11	46,302	25.6	10,262	22.2	7,029	38.8	34.3	38.8	21.8	37.4	28.9
FY12E	51,984	12.3	10,412	20.0	6,997	-0.5	34.2	-0.5	21.9	28.8	21.3
FY13E	62,647	20.5	12,843	20.5	7,604	8.7	37.1	8.7	20.2	25.7	20.2
FY14E	71,846	14.7	15,088	21.0	9,000	18.4	44.0	18.4	17.1	25.3	21.2

*Figures in ₹mn, * Adjusted for exceptional items*

INCOME STATEMENT

₹ mn

Particulars	Mar11	Mar12E	Mar13E	Mar14E
Net Sales/Income From Operations	**46302**	**51984**	**62647**	**71846**
Non Operating Income	131	504	200	150
Total Income	**46433**	**52488**	**62847**	**71996**
Total Expenditure	36040	41572	49804	56758
EBIDTA (Excl. Other Income)	**10262**	**10412**	**12843**	**15088**
EBIDTA (Incl. Other Income)	**10393**	**10916**	**13043**	**15238**
Interest	699	1019	1100	1150
Gross Profit	**9694**	**9897**	**11943**	**14088**
Depreciation	1269	1688	2100	2500
Profit Before Tax	**8425**	**8209**	**9843**	**11588**
Tax	1064	939	1969	2318
Reported Net Profit	**7361**	**7270**	**7874**	**9270**
Adjustments on consolidation	251	273	270	270
Net Profit	**7110**	**6997**	**7604**	**9000**
Extraordinary & Forex Items	-81	0	0	0
Adjusted Net Profit	**7029**	**6997**	**7604**	**9000**

BALANCE SHEET

Particulars	Mar11	Mar12E	Mar13E	Mar14E
Sources of Funds				
Equity Capital	1024	1024	1024	1024
Share Premium	116	116	116	116
Other Reserves	20575	25737	31140	37817
Net Worth	**21715**	**26877**	**32280**	**38956**
Secured Loans	9341	16350	16200	16200
Unsecured Loans	1632	6500	5100	5100
Loan Funds	**10973**	**22850**	**21300**	**21300**
Net Deferred Tax Liability	1127	1315	1709	2172
Minority Interest	669	942	1212	1482
Total Capital Employed	**34484**	**51984**	**56501**	**63911**
Applications of Funds				
Gross Block	28320	39130	45130	50130
Less: Accumulated Depreciation	9994	11682	13782	16282
Net Block	**18326**	**27448**	**31348**	**33848**
Capital Work in Progress	4310	3000	2000	2000
Investments	**207**	**2007**	**2007**	**2007**
Current Assets, Loans & Advances				
Inventories	8119	9969	12667	14783
Sundry Debtors	7652	9000	10978	12449
Cash and Bank Balance	2952	6714	4911	7272
Loans and Advances	4106	5606	6606	7606
sub total	**22829**	**31289**	**35162**	**42109**
Current Liabilities & Provisions				
Current Liabilities	8955	9027	10784	12321
Provisions	2233	2733	3233	3733
sub total	**11188**	**11760**	**14017**	**16054**
Net Current Assets	**11641**	**19529**	**21146**	**26056**
Total Assets	**34484**	**51984**	**56501**	**63911**

E-estimates

CASH FLOW

Particulars	Mar11	Mar12E	Mar13E	Mar14E
PBT & extra ordinary items	**8425**	**8209**	**9843**	**11588**
Depreciation & w.o.	1269	1688	2100	2500
Net Interest Exp	699	1019	1100	1150
Direct taxes paid	(1064)	(939)	(1969)	(2318)
Change in Working Capital	(2108)	(4126)	(3420)	(2549)
Other	(75)	(17)	(17)	(17)
(A) CF from Operating Activities	**7147**	**5833**	**7637**	**10354**
Capex	(4570)	(9500)	(5000)	(5000)
Free Cash Flow	**2577**	**(3667)**	**2637**	**5354**
(Inc)/ Dec. in Investments	0	(1800)	0	0
Others (Bal Fig)	(416)	205	411	481
(B) CF from Investing Activities	**(4986)**	**(11095)**	**(4589)**	**(4519)**
Issue of Equity/ Preference	341	0	0	0
Inc./(Dec.) in Debt	68	11877	(1550)	0
Interest exp net	(699)	(1019)	(1100)	(1150)
Dividend Paid (Incl. Tax)	(1529)	(1834)	(2201)	(2324)
Others				
(C) CF from Financing Activities	**(1819)**	**9024**	**(4851)**	**(3474)**
Net Change in Cash	342	3762	(1803)	2361
Opening Cash balances	2609	2952	6714	4911
Closing Cash balances	**2952**	**6714**	**4911**	**7272**

E-estimates

IMPORTANT RATIOS

Particulars	Mar11	Mar12E	Mar13E	Mar14E
(A) Measures of Performance (%)				
Contribution Margin				
EBIDTA Margin (excl. O.I.)	22.2	20.0	20.5	21.0
EBIDTA Margin (incl. O.I.)	22.4	20.8	20.8	21.2
Interest / Sales	1.6	2.0	1.8	1.6
Gross Profit Margin	20.9	18.9	19.0	19.6
Tax/PBT	12.6	11.4	20.0	20.0
Net Profit Margin	15.1	13.3	12.1	12.5
(B) As Percentage of Net Sales				
Raw Material	31.9	32.1	32.5	32.5
Employee Expenses	13.2	14.1	13.5	13.0
Other Expenses	32.8	33.7	33.5	33.5
(C) Measures of Financial Status				
Debt / Equity (x)	0.5	0.9	0.7	0.5
Interest Coverage (x)	14.9	10.7	11.9	13.3
Average Cost Of Debt (%)	6.4	6.0	5.0	5.4
Debtors Period (days)	62	65	65	64
Closing stock (days)	66	72	75	76
Inventory Turnover Ratio (x)	5.5	5.1	4.9	4.8
Fixed Assets Turnover (x)	1.6	1.3	1.4	1.4
Working Capital Turnover (x)	3.8	2.6	2.9	2.7
Non Cash Working Capital (₹ Mn)	8,689.0	12,815.0	16,234.6	18,783.8
(D) Measures of Investment				
Adj. EPS (₹) (excl EO)	34.3	34.2	37.1	44.0
EPS (₹)	34.7	34.2	37.1	44.0
CEPS (₹)	40.5	42.4	47.4	56.2
DPS (₹)	6.3	7.5	9.0	9.5
Dividend Payout (%)	18.0	21.9	24.2	21.6
Profit Ploughback (%)	82.0	78.1	75.8	78.4
Book Value (₹)	106.1	131.3	157.7	190.3
RoANW (%)	37.4	28.8	25.7	25.3
RoACE (%)	28.9	21.3	20.2	21.2
RoAIC (%) (Excl Cash & Invest.)	31.7	24.0	22.6	23.5
(E) Valuation Ratios				
CMP (₹)	750.0	750.0	750.0	750.0
P/E (x)	21.8	21.9	20.2	17.1
Market Cap. (₹ Mn)	153561.4	153561.4	153561.4	153561.4
MCap/ Sales (x)	3.3	3.0	2.5	2.1
EV (₹ Mn)	161582.6	169697.2	169950.4	167589.5
EV/Sales (x)	3.5	3.3	2.7	2.3
EV/EBDITA (x)	15.7	16.3	13.2	11.1
P/BV (x)	7.1	5.7	4.8	3.9
Dividend Yield (%)	0.8	1.0	1.2	1.3

E-estimates

IPCA Laboratories

DOLAT CAPITAL

CMP: ₹ 335 Target Price: ₹ 402 Buy

Captivating Growth Story!!

IPCA has transformed itself from a leading API manufacturer to a fully integrated formulation company. It has an intriguing business mix of branded formulations as well as generics and is well diversified geographically. We anticipate export formulations to register 30% growth over FY11-14E mainly driven by increasing contribution from institutional based sales and ramp up in its US generics biz. The successful USFDA inspection - Indore SEZ facility shall do away with capacity constraints and pave way for market share gains in existing products and facilitate new launches. The domestic formulations segment is expected to rebound in FY13E with increasing contribution from CVS, pain management segment while field force productivity shows an uptick.

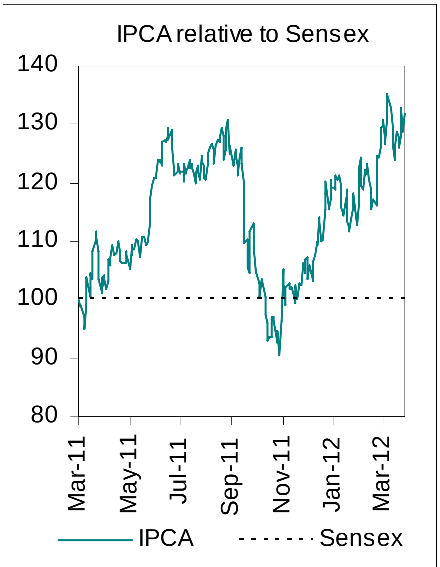
BSE Sensex	17,478
NSE Nifty	5,318

Scrip Details

Equity	₹ 251mn
Face Value	₹ 2/-
Market Cap	₹ 42.1bn
	USD 859.4mn
52 week High / Low	₹ 352 / 230
Avg. Volume (no)	59323
BSE Code	524494
NSE Symbol	IPCALAB
Bloomberg Code	IPCA IN
Reuters Code	IPCA.BO

Shareholding Pattern as on Dec'11(%)

Promoter	46.1
MF/Banks/FIs	22.8
FIIs	8.7
Public / Others	22.5



Investment Rationale

Integrated Generic Play

IPCA has transformed itself from an API manufacturer to a fully integrated formulation company. Formulations constitute 74% of the product mix with APIs mainly captively consumed. The company follows a two pronged growth strategy viz., emphasis on branded formulations with front end presence in fast growing emerging markets and is a preferred supplier for generics (APIs/formulations) to its partners based in the regulated markets and thus stays away from any patent litigation.

Export Formulations – US Generics to gain traction

We anticipate contribution from export formulations to increase from 37% of sales (FY11) to 48% in FY14E (implying 30% CAGR). The successful USFDA inspection (pending approval) – Indore SEZ paves way for market share gains in existing products (site transfers underway) and permits it to accelerate new product launches post timely approvals. On the other hand, the promotional markets (CIS, Asia etc.) are expected to grow by 26% over FY11-14E on the back of new launches.Notably, funding commitment over AMFm programs and increased off take of Artermether-Lumefantrine (AL) formulation ensures revenue visibility in its institutional business.

Domestic Pharma business - Power Brands..!

IPCA holds 1.7% market share in the domestic Pharma market (MAT Dec'11). Anti-malarials, CVS and pain management constitute more than 70% of the domestic business. With rising MR productivity (domestic field force: 4000) and growing contribution from CVS & pain management, we anticipate the company to witness a rebound and register 15% growth in FY13E respectively.The proposed National Pharmaceutical Pricing Policy (NPPP), if implemented in its current form, will have negligible impact as IPCA's products are not priced at the top-end.

Valuation

IPCA's growth mantra revolves around creating a competitive position in formulations by leveraging on its API goldmine. We expect acceleration in export formulation revenues mainly led by the generics arm (US market in particular post FDA approval to its Indore site) and sustained growth in its institutional segment.Gradual recovery in domestic formulations hereon shall add to growth momentum. At CMP, the stock trades at 12.9x FY12E and 11.6x FY13E earnings. We recommend Buy on the stock with a revised target price of ₹ 402 (12x FY14E EPS).

