



Pharmaceuticals

BSE Sensex: 14,450

S&P CNX: 4,335

25 August 2008

Organic growth led by emerging markets and contract manufacturing: Top-line growth for Jun-08 quarter was strong for many companies, led mainly by acquisitions, double-digit growth in emerging markets (including India), expanding product portfolio in the US and strong outsourcing by the MNC Pharma companies. Overall top-line growth was 23.5% to Rs98.2b with acquisitions contributing about Rs4.5-5b, while organic top-line growth was 18% (excluding one-off Para-IV upsides). Emerging markets continue to drive both the top-line and the profitability for most of the generic companies while the CRAMS players are witnessing the benefits of increased outsourcing from India. We believe that revenue growth for the quarter would have also been aided by the recent depreciation of the INR vs the US\$ and the Euro.

Higher RM costs being offset by better product and geographical mix: RM costs for our universe has increased by 17.6% YoY and 15% sequentially led by lower supplies of inputs from China (due to the onset of Olympics) and depreciation of the INR vs the US\$. However, these cost pressures are being offset by improved product-mix as well as due to higher contribution from emerging markets (which enjoy higher margins). RM cost as % of revenues has declined by 400bps to 39.7% YoY. We believe that inventory valuations gains would have also helped to report a lower number.

EBITDA Margins in-line, but PAT impacted by forex losses: Overall EBITDA Margins for the Jun-08 quarter were in-line with estimates but higher MTM forex losses on forward covers and foreign currency loans impacted PAT growth. Key companies to be impacted by forex losses include Ranbaxy, Jubilant and Cipla given their high level of forex borrowings.

CHANGE IN ESTIMATES

	REVISED		CHANGE	
	EST. (RS)		(%)	
	FY09/	FY10	FY09/	FY10
	CY08	CY09	CY08	CY09
Biocon	25.4	30.6	13.0	20.5
Cadila	25.5	29.9	24.2	17.5
Cipla	10.2	11.9	13.2	17.1
Dishman	17.8	21.6	19.3	21.3
Divis	72.2	84.7	31.8	17.2
DRL	36.2	46.9	30.4	29.7
GSK Ph.	53.1	59.9	12.4	12.8
Jubilant	21.4	30.8	-4.2	43.8
Lupin	47.2	60.0	25.0	27.1
PHL	20.0	24.5	14.8	22.6
Ranbaxy	15.6	22.0	-19.6	41.4
Sun*	55.2	67.0	-23.1	21.5

*excl. one-offs Source: MOSI

Outlook

We continue to be selectively bullish on the pharmaceutical sector. The key determinants of future success will be:

1. Generics – Geographically diversified presence, broad product portfolio including a pragmatic mix of normal, low-competition and patent challenge products, backward integration and cost effectiveness. **Top picks include Dr. Reddy's Labs, Lupin and Sun Pharma.**
2. CRAMS – Strict IPR compliance, chemistry skills, established relations with MNC pharmaceutical companies and ability to undertake front-ended capex. **Piramal Healthcare is our top pick in the CRAMS space.**
3. MNC Pharma – Parent's commitment, brand building ability and a pipeline of new launches. **GSK Pharma is our top pick in this space.**