Financials

Year	Net Sales#	%growth	EBITDA	OPM%	PAT*	%growth	EPS(₹)*	%growth	PER(x)	ROANW(%)	ROACE(%)
FY11	18989	21.2	3761	19.8	2194	10.2	17.5	10.2	19.2	22.9	21.5
FY12E	23614	24.4	5342	22.6	3273	49.2	26.0	49.2	12.9	27.5	25.7
FY13E	27515	16.5	6119	22.2	3644	11.3	29.0	11.3	11.6	24.6	24.2
FY14E	31520	14.6	6934	22.0	4209	15.5	33.5	15.5	10.0	23.2	23.8

*Figures in ₹ mn, # Includes other operating income, * Excludes forex exceptional items*

INCOME STATEMENT ₹ mn

Particulars	Mar11	Mar12E	Mar13E	Mar14E
Income from Operations	**18,989**	**23,614**	**27,515**	**31,520**
Other income	83	117	80	60
Total Income	**19,072**	**23,731**	**27,595**	**31,580**
Total Expenditure	15,227	18,272	21,396	24,586
EBIDTA (Excl. Other Income)	**3,761**	**5,342**	**6,119**	**6,934**
EBIDTA (Incl. Other Income)	**3,844**	**5,460**	**6,199**	**6,994**
Interest	314	498	517	488
Gross Profit	**3,530**	**4,961**	**5,681**	**6,506**
Depreciation	558	709	883	967
Profit Before Tax	**2,973**	**4,252**	**4,798**	**5,539**
Tax	784	979	1,154	1,330
Net Profit (before EOIs)	**2,189**	**3,273**	**3,644**	**4,209**
Share of associates	(5)	0	0	0
Forex Losses/(Gains)	(434)	0	0	0
Net Profit	**2,628**	**3,273**	**3,644**	**4,209**
Adj. Net Profit	**2,194**	**3,273**	**3,644**	**4,209**

BALANCE SHEET

Particulars	Mar11	Mar12E	Mar13E	Mar14E
Sources of Funds				
Equity Capital	251	251	251	251
Share Premium	424	424	424	424
Other Reserves	9,841	12,602	15,660	19,210
Net Worth	**10,516**	**13,277**	**16,335**	**19,885**
Secured Loans	4,273	4,530	4,560	4,200
Unsecured Loans	1,036	1,545	1,445	1,445
Loan Funds	**5,308**	**6,075**	**6,005**	**5,645**
Net Deferred Tax Liability	807	1,003	1,234	1,500
Minority Interest	(7)	0	0	0
Total Capital Employed	**16,625**	**20,355**	**23,574**	**27,030**
Applications of Funds				
Gross Block	9,884	13,016	15,016	17,016
Less: Accumulated Depreciation	2,892	3,601	4,484	5,452
Net Block	**6,992**	**9,415**	**10,531**	**11,564**
Capital Work in Progress	1,132	0	0	0
Investments	**408**	**408**	**408**	**408**
Current Assets, Loans & Advances				
Inventories	4,664	5,818	6,829	7,913
Sundry Debtors	4,637	5,754	6,904	8,085
Cash and Bank Balance	104	568	683	885
Loans and Advances	1,182	1,282	1,382	1,532
Other Current Assets				
sub total	**10,586**	**13,420**	**15,797**	**18,416**
Current Liabilities & Provisions				
Current Liabilities	2,073	2,413	2,658	2,824
Provisions	420	475	504	534
sub total	**2,493**	**2,889**	**3,163**	**3,358**
Net Current Assets	8,093	10,532	12,634	15,058
Total Assets	**16,625**	**20,355**	**23,574**	**27,030**

E-estimates

CASH FLOW

Particulars	Mar11	Mar12E	Mar13E	Mar14E
PBT and extra ordinary items	**2,973**	**4,252**	**4,798**	**5,539**
Depreciation & w.o.	558	709	883	967
Net Interest Exp	314	498	517	488
Direct taxes paid	(784)	(979)	(1,154)	(1,330)
Chg. in Working Capital	(1,203)	(1,975)	(1,987)	(2,221)
(A) CF from Operating Activities	**1,858**	**2,505**	**3,057**	**3,443**
Capex	(1,821)	(2,000)	(2,000)	(2,000)
Free Cash Flow	**37**	**505**	**1,057**	**1,443**
Inc./ (Dec.) in Investments	(222)	0	0	0
(B) CF from Investing Activities	**(2,043)**	**(2,000)**	**(2,000)**	**(2,000)**
Issue of Equity/ Preference	39	0	0	0
Inc./(Dec.) in Debt	763	767	(70)	(360)
Interest exp net	(314)	(498)	(517)	(488)
Dividend Paid (Incl. Tax)	(468)	(512)	(586)	(659)
Other (Bal.fig)	161	202	231	266
(C) CF from Financing Activities	**181**	**(41)**	**(942)**	**(1,241)**
Net Change in Cash	(4)	464	115	203
Opening Cash balances	108	104	568	683
Closing Cash balances	**104**	**568**	**683**	**885**

E-estimates

IMPORTANT RATIOS

Particulars	Mar11	Mar12E	Mar13E	Mar14E
(A) Measures of Performance (%)				
Contribution Margin				
EBIDTA Margin (excl. O.I.)	19.8	22.6	22.2	22.0
EBIDTA Margin (incl. O.I.)	20.2	23.1	22.5	22.2
Interest / Sales	1.7	2.1	1.9	1.6
Gross Profit Margin	18.5	20.9	20.6	20.6
Tax/PBT	26.4	23.0	24.1	24.0
Net Profit Margin	11.6	13.9	13.2	13.4
(B) As Percentage of Net Sales				
Raw Material	40.9	39.1	40.0	40.4
Employee Expenses	14.0	13.5	13.1	13.1
Other Expenses	25.3	24.9	24.6	24.5
(C) Measures of Financial Status				
Debt / Equity (x)	0.5	0.5	0.4	0.3
Interest Coverage (x)	12.2	11.0	12.0	14.3
Average Cost Of Debt (%)	6.4	8.8	8.6	8.4
Debtors Period (days)	90	90	92	94
Closing stock (days)	90	91	91	92
Inventory Turnover Ratio (x)	4.0	4.0	4.0	4.0
Fixed Assets Turnover (x)	1.9	1.8	1.8	1.8
Working Capital Turnover (x)	2.3	2.2	2.2	2.1
Non Cash Working Capital (₹ Mn)	7,989.2	9,964.3	11,951.7	14,172.3
(D) Measures of Investment				
EPS (₹) (excl EO)	17.5	26.0	29.0	33.5
EPS (₹)	20.9	26.0	29.0	33.5
CEPS (₹)	21.9	31.7	36.0	41.2
DPS (₹)	3.2	3.5	4.0	4.5
Dividend Payout (%)	15.3	13.4	13.8	13.4
Profit Ploughback (%)	84.7	86.6	86.2	86.6
Book Value (₹)	83.7	105.6	130.0	158.2
RoANW (%)	22.9	27.5	24.6	23.2
RoACE (%)	21.5	25.7	24.2	23.8
RoAIC (%) (Excl Cash & Invest.)	21.6	26.2	24.9	24.6
(E) Valuation Ratios				
CMP (₹)	335	335	335	335
P/E (x)	19.2	12.9	11.6	10.0
Market Cap. (₹ Mn)	42,109.5	42,109.5	42,109.5	42,109.5
MCap/ Sales (x)	2.2	1.8	1.5	1.3
EV (₹ Mn)	47,314.1	47,617.0	47,431.9	46,869.2
EV/Sales (x)	2.5	2.0	1.7	1.5
EV/EBDITA (x)	12.6	8.9	7.8	6.8
P/BV (x)	4.0	3.2	2.6	2.1
Dividend Yield (%)	1.0	1.0	1.2	1.3

E-estimates

Strides Arcolab

DOLAT CAPITAL

CMP: ₹ 590 Target Price: ₹ 636 Accumulate

Nearing the Inflexion Point…!

Strides Arcolab (STAR) is setting its base to emerge as a credible injectable player from a generic pharmaceutical company. The divestment of Ascent Pharma business to Watson further reinforces its focus on high margin steriles segment. Till date, the company has garnered USD 230mn as upfront licensing income (through front end partnerships forged with Pharma MNC's), clearly reflecting the monetizable value of its pipeline. Six of its sterile facilities are now FDA approved which permits it to accelerate products already approved (25 of 58 final approvals in CY12E) into the commercialization phase and also leverage on prevailing drug shortages in US. The divestment proceeds of Ascent Pharma business shall deleverage the balance sheet while also lower capital investment leaves upside for higher return ratios going forward. We expect 33% adjusted earnings growth over CY11-13E, leading to an uptick in return ratios.

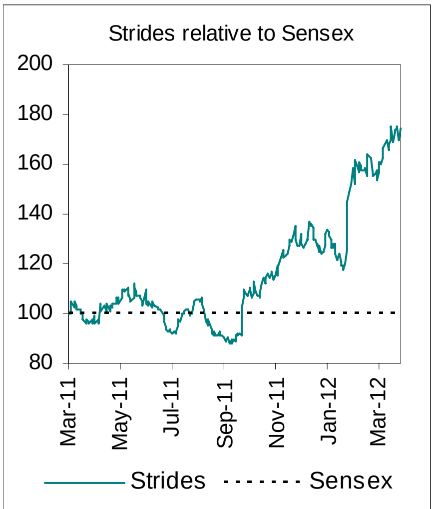
BSE Sensex	17,478
NSE Nifty	5,318

Scrip Details

Equity	₹ 584mn
Face Value	₹ 10/-
Market Cap	₹ 34.4bn
	USD 703mn
52 week High / Low	₹ 629 / 276
Avg. Volume (no)	432,399
BSE Code	532531
NSE Symbol	STAR
Bloomberg Code	STR IN
Reuters Code	STAR.BO

Shareholding Pattern as on Dec'11(%)

Promoter	28.4
MF/Banks/FIs	16.8
FIIs	37.7
Public / Others	17.1



Investment Rationale

Transformation into a leading specialty (injectables) player

STAR has emerged from being a generic pharmaceutical player (legacy business) to a specialty player, with increased focus on steriles (injectables). Divestment of Ascent Pharma is a reflection of its steady progression towards this transformation. It has reorganized its business structure with emphasis on two broad verticals — 'Specialties' and 'Pharmaceuticals'. Strides has built a strong manufacturing platform via both the organic and inorganic route, and has an enriching pipeline of IP assets, which it leverages through the partnership modus operandi.

Agila Specialty – At The tipping Point

The company follows a two-pronged growth strategy — supply to JV partner Sagent and supply to front-end partners - Pfizer Plc and GSK Plc. Manufacturing capacity constraints limited Stride's ability to commercialize products (33 launches of 58 final approvals). Six of its sterile facilities are now FDA approved which permits it to launch 25 of 62 total approved products in CY12E. We expect more launches from its Oncology product filings (YTD - 38 filings; only 3 launched) during CY12E. The company also stands to benefit from the current drug shortage in the US where global players themselves (like Hospira & Sandoz) are facing manufacturing bottlenecks. We expect the specialty segment's revenues to grow 29% over CY11-13E and contribute 62% of sales in CY13E.

Pharmaceuticals – Legacy Continues…

Post divestment of Ascent Pharma, the residual business comprises of domestic branded generics, anti-malaria/TB tender sales and soft gels. New product launches and increased penetration in Emerging Markets shall aid growth momentum, which is mainly volume-driven.

Valuations

We expect 33% adjusted earnings growth over CY11-13E. Increased contribution from sterile segment, turnaround in front-ended Brazilian operations will lead to margin expansion. Timely product approvals remain key to growth. At CMP, the stock trades at 13.1x CY12E and 11.1x CY13E earnings. We recommend Accumulate on the stock with a target price of ₹ 636 (12x CY13E earnings).

Financials

Year	Net Sales	% growth	EBITDA	OPM%	PAT*	% growth	EPS(₹)*	% growth	PER(x)	ROANW(%)	ROACE(%)
CY10	17,611	32.6	3,918	22.2	1,218	133.6	20.9	133.6	28.3	11.6	10.9
CY11	25,769	46.3	5,176	20.1	1,750	43.6	30.0	43.6	19.7	16.9	11.0
CY12E*#	23,226	(9.9)	4,994	21.5	2,628	50.2	45.0	50.2	13.1	17.8	11.7
CY13E*	27,322	17.6	5,738	21.0	3,092	17.7	53.0	17.7	11.1	17.9	14.6

*Figure in ₹ mn, *Adjusted for Exceptional Items; # Divestment of Ascent Pharma biz.*

INCOME STATEMENT

₹ mn

Particulars	Dec10	Dec11E	Dec12E	Dec13E
Net Sales	**16,958**	**25,245**	**22,626**	**26,722**
Operating Income	652	524	600	600
Income from Operations	**17,611**	**25,769**	**23,226**	**27,322**
Other income	45	2	0	0
Total Income	17,655	25,772	23,226	27,322
Total Expenditure	13,693	20,594	18,233	21,585
EBIDTA (Excl. Other Income)	**3,918**	**5,176**	**4,994**	**5,738**
EBIDTA (Incl. Other Income)	**3,963**	**5,178**	**4,994**	**5,738**
Interest	1,466	1,903	850	960
Gross Profit	**2,496**	**3,275**	**4,144**	**4,778**
Depreciation	639	1,043	900	970
Profit Before Tax & EO Items	1,858	2,232	3,244	3,808
Extra Ordinary Exps/(Income)	(6)	(495)	0	0
Profit Before Tax	1,864	2,727	3,244	3,808
Tax	452	387	584	685
Net Profit	**1,412**	**2,340**	**2,660**	**3,122**
Minority Interest	187	95	32	30
Net Profit	**1,224**	**2,245**	**2,628**	**3,092**
Adj. Net Profit	**1,218**	**1,750**	**2,628**	**3,092**

BALANCE SHEET

Particulars	Dec10	Dec11E	Dec12E	Dec13E
Sources of Funds				
Equity Capital	577	584	584	584
ESOP outstanding account	21	28	31	34
Share Premium	6,661	5,426	5,041	5,041
Other Reserves	5,568	7,677	10,169	13,126
Net Worth	**12,828**	**13,715**	**15,825**	**18,785**
Secured Loans	13,874	18,000	12,000	13,500
Unsecured Loans	6,224	7,665	2,250	2,250
Loan Funds	**20,098**	**25,665**	**14,250**	**15,750**
Deferred Tax Liability	31	(127)	(116)	(106)
Minority Interest	2,725	465	497	527
Total Capital Employed	**35,681**	**39,718**	**30,455**	**34,956**
Applications of Funds				
Gross Block	11,511	15,075	14,375	16,175
Less: Accumulated Depreciation	2,984	4,027	4,927	5,897
Net Block	**8,526**	**11,048**	**9,448**	**10,278**
Capital Work in Progress	1,915	4,550	1,000	1,000
Goodwill	14,756	19,826	17,000	17,000
Investments	18	0	0	0
Current Assets, Loans & Advances				
Inventories	3,120	4,799	4,959	6,003
Sundry Debtors	3,838	5,384	4,959	5,857
Cash and Bank Balance	3,395	2,675	2,528	4,139
Loans and Advances	8,840	4,543	2,000	3,000
Other Current Assets	412	1,597	1,240	1,464
sub total	19,604	18,999	15,687	20,464
Current Liabilities & Provisions				
Current Liabilities	7,249	11,996	9,918	10,250
Provisions	1,988	2,709	2,761	3,536
sub total	9,236	14,705	12,679	13,786
Net Current Assets	10,367	4,294	3,007	6,678
Misc Expenses	99	0	0	0
Total Assets	**35,681**	**39,718**	**30,455**	**34,956**

E-estimates

CASH FLOW

Particulars	Dec10	Dec11E	Dec12E	Dec13E
Profit before tax	1,858	2,232	3,244	3,808
Depreciation & w.o.	639	1,043	900	970
Net Interest Exp	1,466	1,903	850	960
Direct taxes paid	(452)	(387)	(584)	(685)
Chg in Working Capital	(5,224)	5,354	1,140	(2,060)
(A) CF from Operating Activities	**(1,713)**	**10,145**	**5,550**	**2,993**
Capex	(1,865)	(6,200)	4,250	(1,800)
Free Cash Flow	**(3,578)**	**3,945**	**9,800**	**1,193**
Inc./ (Dec.) in Investments	3,396	18	0	0
Other (Bal fig.)	(5,498)	(6,982)	2,840	14
(B) CF from Investing Activities	**(3,968)**	**(13,164)**	**7,090**	**(1,786)**
Issue of Equity/ Preference	4,206	(1,229)	(385)	0
Inc./(Dec.) in Debt	5,530	5,567	(11,415)	1,500
Interest exp net	(1,466)	(1,903)	(850)	(960)
Dividend Paid (Incl. Tax)	(107)	(136)	(136)	(136)
(C) Cash Flow from Financing	**8,163**	**2,299**	**(12,786)**	**404**
Net Change in Cash	2,482	(719)	(147)	1,611
Opening Cash balances	912	3,395	2,675	2,528
Closing Cash balances	3,395	2,675	2,528	4,139

E-estimates

IMPORTANT RATIOS

Particulars	Dec10	Dec11E	Dec12E	Dec13E
(A) Measures of Performance (%)				
Contribution Margin				
EBIDTA Margin (excl. O.I.)	22.2	20.1	21.5	21.0
EBIDTA Margin (incl. O.I.)	22.5	20.1	21.5	21.0
Interest / Sales	8.6	7.5	3.8	3.6
Gross Profit Margin	14.2	12.7	17.8	17.5
Tax/PBT	24.2	14.2	18.0	18.0
Net Profit Margin	7.0	8.7	11.3	11.3
(B) As Percentage of Net Sales				
Raw Material	45.7	49.0	49.0	49.5
Employee Expenses	12.8	11.7	11.5	11.5
Other Expenses	19.2	19.1	18.0	18.0
(C) Measures of Financial Status				
Debt / Equity (x)	1.6	1.9	0.9	0.8
Interest Coverage (x)	2.7	2.7	5.9	6.0
Average Cost Of Debt (%)	8.5	8.3	4.3	6.4
Debtors Period (days)	83	78	80	80
Closing stock (days)	67	69	80	82
Inventory Turnover Ratio (x)	5.4	5.3	4.6	4.5
Fixed Assets Turnover (x)	1.5	1.7	1.6	1.7
Working Capital Turnover (x)	1.6	5.9	7.5	4.0
Non Cash Working Capital (₹ Mn)	6,973	1,619	479	2,539
(D) Measures of Investment				
EPS (₹) (excl EO)	20.9	30.0	45.0	53.0
EPS (₹)	21.0	38.5	45.0	53.0
CEPS (₹)	32.3	56.3	60.4	69.6
DPS (₹)	1.6	2.0	2.0	2.0
Dividend Payout (%)	7.6	5.2	4.4	3.8
Profit Ploughback (%)	92.4	94.8	95.6	96.2
Book Value (₹)	222.1	234.9	271.1	321.8
RoANW (%)	11.6	16.9	17.8	17.9
RoACE (%)	10.9	11.0	11.7	14.6
RoAIC (%) (Excl Cash & Invest.)	11.7	11.9	12.6	16.2
(E) Valuation Ratios				
CMP (₹)	590	590	590	590
P/E (x)	28.3	19.7	13.1	11.1
Market Cap. (₹ Mn)	34,069.4	34,444.3	34,444.3	34,444.3
MCap/ Sales (x)	2.0	1.4	1.5	1.3
EV (₹ Mn)	50,773.2	57,434.3	46,165.8	46,055.2
EV/Sales (x)	3.0	2.3	2.0	1.7
EV/EBDITA (x)	13.0	11.1	9.2	8.0
P/BV (x)	2.7	2.5	2.2	1.8
Dividend Yield (%)	0.3	0.3	0.3	0.3

E-estimates

Biocon

DOLAT CAPITAL

CMP: ₹ 230 **Target Price: ₹ 285** **Buy**

Clinical Gains...!

Biocon has shifted its focus from statins to branded biotech formulations and contract research services. We estimate core Biopharma division to grow at 15% CAGR over FY11-14E with increasing contribution from domestic branded formulations and ramp up in fidaxomicin bulk supplies. The termination of Pfizer deal limits scope of monetisation over its Biosimilar insulins in key markets. The Mylan collaboration (products going off-patent 2015 onwards) however is on track. We estimate 22% revenue growth in its CRO segment over FY11-14E with increased focus on integrated drug development services. Favourable data on Oral insulin IN105 (Phase I trials ongoing in US) shall be a key valuation driver, given the potential size of the opportunity and the status as a novel product.

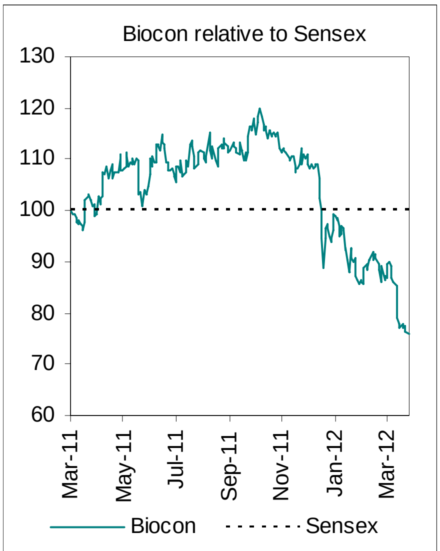
BSE Sensex	17,478
NSE Nifty	5,318

Scrip Details

Equity	₹ 1000mn
Face Value	₹ 5/-
Market Cap	₹ 46bn
	USD 939mn
52 week High / Low	₹ 390 / 240
Avg. Volume (no)	681,416
BSE Code	532523
NSE Symbol	BIOCON
Bloomberg Code	BIOS IN
Reuters Code	BION.BO

Shareholding Pattern as on Dec'11(%)

Promoter	60.9
MF/Banks/FIs	10.4
FIIs	3.5
Public / Others	25.1



Investment Rationale

Risk Adjusted Growth Strategy

Biocon is the only company which has made remarkable progress in the Indian Biotech industry with oncology and diabetes as its focus areas. Over the years, the company has entered into strategic partnerships and acquired IPR's in the diabetic space. The company is making efforts to move up the value chain through selective 505 (b) 2 & ANDA filings.

Biopharma Segment (82% of FY11 sales) – To sustain growth momentum

The company's dependency on statins is expected to decline, although the segment is to offer near-term stability owing to the patent expiration of Atorvastatin. The branded formulations business is expected to grow by 34% YoY during FY12E (FY11: ₹ 1.8bn) and touch the ₹ 5bn mark over the next three years. Ramp up in sales from Fidaxomicin supplies to Optimer will further add to the growth momentum. The termination of Pfizer deal limits scope of monetisation over its Biosimilar insulins in key markets which stood as a key growth catalyst in the long run.However, product-development arrangement with Mylan (five biosimilar products, going offpatent 2015E onwards) is on track. We expect this division to grow at 15% CAGR over FY11-14E.

Contract Research segment (18% of FY11 sales) – Gaining scale

The BMS contract (7 year contract), with 450 FTE's, contributes 30% of Syngene sales. The company intends to gain scale in this vertical and shall consequently work out the modalities of getting Syngene listed. We expect CRO division to grow at 22% CAGR over FY11-14E.

Monetization of NCE pipeline around the corner

The company is in active discussions with several potential partners for the global development and launch of IN105. Recently released data from the Phase III trials of Anti-CD6 (psoriasis and other auto-immune diseases) shows positive results indicating a favorable risk-benefit profile. We expect the molecule to be out-licensed next year.

Valuation

Revenue scale up in domestic branded business, Fidaxomicin bulk and higher generic Atorvastatin supplies, shall aid near-term revenue growth. Higher R&D costs (as the product pipeline advances) restricts margin expansion. Uncertainty over monetization of biosimilar insulins post-Pfizer split has weighed down valuations. At CMP, the stock trades at 14.3x and 12.1x FY12E and FY13E earnings respectively. We maintain our Buy recommendation with a revised target price of ₹ 285 (13x FY14E EPS).

Financials

Year	Net Sales	% growth	EBITDA	OPM%	Adj. PAT	% growth	Adj. EPS(₹)	% growth	PER(x)	ROANW(%)	ROACE(%)
FY11	27,767	16.9	5,926	21.3	3,675	25.3	18.4	25.3	12.5	19.4	19.7
FY12E#	20,087	(27.7)	5,280	26.3	3,222	-12.3	16.1	-12.3	14.3	13.1	13.9
FY13E	22,346	11.2	6,302	28.2	3,798	17.9	19.0	17.9	12.1	12.6	13.9
FY14E	26,114	16.9	7,312	28.0	4,391	15.6	22.0	15.6	10.5	13.4	14.7

Figure in ₹ mn, # Excluding Axicorp financials

INCOME STATEMENT ₹ mn

Particulars	Mar11	Mar12E	Mar13E	Mar14E
Net Sales	**27,767**	**20,087**	**22,346**	**26,114**
Other income	370	452	420	400
Total Income	**28,137**	**20,539**	**22,766**	**26,514**
Total Expenditure	21,840	14,807	16,044	18,802
Operating Profit (excl. Other Income)	**5,926**	**5,280**	**6,302**	**7,312**
Operating Profit (incl. Other Income)	**6,296**	**5,732**	**6,722**	**7,712**
Interest	257	145	150	155
Gross Profit	**6,039**	**5,587**	**6,572**	**7,557**
Depreciation	1,568	1,765	2,050	2,330
Profit Before Tax & EO Items	**4,472**	**3,822**	**4,522**	**5,227**
Extra Ordinary Exps/(Income)	0	(6,515)*	0	0
Profit Before Tax	**4,472**	**10,337**	**4,522**	**5,227**
Tax	721	600	723	836
Net Profit	**3,751**	**9,737**	**3,798**	**4,391**
Minority Interest	(75)	0	0	0
PAT After Minority Interest	**3,675**	**9,737**	**3,798**	**4,391**
PAT After Minority Interest (w/o EOI)	**3,675**	**3,222**	**3,798**	**4,391**

** One-time adjustment of USD 130mn for unrecognized licensing income from Pfizer deal (includes USD 60mn in Escrow - net of tax)*

BALANCE SHEET

Particulars	Mar11	Mar12E	Mar13E	Mar14E
Sources of Funds				
Equity Capital	1,000	1,000	1,000	1,000
Reserves (excl Rev Res)	19,318	27,945	30,412	33,362
Net Worth	**20,318**	**28,945**	**31,412**	**34,362**
Revaluation reserve	9	9	9	9
Minority Interest	377	0	0	0
Secured Loans	2,039	1,539	1,500	1,500
Unsecured Loans	1,303	1,350	1,300	1,300
Loan Funds	**3,342**	**2,889**	**2,800**	**2,800**
Deferred Tax Liability	497	617	761	929
Total Capital Employed	**24,544**	**32,460**	**34,983**	**38,101**
Applications of Funds				
Gross Block	18,096	21,892	25,392	28,892
Less: Accumulated Depreciation	6,328	8,093	10,143	12,473
Net Block	**11,769**	**13,799**	**15,249**	**16,419**
Capital Work in Progress	1,796	1,500	1,500	1,500
Intangibles	**2,342**	**2,400**	**2,400**	**2,400**
Investments	**4,605**	**5,400**	**5,400**	**5,400**
Current Assets, Loans & Advances				
Inventories	4,137	3,302	4,286	5,008
Sundry Debtors	5,124	4,678	5,510	6,439
Cash and Bank Balance	4,414	6,880	5,686	6,017
Loans and Advances	1,355	1,755	2,255	2,755
sub total	**15,030**	**16,615**	**17,737**	**20,219**
Current Liabilities & Provisions				
Current Liabilities	9,855	5,404	5,132	5,407
Provisions	1,141	1,851	2,171	2,431
sub total	**10,997**	**7,254**	**7,303**	**7,838**
Net Current Assets	4,033	9,360	10,434	12,381
Total Assets	**24,544**	**32,460**	**34,983**	**38,101**

E-estimates

CASH FLOW

Particulars	Mar11	Mar12E	Mar13E	Mar14E
PBT & extra ordinary items	**4472**	**3822**	**4522**	**5227**
Depreciation & w.o.	1568	1765	2050	2330
Net Interest Exp	257	145	150	155
Direct taxes paid	(721)	(600)	(723)	(836)
Chg. in Working Capital	4102	(2861)	(2268)	(1616)
Other	0	6515	0	0
(A) CF from Operating Activities	**9677**	**8786**	**3730**	**5259**
Capex	(2622)	(3500)	(3500)	(3500)
Free Cash Flow	**7055**	**5286**	**230**	**1759**
(Inc)/ Dec. in Investments	(299)	(795)	0	0
Others (Bal Fig)	(700)	(325)	135	158
(B) CF from Investing Activities	**(3621)**	**(4620)**	**(3365)**	**(3342)**
Inc./(Dec.) in Debt	(1794)	(453)	(89)	0
Interest exp net	(257)	(145)	(150)	(155)
Dividend Paid (Incl. Tax)	(991)	(1101)	(1321)	(1431)
(C) CF from Financing	**(3041)**	**(1699)**	**(1560)**	**(1586)**
Net Change in Cash	3015	2466	(1194)	331
Opening Cash balances	1399	4414	6880	5686
Closing Cash balances	**4414**	**6880**	**5686**	**6017**

E-estimates

IMPORTANT RATIOS

Particulars	Mar11	Mar12E	Mar13E	Mar14E
(A) Measures of Performance (%)				
Operating Profit Margin (excl. O.I.)	21.3	26.3	28.2	28.0
Operating Profit Margin (incl. O.I.)	22.7	28.5	30.1	29.5
Interest / Sales	0.9	0.7	0.7	0.6
Gross Profit Margin	21.8	27.8	29.4	28.9
Tax/PBT	16.1	5.8	16.0	16.0
Net Profit Margin	13.2	16.0	17.0	16.8
(B) Measures of Financial Status				
Debt / Equity (x)	0.2	0.1	0.1	0.1
Interest Coverage (x)	24.5	39.5	44.8	49.8
Average Cost Of Debt (%)	7.7	4.7	5.3	5.5
Debtors Period (days)	67	85	90	90
Closing stock (days)	54	60	70	70
Inventory Turnover Ratio (x)	6.7	6.1	5.2	5.2
Fixed Assets Turnover (x)	2.4	1.5	1.5	1.6
Working Capital Turnover (x)	6.9	2.1	2.1	2.1
(C) Measures of Investment				
Earnings Per Share (₹) (excl EO)	18.4	16.1	19.0	22.0
Earnings Per Share (₹)	18.4	48.7	19.0	22.0
Cash Earnings Per Share (₹)	26.2	57.5	29.2	33.6
Dividend Per Share (₹)	4.5	5.0	6.0	6.5
Dividend Payout (%)	24.5	10.3	31.6	29.6
Profit Ploughback (%)	75.5	89.7	68.4	70.4
Book Value (₹)	101.6	144.7	157.1	171.8
RoANW (%)	19.4	13.1	12.6	13.4
RonACE (%)	19.7	13.9	13.9	14.7
RoCE (%) (Excl Cash & Invest.)	30.5	19.7	19.5	20.2
(D) Valuation Ratios				
CMP (₹)	230	230	230	230
P/E Ratio (x)	12.5	14.3	12.1	10.5
Market Cap. (₹ Mn)	46,000.0	46,000.0	46,000.0	46,000.0
Market Ca/Sales (x)	1.7	2.3	2.1	1.8
EV (₹ Mn)	44,928.5	42,008.6	43,114.1	42,783.3
EV/Sales (x)	1.6	2.1	1.9	1.6
EV/EBDITA (x)	7.6	8.0	6.8	5.9
P/BV (x)	2.3	1.6	1.5	1.3
Dividend Yield (%)	2.0	2.2	2.6	2.8

E-estimates

GlaxoSmithKline Pharma

DOLAT CAPITAL

CMP: ₹ 2215 Target Price: ₹ 2174 Sell

Patented Growth...!!!

GSK Pharma is our preferred pick in the MNC Pharma space on the back of parents' strong commitment towards introducing high value patented products through Glaxo India in the domestic market. Lower dependency on price controlled products, new product launches with minimal generic competition and moderate pricing ensures revenue visibility. Healthy cash per share and a reasonable dividend yield, serves as a classic addition to the defensive portfolio. The impact of the proposed draft National Pharmaceutical Pricing Policy 2011 (widens scope of price control) is an overhang on valuations.

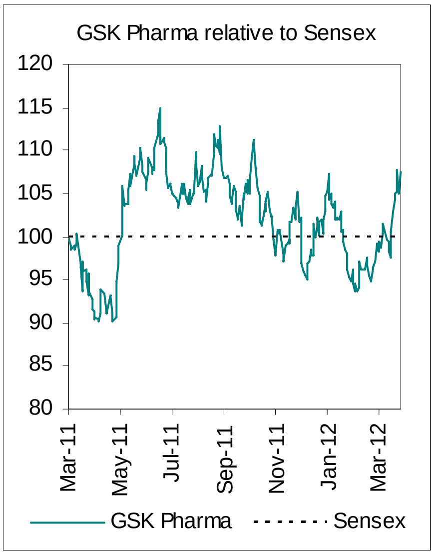
BSE Sensex	17,478
NSE Nifty	5,318

Scrip Details

Equity	₹ 847mn
Face Value	₹ 10/-
Market Cap	₹ 187.6bn
	USD 3.8bn
52 week High / Low	₹ 2475/1830
Avg. Volume (no)	22,533
BSE Code	500660
NSE Symbol	GLAXO
Bloomberg Code	GLXO.IN
Reuters Code	GLAX.BO

Shareholding Pattern as on Dec'11(%)

Promoter	74.8
MF/Banks/FIs	12.3
FIIs	5.2
Public / Others	7.7



Investment Rationale

GSK India beneficiary of its parent's commitment

GSK Plc has firm commitments towards launching patented products in India through the listed entity. Glaxo India emerges as a clear beneficiary on back of access to parents enriching pipeline which is skewed towards India specific diseases and is exposed to minimal generic competition.

New product launches - Enough headroom for growth

The Company's recent launches of the parent's shelf include Synflorix (pneumococcal vaccine), Votrient (renal cell carcinoma) and Revolade (low platelet counts). It's tiered pricing approach and significant domestic potential for these drugs facilitates gradual scalability. New product launches (CY09 onwards) has contributed 27% to topline growth and account for 9% of Rx sales. A favourable product mix (focus on lifestyle therapeutic segment) and increased penetration (tier II & III cities) are key growth drivers.

Focus on Priority products and brand building initiatives

Glaxo's well structured product mix favouring branded generics, vaccines and specialty products has consequently boosted topline growth. The company's strong sales and marketing capabilities has made it a preferred partner of choice for global big Pharma companies towards product licensing arrangements.

New Pharma Pricing Policy implementation is an overhang

The proposed New Drug Policy 2011 (NPPP 2011) poses a major risk for GSK. Of its top five products, Augmentin, Calpol, Ceftum and Eltroxin together contribute approx. 20% of its domestic revenue. Our estimates do not take into account this impact due to lack of certainty over implementation

Valuations

Sustained growth in priority products and vaccines, with gradual scale up in revenues from new product launches, will result in 13% revenue growth over CY11-13E. At CMP, the stock trades at 26.5x CY12E and 23.4x CY13E earnings. The impact of the proposed draft National Pharmaceutical Pricing Policy 2011 (widens scope of price control) is an overhang on valuations. We recommend Sell with a target price of ₹ 2,174 (23x CY13E earnings).

Financials

Year	Net Sales	%growth	EBIDTA	OPM%	Adj.PAT*	%growth	Adj. EPS(₹)	%growth	PER(x)	ROANW%	ROACE%
CY10	21,440	13.4	7,702	35.9	5,814	15.1	68.6	15.1	32.3	31.5	41.8
CY11	23,759	10.8	7,824	32.9	6,314	8.6	74.5	8.6	29.7	32.8	40.7
CY12E	26,881	13.1	9,152	34.0	7,070	12.0	83.5	12.0	26.5	34.9	45.2
CY13E	30,397	13.1	10,494	34.5	8,006	13.2	94.5	13.2	23.4	35.3	46.3

*Figure in ₹ mn, * Adjusted for exceptional items*

INCOME STATEMENT

₹ mn

Particulars	Dec10	Dec11	Dec12E	Dec13E
Net Sales	**21,116**	**23,380**	**26,481**	**29,947**
Operating Income	324	379	400	450
Income From Operations	**21,440**	**23,759**	**26,881**	**30,397**
Other income	1,147	1,596	1,630	1,720
Total Income	22,588	25,355	28,511	32,117
Total Expenditure	13,739	15,935	17,729	19,903
Operating Profit (excl. Other Income)	**7,702**	**7,824**	**9,152**	**10,494**
Operating Profit (incl. Other Income)	**8,849**	**9,420**	**10,782**	**12,214**
Gross Profit	**8,849**	**9,420**	**10,782**	**12,214**
Depreciation	176	204	230	265
Profit Before Tax & EO Items	8,673	9,216	10,552	11,949
Extra Ordinary Exps/(Income)	177	2,008	0	0
Profit Before Tax	8,496	7,208	10,552	11,949
Tax	2,859	2,902	3,482	3,943
Net Profit	**5,637**	**4,306**	**7,070**	**8,006**
Adj Net Profit	**5,814**	**6,314**	**7,070**	**8,006**

BALANCE SHEET

Particulars	Dec10	Dec11	Dec12E	Dec13E
Sources of Funds				
Equity Capital	847	847	847	847
Reserves (excl Rev Res)	18,461	18,352	20,522	23,138
Net Worth	19,308	19,199	21,369	23,985
Unsecured Loans	52	49	50	50
Loan Funds	52	49	50	50
Deferred Tax Liability	(564)	(615)	(615)	(615)
Total Capital Employed	**18,796**	**18,634**	**20,804**	**23,420**
Applications of Funds				
Gross Block	3,184	3,446	3,696	3,996
Less: Accumulated Depreciation	2,095	2,299	2,529	2,794
Net Block	**1,089**	**1,147**	**1,167**	**1,202**
Capital Work in Progress	87	100	150	150
Investments	**1,604**	**1,598**	**1,600**	**1,700**
Current Assets, Loans & Advances				
Inventories	2,815	3,301	3,555	4,020
Sundry Debtors	470	853	798	903
Cash and Bank Balance	19,481	19,862	20,272	23,237
Loans and Advances	1,189	2,251	2,351	2,451
Other Current Assets	528	690	724	760
sub total	24,483	26,957	27,700	31,370
Current Liabilities & Provisions				
Current Liabilities	3,567	3,545	4,413	4,913
Provisions	4,900	7,623	5,400	6,090
sub total	8,468	11,168	9,813	11,003
Net Current Assets	**16,016**	**15,788**	**17,887**	**20,367**
Total Assets	**18,796**	**18,634**	**20,804**	**23,420**

E-estimates

CASH FLOW

Particulars	Dec10	Dec11	Dec12E	Dec13E
Profit before tax	**8,673**	**9,216**	**10,552**	**11,949**
Depreciation & w.o.	176	204	230	265
Direct taxes paid	(2,859)	(2,902)	(3,482)	(3,943)
Chg in Working Capital	887	608	(1,688)	484
(A) CF from Operating Activities	**6,877**	**7,126**	**5,612**	**8,755**
Capex	(166)	(275)	(300)	(300)
Free Cash Flow	**6,711**	**6,851**	**5,312**	**8,455**
(Inc)/ Dec. in Investments	306	6	(2)	(100)
Others (Bal Fig)	(339)	(2,063)	(0)	0
(B) CF from Investing Activities	**(200)**	**(2,332)**	**(302)**	**(400)**
Inc./(Dec.) in Debt	(3)	(3)	1	0
Interest exp net	0	0	0	0
Dividend Paid (Incl. Tax)	(3,920)	(4,410)	(4,900)	(5,390)
(C) Cash Flow from Financing	**(3,923)**	**(4,413)**	**(4,899)**	**(5,390)**
Net Change in Cash	2,755	381	410	2,964
Opening Cash balances	16,726	19,481	19,862	20,272
Closing Cash balances	**19,481**	**19,862**	**20,272**	**23,237**

E-estimates

IMPORTANT RATIOS

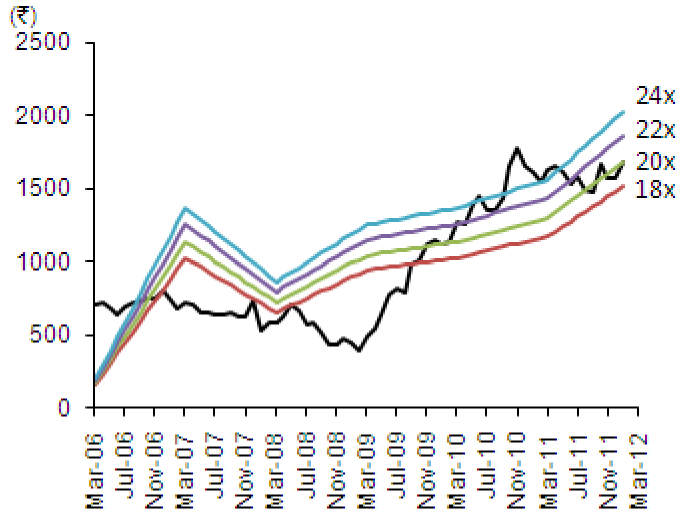
Particulars	Dec10	Dec11	Dec12E	Dec13E
(A) Measures of Performance (%)				
Operating Profit Margin (excl. O.I.)	35.9	32.9	34.0	34.5
Operating Profit Margin (incl. O.I.)	41.3	39.6	40.1	40.2
Interest / Sales	0.0	0.0	0.0	0.0
Gross Profit Margin	41.3	39.6	40.1	40.2
Tax/PBT	33.7	40.3	33.0	33.0
Net Profit Margin	26.3	18.1	26.3	26.3
(B) Measures of Financial Status				
Debtors Period (days)	8	13	11	11
Closing stock (days)	37	39	37	37
Inventory Turnover Ratio (x)	7.5	7.1	7.4	7.4
Fixed Assets Turnover (x)	19.4	20.4	22.7	24.9
Working Capital Turnover (x)	1.3	1.5	1.5	1.5
(C) Measures of Investment				
Earnings Per Share (₹) (excl EO)	68.6	74.5	83.5	94.5
Earnings Per Share (₹)	66.5	50.8	83.5	94.5
Cash Earnings Per Share (₹)	68.6	53.2	86.2	97.6
Dividend Per Share (₹)	40.0	45.0	50.0	55.0
Dividend Payout (%)	60.1	60.4	59.9	58.2
Profit Ploughback (%)	39.9	39.6	40.1	41.8
Book Value (₹)	228.0	226.7	252.3	283.2
RoANWorth (%)	31.5	32.8	34.9	35.3
RoACEmployed (%)	41.8	40.7	45.2	46.3
RoACEmployed (%)	(404.1)	(298.0)	(458.3)	(791.6)
(D) Valuation Ratios				
CMP (₹)	2,215	2,215	2,215	2,215
P/E (x)	32.3	29.7	26.5	23.4
Market Cap. (₹ Mn)	187,617.1	187,617.1	187,617.1	187,617.1
Market Cap/Sales (x)	8.9	8.0	7.1	6.3
Enterprise Value (₹ Mn)	168,188.0	167,804.4	167,395.0	164,430.6
EV/Sales (x)	8.0	7.2	6.3	5.5
EV/EBDITA (x)	21.8	21.4	18.3	15.7
Market Price to Book Value (x)	9.7	9.8	8.8	7.8
Dividend Yield (%)	1.8	2.0	2.3	2.5

E-estimates

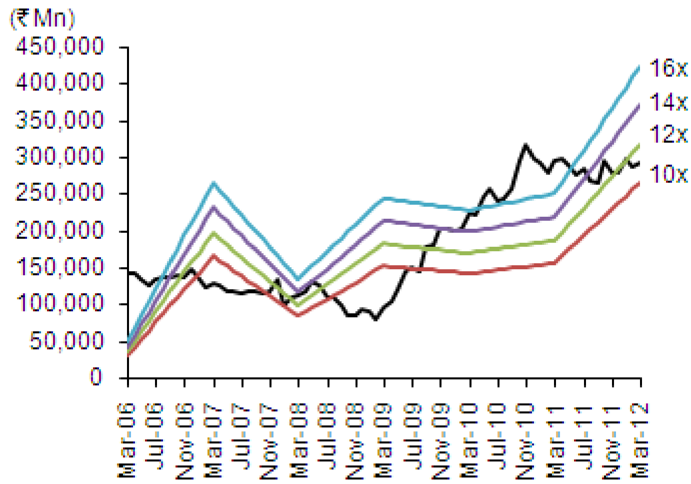
Valuation Bands

Dr. Reddy's Laboratories

PE (x)

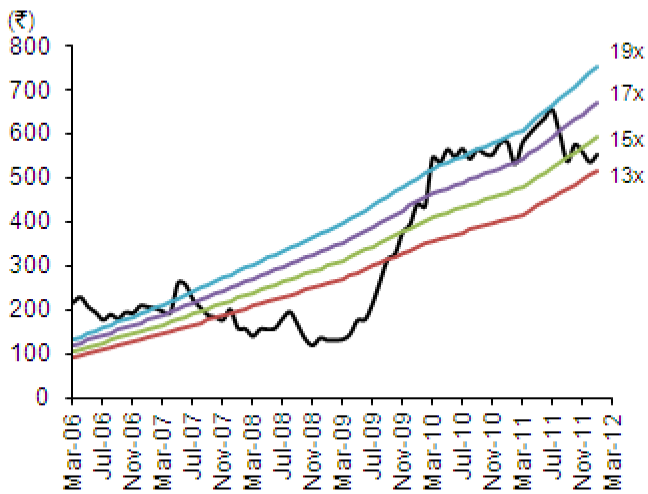


EV/EBITDA (x)

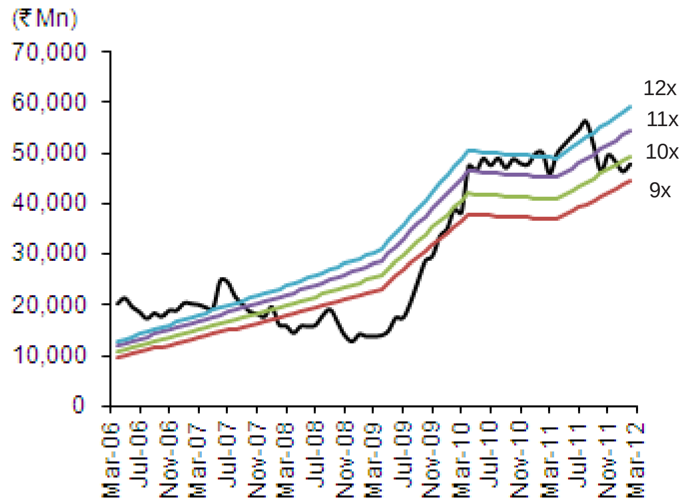


Torrent Pharma

PE (x)

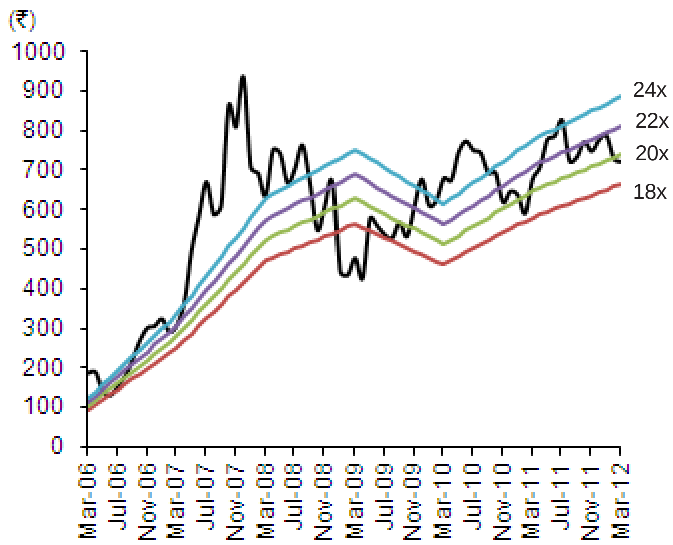


EV/EBITDA (x)

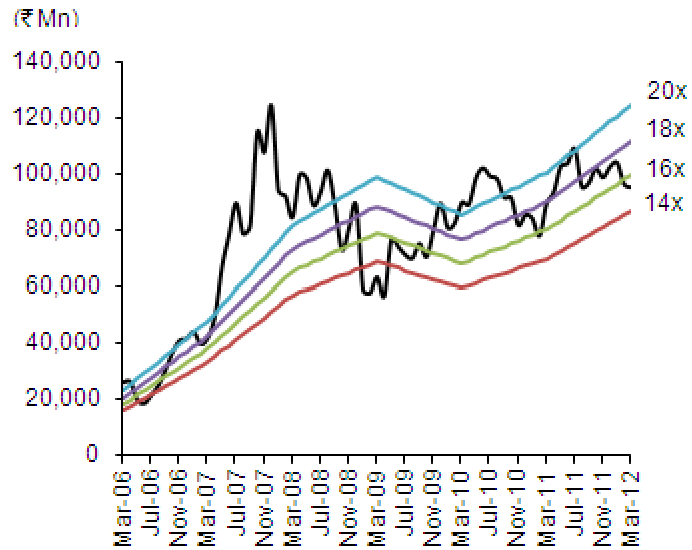


Divi's Laboratories

PE (x)



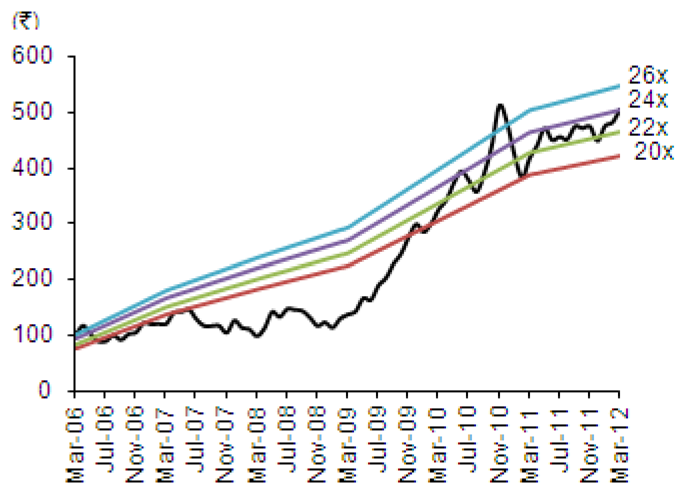
EV/EBITDA (x)

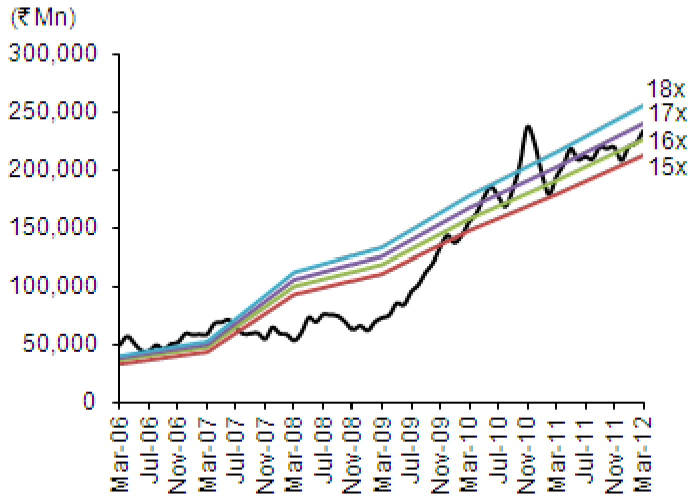


Valuation Bands

Lupin

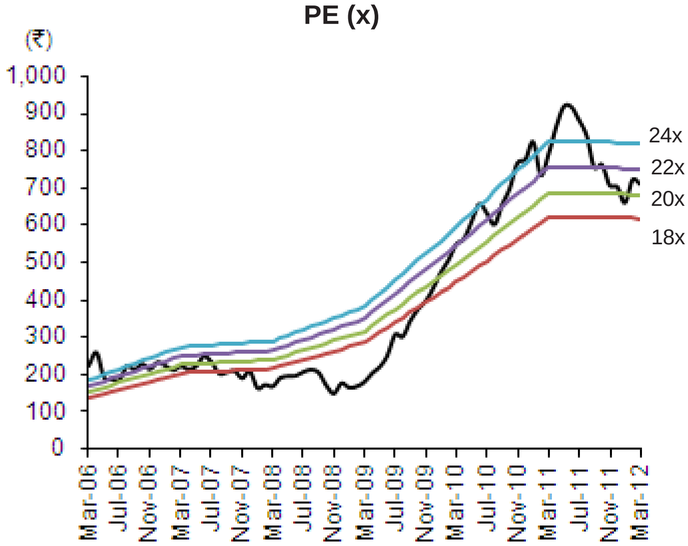
PE (x) **EV/EBITDA (x)**

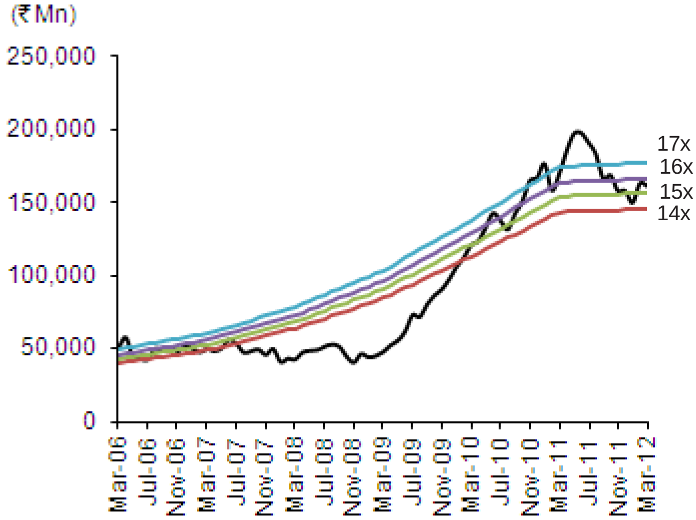




Cadila Healthcare

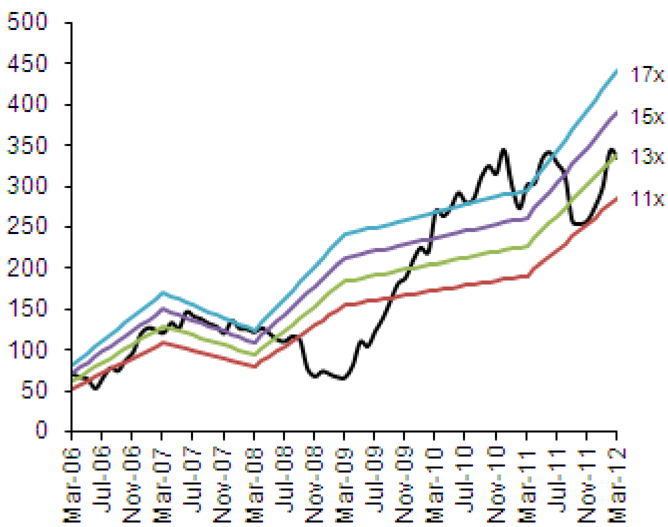
PE (x) **EV/EBITDA (x)**

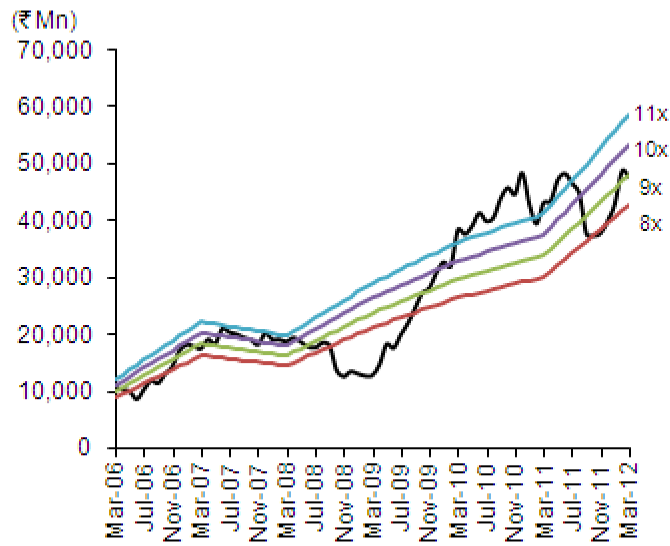




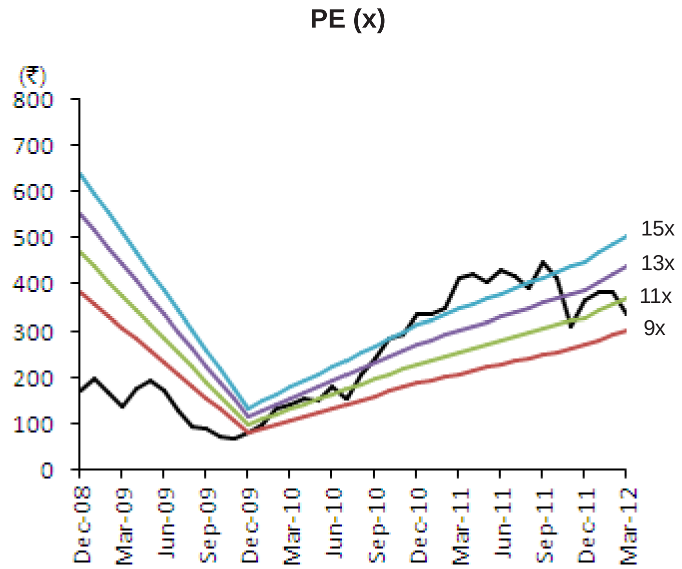
IPCA Laboratories

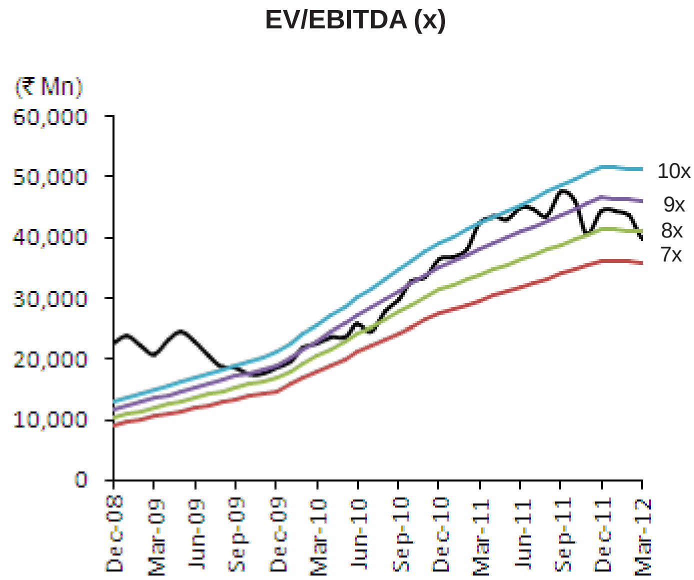
PE (x) **EV/EBITDA (x)**



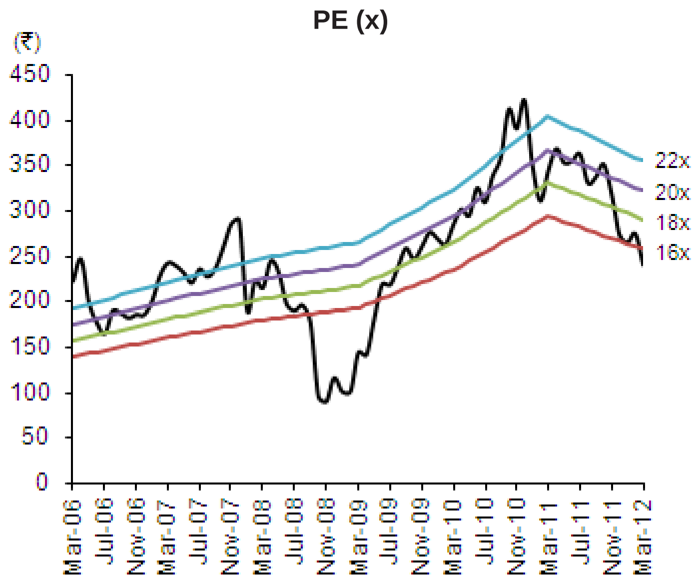


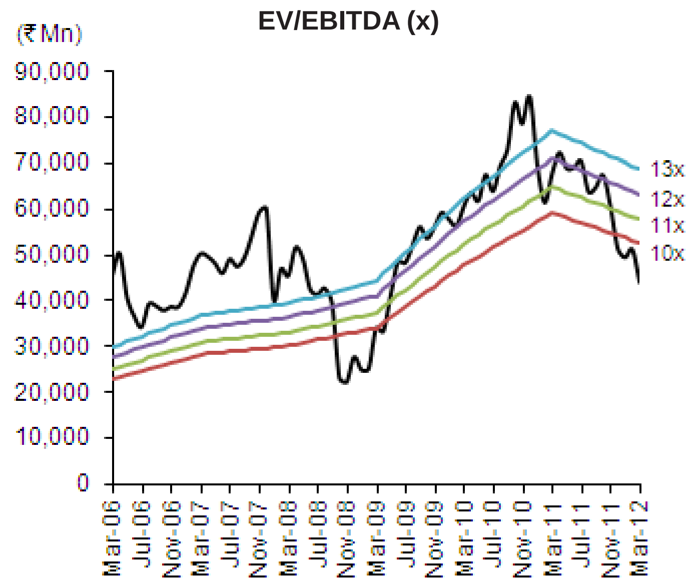
Strides Arcolabs



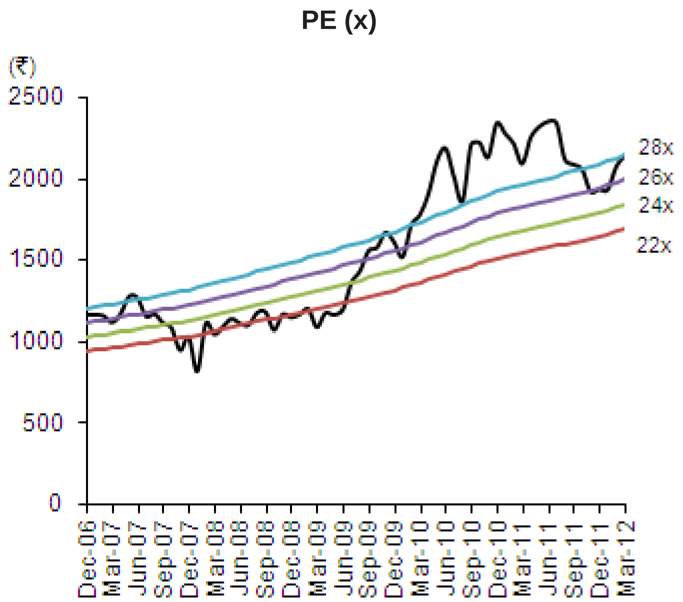


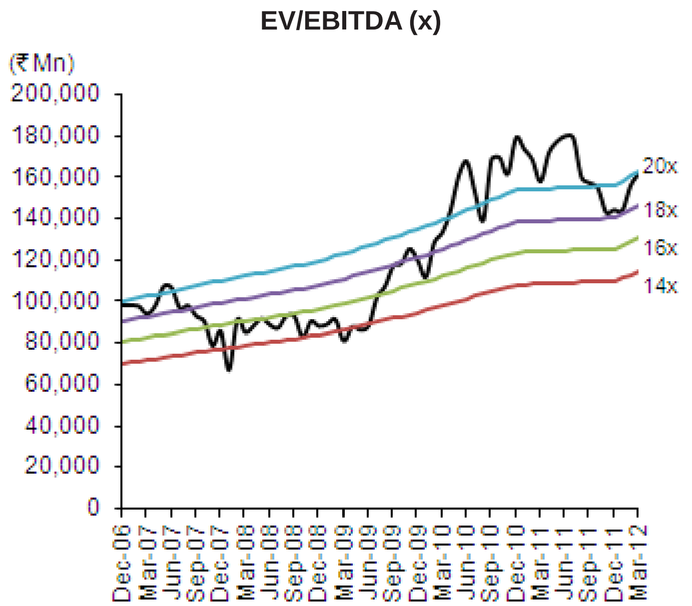
Biocon





GlaxoSmithKline Pharmaceuticals





Annexures

List of Top 50 Molecules in NPPP

Molecule name	Sales (₹ mn)
Amoxycillin + clavulanic acid	8,820
Cefixime	7,043
Atorvastatin	6,809
Multivitamins + minerals	6,036
Glimepiride + metformin	5,502
Iron ferrous combination	5,099
Intermediate-acting, ispophane (nph)	5,084
Chlorpheniramine + codeine	4,536
Azithromycin	4,203
Ceftriaxone	4,187
Pantoprazole	4,071
Ranitidine	3,935
Paracetamol	3,412
Diclofenac	3,324
Glimepiride + metformin + pioglitazone	3,107
Atenolol + amlodipine	3,018
Domperidone + rabeprazole	2,789
Domperidone + Pantoprazole	2,872
Amlodipine	2,787
Calcium + cholecalciferol	2,751
Ofloxacin	2,709
Metoprolol	2,500
Diclofenac	2,489
Enoxaparin	2,366
Amoxycillin	2,346
Ferrous ascorbate	2,235
Metformin	2,234
Cefalexin	2,215
Ibuprofen + paracetamol	2,164
Ciprofloxacin	2,122
Losartan + hydroclorthiazide	2,095
Ofloxacin + ornidazole	2,077
Omeprazole	2,048
Losartan	1,988
Amikacin	1,971
Cefotaxime	1,949
Povidone iodine	1,935
Paracetamol + phenylephrine + chlorpheniramine	1,890
Ondansetron	1,813
Ampicillin + cloxacillin	1,793
Vitamin b complex with vitamin c only	1,785
Cefpodoxime clavulanic acid	1,763
Ceftriaxone sulbactum	1,742
Gliclazide metformin	1,719
Clopidogrel	1,694
Mifepristone + misoprostol	1,679
Calcium + calcitriol	1,573
Atenolol	1,563
Guaifenesin + terbutaline + bromhexine	1,490
Methyl prednisolone	1,483

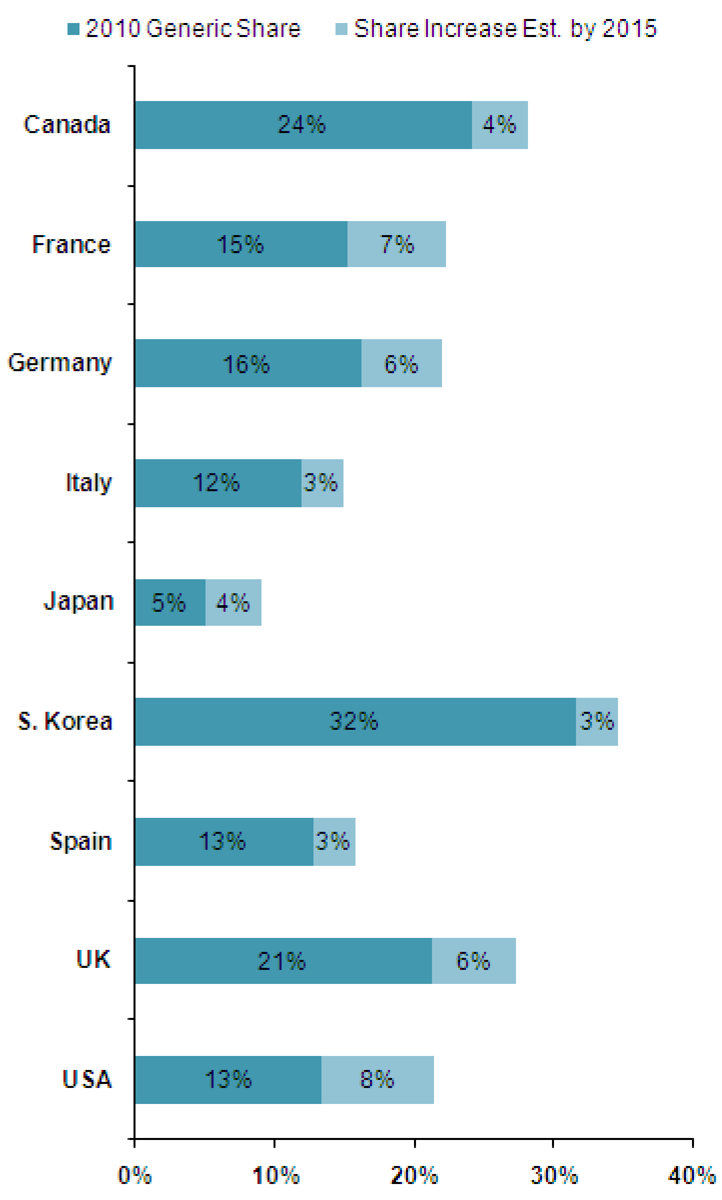
Source: Industry, Dolat Research

Turmoil in advanced economies - Pressure on Pharma Price Cuts

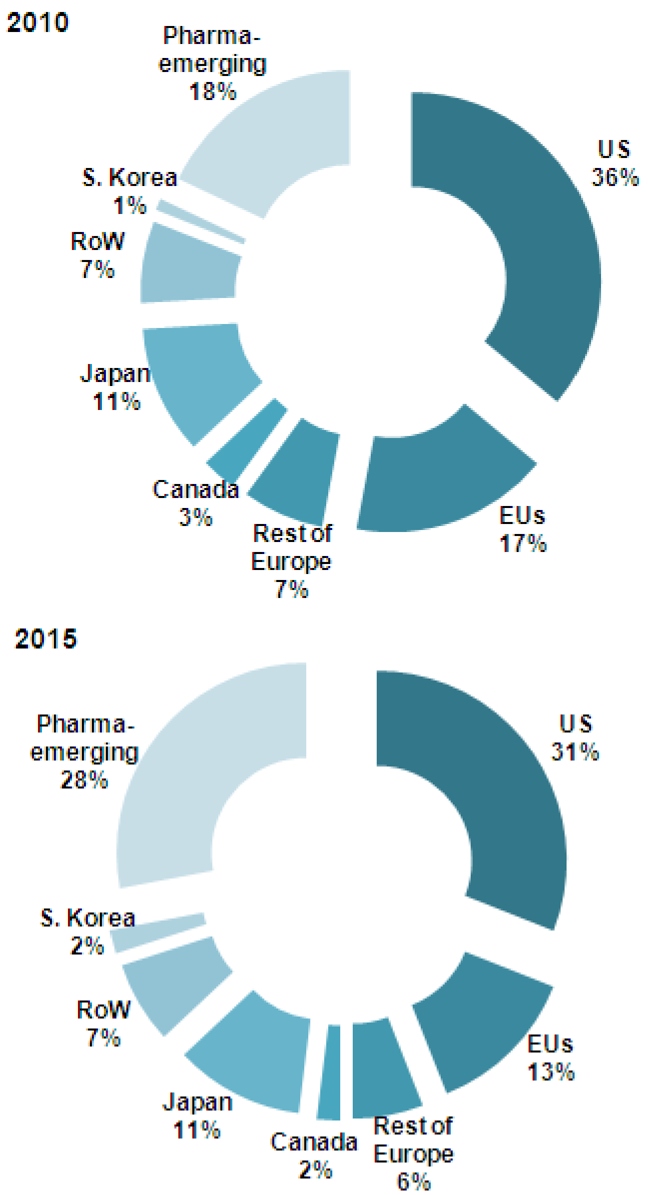
Impending debt crisis and burgeoning fiscal deficits which surface on advanced economies leave little choice for the Government but to look at downsizing public expenditure.

Governments of the regulated pharmaceutical markets have been incurring high healthcare expenditure in the past and are, naturally, considering the very same avenue for containing expenditure. We believe this will have varied impact on pharmaceutical markets of US and EU which together account for 53% of the global market.

Developed Market Generic Market Share (%)



Spending on medicines by Geography (%)



Source: Industry, Dolat Research

Annexure

Generic Opportunities - FY12

#	Product	Innovator	Chemical Name	Exclusivity Expiry	Latest US Sales($mn)	Indication	Indian Players LC	Indian Players PE	Remarks
1	Allegra D12	SNY	fexofenadine +pseudoe- phedrine	Apr-11	100	Allergic Rhinits, Hayfever		None	DRL, Sun, Wockhardt Impax settled with the innovator but exclusivity is yet to begin. **DRL (TA), Wockhardt (TA)** will launch after exclusivity. **Sun** has also settled in Jul 2011 but term were not disclosed.
2	Zyprexa	Eli Lily	Olanzapine	Apr-12	2495.5	Schizophrenia	DRL	**Torrent**	Launched on 25th October by DRL and Teva under 6mths exclusivity. **DRL only had approval for 20mg tablet**, and entered into an agreement with Teva who had approval for remaining strengths. Par, Apotex and Torrent to enter after exclusivity in April2012. Prasco is AG supplier.
3	Lipitor	Pfizer	Atorvastatin	May-12	5329	Cholestrol	Ranbaxy	DRL	Launched by Ranbaxy (Nov 30 2011) with 6 mths exclusivity. Watson is AG by Pfizer. Ranbaxy sharing undisclosed part of the profits with Teva. Apotex Labs, KUDCO & Actavis suit goes on; DRL (in Sep 2011) & Mylan Inc. (in Jan 2011) settled with Pfizer. Terms confidential.
4	Femara	NVS	Letrozole	Jun-11	702	Breast cancer	None	DRL, Sun, Natco, Indicus	25 Apr 2011: Mylan launches Letrozole Tablets (2.5 mg) with "some period of exclusivity" as per its settlement.3 June 2011: 12 applications for generic letrozole were approved. **DRL, Sun, Indicus, Natco & Fresenius Kabi launched 2.5mg.** Jul 2011: Sandoz launches in UK.
5	Arixtra	GSK	Fondaparinux	Jul-11	350	Blood thinning drug	DRL	None	DRL is the sole ANDA filer and has launched the product in US in July 2011 with 180 day exclusivity. Apotex is selling AG version. Eligible for launch in EU after the relevant patent expires in March 2012 but DRL has indicated that it will enter EU after FY13.
6	Caduet	PFE	Atorvastatin/ Amlodipine	Nov-11	339	Hypertension / Cholesterol	Ranbaxy	None	1 Dec 2011: Mylan launches Caduet Tablets, with multiple strengths, as per settlement with Pfizer**. Ranbaxy launched AG Caduet on 6th Dec'11.** Sandoz suit continues.
7	Gabitril	Teva	Tiagabine HCL	Sep-11	51	Anti-epilepsy	None	DRL	DRL had filed Para III ANDA which targeted the 30 Sep 2011 patent. No other company has received any approval. DRL has received the final approval but there is no clarity on the product launch. Interestingly, the management did not acknowledge the final approval during the Q2FY12 con call.
8	Uroxatral	SNY	Alfuzosin	Jan-12	200	Benign prostatichy perplasia	None	Sun, Torrent, Ranbaxy	On July 18, 2011, **Apotex, Mylan, Sun Pharma, Teva, and Torrent** received FDA approval of generic alfuzosin extended release (ER) tablets, bioequivalent versions of Sanofi-Aventis' Uroxatral (alfuzosin). Generic launches of these products were to be commenced immediately with no marketing exclusivities. Generic alfuzosin 10 mg ER tablets are AB-rated to Uroxatral. Ranbaxy to enter post Jan 2012.

Generic Opportunities - FY12

#	Product	Innovator	Chemical Name	Exclusivity Expiry	Latest US Sales($mn)	Indication	Indian Players LC	Indian Players PE	Remarks
9	Geodon	PFE	Ziprasidone	Mar-12	1340	Schizophrenia	Lupin, DRL	None	Shared exclusivity with **DRL (TA), Lupin (TA)**. After their exclusivity Sandoz (TA) will jump in.
10	Exelon	NVS	Rivastigmine	Mar-12	450	Alzheimer's disease	DRL, Sun	Ranbaxy, Orchid	**Dr. Reddy's, SUN** settled with Novartis in Jan 2008 and Dec 2007 resp. to not launch until "sometime before the expiry of the Orange Book patents". The exact date of launch and other terms were not mentioned in PR due to confidentiality. Sun, DRL and Watson already in the market.
11	Seroquel	AZN	Quitiapine	Mar-12	4000	Anti-Schizophrenia	None	DRL, Lupin, Sun	Teva and Sandoz lost litigation in 2008. Teva, **DRL (only 25mg)** and Roxane have tentative approval. Teva was the FTF and the remaining players were to enter the market later. However, host of players launched after the patent expired on March 26 2012. Indian players known to have launched include DRL, Sun Pharma and Lupin.

Generic Opportunities - FY13

#	Product	Innovator	Chemical Name	Exclusivity Expiry	Latest US Sales($mn)	Indication	Indian Players LC	Indian Players PE	Remarks
1	Provigil	Cephalon	Modafinil	Apr-12	961	Narcolepsy	Ranbaxy	Sun, Aurobindo, Alembic	In late 2005 and early 2006, Cephalon entered into settlement agreements with Teva, Mylan, Ranbaxy, Barr and Carlsbad (Watson) to grant them a non-exclusive royalty-bearing license to market and sell a generic version in the US in April 2012. US patent expires in April 2015. **Sun** (through Caraco), **Aurobindo, Alembic** are other filers and may enter in October 2012. Apotex has a separate suit against Cephalon which could hamper these 4 player's exclusivity. Further, the FTC also sued Cephalon for engaging in anti-competitive practices to prolong the entry of generics. Recently, in a seperate court ruling, it was concluded that Cephalon settlement agreements were anti-competitive and unenforceable. Teva launched its AG on 30 March, 2012. We await further clarity on the issue.
2	Comtan/ Stalevo	NVS	Entacapone	Apr-12	214	Parkinson's Disease	Wockhardt, Sun	None	**Sun Pharma** settled to launch of 25/100/200 mg and 37.5/150/200 mg strengths of Stalevo ® tablets in the US on 1 April 2012. In addition to these strengths, Sun will launch other strengths of Stalevo ® on 2 October 2012 along with generic Comtan on 1 April 2013. **Wockhardt is the first-to-file on Comtan / Stalevo** and will launch its generic version on 30 September 2012. Mylan suit on.
3	Combivir	GSK	Lamivudine	May-12	222	AIDS, Hepatitis B	None	Lupin, Strides, Cipla, Aurobindo & others	Teva Pharmaceutical Industries has been granted the first approval to market a generic version of the HIV drug Combivir and has launched on 27th Dec'11. Indian players with TA include **Lupin, Cipla, Aurobindo, Macleods, Emcure, Hetero Drugs, Matrix Labs.**
4	Plavix	BMY/SNY	Clopidogrel	May-12	5961	Antiplatelet Bisulfate	None	DRL, Sun, Torrent	In US to go offpatent on 17 May'12; already is offpatent in various EU countries. For US - Apotex, **DRL**, **Torrent,** Teva, Watson, & **Sun**. Apotex lost suit and paid USD 442mn in damages. Each has filed an ANDA with FDA but **no exclusivity granted.** Paediatric exclusivity expires on 17 May 2012.
5	Tricor	ABT	Fenofibrate	Jun-12	1300	Blood thinning drug	Lupin	Ranbaxy	**Ranbaxy,** Teva & Impax settled with Abbott and have FA's from FDA. No certainty over launch date. Teva confirmed it would not launch in CY12. Mylan also has final approval for fenofibrate. **Lupin** received FA in Dec 2012 and will launch in mid FY13E. Impax 30month stay expires in Mar'12 (145mg) & Apr'12 (48mg).
6	Maxalt	MRK	Rizatriptan	Jun-13	460	Migraine	None	Cipla	**Cipla,** Mylan, Teva & Sandoz have TAs. Final approval anticipated upon expiration of patent in June 2012, although the six month paediatric exclusivity may extend this date to December 2012. A para IV was filed in 2004.

Generic Opportunities - FY13

#	Product	Innovator	Chemical Name	Exclusivity Expiry	Latest US Sales($mn)	Indication	Indian Players LC	Indian Players PE	Remarks
7	Clarinex	Merck	desloratadine	Jul-12	250	Anti-allergy	DRL	Orchid, Lupin, Sun, Glenmark, Ranbaxy, Zydus	**Dr. Reddy's t**o manufacture and market generic versions of the CLARINEX-D®-12 Hour and CLARINEX-D® -24 Hour products, with six months marketing exclusivity, and the CLARINEX® REDITABS® product, with six months marketing co-exclusivity, starting in 2012. Dr. Reddy's will also market a generic version of the CLARINEX® 5 milligram tablet six months after the launch of the first generic version of that product.
8	Singulair	MRK	Montelukast	Aug-12	3200	Asthema/COPD	None	Glenmark, Torrent	To launch after patent expiry in Aug 2012. **Glenmark** and 4 other international players set to enter the tablet market. **Torrent and 3** other international players to enter the chewable tablet market.
9	Actos	Takeda	Pioglitazone	Aug-12	3312	Diabetes	Ranbaxy	Torrent, DRL, Wockhardt, Auro	Agreements reached with: Mylan, Alphapharm, Watson, Ranbaxy, Sandoz, Teva, Torrent, Dr. Reddy's, Wockhardt, Synthon & Breckenridge Pharmaceutical, Zydus and Aurobindo. **FTF (Para IV): Mylan, Watson, and Ranbaxy; Teva (AG),** After the FTFs: Alphapharm, Sandoz, Aurobindo, Dr. Reddy, Wockhardt, the Synthon, Zydus and Torrent; <u>Mylan believes it will be eligible for 180 days of shared marketing exclusivity.</u>Pursuant to the settlement agreement, Mylan will have the right to market Pioglitazone HCl in the U.S. on Aug. 17, 2012, or earlier, under certain circumstances.
10	Eloxatin	SNY	Oxaliplatin	Aug-12	1400	Colorectal cancer	None	Strides, Sun	Multiple player present since 2004. Sun entered previously and exited in Apr 2010. As per a court ruling on Sep 2011, Sun is expected to launch its generic after patent expiry in Aug 2012.
11	Lexapro	FRX	Escitalopram	Aug-12	2259	Anti-depression	None	Sun, DRL, Lupin, Zydus, Torrent	Alphapharm (Mylan's subsidiary) has a benefit sharing agreement with Forest in effect making it an AG. Teva also was FTF. Subsequently, Mylan launched its version on 29th Feb 2012, followed by Teva's launch on 14th March 2012. Others will launch post exclusivity on 29 August 2012.
12	Boniva	GSK	Ibandronate	Sep-12	506	Osteoporosis	None	DRL, Natco, Auro, Orchid	Cobalt has filed an ANDA for 2.5mg tablet. Filers for Boniva Once-Monthly (150mg tablets) are: Apotex, Cobalt, **Dr. Reddy's Laboratories**, Genpharm, Mutual, **Orchid,** and Teva. The product patent expires on March 17, 2012 and the two formulation patents expire on April 21, 2017 and October 7, 2019. We assume that Teva, Dr. Reddy's, and Orchid reference their own DMFs in their ANDAs. Orchid, Watson, Mylan and Apotex received final approval on March 19, 2012. Sun Pharma has tentative approval for the injectable format. **Sun Pharma** had TA for the injectable format while Orchid for 150 mg Tablet

Generic Opportunities - FY13

#	Product	Innovator	Chemical Name	Exclusivity Expiry	Latest US Sales($mn)	Indication	Indian Players LC	PE	Remarks
13	Avapro/ Avalide	SNY/ BMS	Irbesartan	Sep-12	588	Hypertension / Cognitive Heart Failure	None	Cipla, Lupin, Cadila, Alembic	Seven players have TA inclduding Zydus and Alembic. Teva was the first to filer and launched on 2nd April 2012. Generic penetration expected after exclusivity on 26 September 2012.
14	Diovan	NVS	Valsartan	Sep-12	2520	Anti-hypertensive	None	Ranbaxy	In US, **Ranbaxy,** Ivax (Teva subsidiary) and Mylan claim to be FTFs and have approvals. Sandoz launched in Canada in Feb 2011, Actavis launched in 3 European nations in Nov 2011. Ranbaxy changed its Para IV to III and will launch in Sep 2012.
15	Avandia	GSK	Rosiglitazone	Sep-12	300	Diabetes	None	DRL	In 2007 Teva settled agreement. To launch generic version in March 2012 under patent settlement. Other players to enter post exclusivity.
16	Propecia	MRK	Finasteride	Nov-12	148	Hair loss	DRL	Sun, Hetero Drugs	Propecia is 1mg Finasteride while Proscar is 5. DRL was AG for Proscar which is now a fragmented market. Propecia seems a lucrative opportunity but we need to get more details on the exclusivity to conclude this. Interestingly, Merck did not file suit against DRL's ANDA in 2004. Hetero settled to launch its version on 1 July 2013. **DRL - Para IV for Nov '12 patent compound**
17	Zometa	NVS	Zoledronic Acid	Mar-13	721	Cancer related bone loss	None	Sun, DRL	Novartis & Teva have reached an agreement in the patent infringement litigation regarding the Zometa & Reclast injection patent. Teva dropped the challenge and will not launch generic in US until after the patent expires in Mar'13. 8 players to enter market, along with Teva who settled with Novartis to launch in Mar 2013 when the patent expires. **Sun & DRL have approval.**
18	Valcyte	Roche	Valganciclovir Hydrochloride	Mar-13	195	AIDS	Ranbaxy	None	Roche, which has sued other drugmakers over generic versions of Valcyte, **settled a lawsuit with Ranbaxy** last year allowing the Indian company to launch its version of the product in March 2013, two years before a patent expires. DRRD's 30 month stay expires on Jun 2014.
19	Prandin	Novo	Repaglinide	FY13	200	Antidiabetic (oral)	Sun	None	Sun successfully challenged Novo's patent expiring in Jun 2018. Novo has however appealed to the federal court and delayed the Sun's launch. Sun is nonetheless the **only FTF co** and is expected to monetize the opportunity with HW exclusivity. **Federal Court's verdict is awaited.** Caraco (Sun's subsidiary) indicated that it has done a site transfer for Prandin to an affiliate's site. It could launch 'at risk' if it gets approval.

Generic Opportunities - FY14

#	Product	Innovator	Chemical Name	Exclusivity Expiry	Latest US Sales($mn)	Indication	Indian Players LC	PE	Remarks
1	Aciphex	JNJ/Esai	Rabeprazole	May-13	1185	GERD	None	DRL	Teva DRL and Mylan involved. Teva & DRL lost the case. They also claim to be FTFs, but **DRL** the only one among the 3 to NOT have a tentative approval. Clarity on the matter awaited.No generic exclusive launches before the patent expiry in May 2013 unless the verdict is overturned. It is possible (but unlikely)that the patent could be challenged again.
2	Cymbalta	LLY	Duloxetine	Jun-13	3500	Depression, Fibromyalgia	None	Lupin, DRL, Zydus, Sun, Wockhrdt, Torrent, Aurobindo	In April 2011, U.S. issued an order that prohibited the remaining defendants in the Cymbalta patent litigation from selling a generic product in the US during the term of the patent expiring June 2013. As there has been no settlement, nobody will have exclusivity. 9 players (Impax, Lupin, DRL, Zydus, Sun, Wockhardt, Torrent, Sandoz, Aurobindo) have received tentative approval. All will enter together after patent expires, but can be delayed by additional six months based on completion of pediatric studies.
3	Asacol	Warner	MESALAMINE	Jul-13	500	Anti-inflammatory	Roxane/ Lupin	None	In October 2010, **Lupin** was granted rights to purchase and sell in the US an authorised generic version of the Asacol 400 mg product only if another generic version of the product is launched by a third party. Warner is separately litigating the lower dose delayed-release tablet against Roxane Laboratories, Par Pharmaceutical and EMET Pharmaceuticals. Roxane is FTF for 400mg tablet. Our research indicates that **Zydus (Cadila)** also has a strong filing for Asacol HD.
4	Precedex	Hospira	dexmedeto-midine hydrochloride	Jul-13	140	Sedative	Sun/ Sandoz	None	**Caraco (TA) is not applying to launch the product in the US markets until it expires in July 2013**.Waiting further details. Sandoz's ANDA for dexmedetomidine contains Para IV certifications challenging Orion's U.S. Patent No.4,910,214 and Orion's and Hospira's commonly owned patent U.S. Patent No. 6,716,867.
5	Renvela	Genzyme	sevelamer carbonate	Aug-13	330	GI/ Chronic kidney disease	Lupin	None	Impax, Lupin and Watson sued in the U.S. for patent infringement of the '775 patent seeking approval of generic versions of our 0.8 g and 2.4 g Renvela. Litigation is in process.
6	Niaspan	Abbott	niacin	Sep-13	1000	Cholesterol lowering	Sun	None	Sun has filed for generic versions of the 500 mg, 750 mg, and 1000 mg forms of Abbott's NIASPAN® drug product. Suit against Sandoz - 500, 750 & 1000mg. Barr 180 day exclusivity for 500/750 and 1000mg niacin ER tablets.

Generic Opportunities - FY14

#	Product	Innovator	Chemical Name	Exclusivity Expiry	Latest US Sales($mn)	Indication	Indian Players LC	PE	Remarks
7	Lyrica	PFE	Pregabalin	Oct-13	1424	Anticonvulsant	None	Lupin, Sun	Litigation are going on with a host of players: Sun, Wockhardt, Lupin, Teva, Mylan, etc. FDA has given tentative approval to Teva and Lupin. No exclusivity granted yet.
8	Yaz	Bayer	Drospirenone/ Estradiol	Apr-12	173	Oral contraceptive	None	Sun, Lupin	On 1 Jun 2010 Teva Pharmaceutical Industries launches generic of Bayer' s contraceptive pill Yaz. On 4 May 2011, Sandoz becomes the second company to launch a generic version . Watson's launches its generic on January 18, 2012. **Sun, Lupin** have filed and are awaits approval. Their launch can be expected post patent expiry in 29 Oct 2013.
9	Lunesta	SEPR	Eszopiclone	Nov-13	787	Insomia	Glenmark, Orchid	Sun	Many generic makers filed ANDA. Sepracor sued all of them. Settlements with **Glenmark,** Teva & **Lupin, Orchid, Wockhardt,** allowing them to sell a generic version - 30 Nov 2013 which could be pushed back by 6 months subject to Sepracor securing exclusivity extension on their pediatric patent. Lupin, Wockhardt **discontinued ANDA** as per FDA website. **Sun Pharma** also received TA on January 16, 2012.
10	Temodar	Merck	temozolomide	Feb-14	370	Oncology	Sun	None	Merck agreed that it will not object to Teva's launch of a generic version of Temodar in August 2013. The U.S. patent and exclusivity periods otherwise will expire on February 2014. The lawsuit stays FDA approval of **Sun's** ANDA until February 2013 or until an adverse court decision, if any, whichever may occur earlier.
11	Avelox	BYR	Moxifloxacin	Mar-14	497	Anti-infective	None	DRL, Torrent	DRL and Teva were sued in 2007. Court ruled against them. Since, they have tentative approvals, they will be able to launch after the patent expires in Mar 2014. **Though they won't enjoy HW exclusivity, being the only players offers them limited competition.** The opportunity can be diluted if additional players get approval by 2014. **Torrent** Received approval in Feb 2012.

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BUY	Upside above 20%
ACCUMULATE	Upside above 5% and up to 20%
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SELL	Negative Returns

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