SUMMARY OF JUNE-08 PERFORMANCE

COMPANY	SALES (RS M)			EBITDA (RS M)			EBITDA MARGIN (%)			PAT (RS M)		
	JUNE-07	JUNE-08	CHG (%)	JUNE-07	JUNE-08	CHG (%)	JUNE-07	JUNE-08	CHG (BPS)	JUNE-07	JUNE-08	CHG (%)
Biocon	2,710	2,639	-2.6	765	576	-24.7	28.2	21.8	-639	530	150	-71.7
Cadila Health	5,722	6,985	22.1	1,112	1,461	31.4	19.4	20.9	148	739	897	21.4
Cipla	9,018	12,071	33.9	1,607	2,701	68.1	17.8	22.4	455	1,198	1,400	16.9
Dishman Pharma	1,680	2,359	40.4	274	663	142.1	16.3	28.1	1180	214	277	29.6
Divis Labs	2,281	2,661	16.7	843	1,188	41.0	36.9	44.6	771	673	965	43.4
Dr Reddy's Labs	12,018	15,038	25.1	2,132	1,815	-14.9	17.7	12.1	-567	1,828	1,348	-26.3
GSK Pharma	3,915	4,163	6.3	1,223	1,429	16.8	31.2	34.3	309	964	1,149	19.1
Jubilant Organosys	5,400	8,266	53.1	952	1,658	74.2	17.6	20.1	243	1,429	128	-91.1
Lupin	5,757	8,624	49.8	821	1,527	85.9	14.3	17.7	344	559	1,121	100.6
Piramal Healthcare	6,081	7,083	16.5	793	1,403	77.0	13.0	19.8	678	437	717	63.9
Ranbaxy Labs	16,853	19,286	14.4	2,265	3,261	44.0	13.4	16.9	347	2,635	229	-91.3
Shasun Chemicals	1,952	1,495	-23.4	91	(119)		4.7	-7.9	-1261	49	(315)	-746.1
Sun Pharma**	6,153	7,537	22.5	2,148	2,785	29.6	34.9	36.9	203	2,272	2,636	16.0
Total	79,540	98,206	23.5	15,026	20,348	35.4	18.9	20.7	183	13,527	10,701	-20.9

** : Excludes one-off upsides (estimates)

Source: Motilal Oswal Securities

Top-line growth in-line with estimates

Top-line growth for pharmaceutical companies was in-line with estimates. Key trends visible include strong growth in emerging markets and bottoming-out of pricing pressure in the US. Most of the Indian generic companies had commenced aggressive filings for the US market some years back. These filings included a mix of normal, low-competition and patent challenge products. We note that for most of the players, the aggressive filings made in the past few years have started yielding results in the form of higher number of product approvals leading to incremental growth. Also, the price erosion has stabilized at 95-97% for highly competitive products and at lower levels for the low-competition products. Hence, a combination of new approvals and arresting of the decline in price erosions has resulted in higher top-line growth in the US for most of these companies.

Due to the significant increase in competitive pressure in the US in the past four years, most of the leading Indian generic companies had started targeting the emerging markets like Romania, Russia & CIS, Africa, Latam and the Middle East. Most of these markets are branded generic markets implying higher margins for the players. We note that, at least for the leading Indian players, the emerging markets portfolio has grown in strong double-digits and this growth trend is likely to continue in the future due to the favourable macro-economic parameters in these countries.

For players in the Contract Research & Manufacturing Service segment (CRAMS), the top-line growth continues to grow strongly given the increased outsourcing by the MNC pharmaceutical companies from Asia. However, their operations in Western Europe (acquired companies) have recorded single-digit top-line growth.

SUMMARY OF SALES PERFORMANCE (RS M)

COMPANY	ACTUAL JUNE 07	EST. JUNE 08	ACTUAL JUNE 08	EST. CHG (%)	ACTUAL CHG (%)	VAR (%)
Biocon	2710	2916	2639	7.6	-2.6	-9.5
Cadila Health	5722	6543	6985	14.4	22.1	6.7
Cipla	9018	10560	12071	17.1	33.9	14.3
Dishman Pharma	1680	2400	2359	42.9	40.4	-1.7
Divis Labs	2281	2689	2661	17.9	16.7	-1.0
Dr Reddy's Labs	12018	14441	15038	20.2	25.1	4.1
GSK Pharma	3915	4287	4163	9.5	6.3	-2.9
Jubilant Organosys	5400	7381	8266	36.7	53.1	12.0
Lupin	5757	7759	8624	34.8	49.8	11.1
Piramal Healthcare	6081	7250	7083	19.2	16.5	-2.3
Ranbaxy Labs	16853	20110	19286	19.3	14.4	-4.1
Shasun Chemicals	1952	2278	1495	16.7	-23.4	-34.4
Sun Pharma**	6153	7705	7537	25.2	22.5	-2.2
Total	79540	96319	98206	21.1	23.5	2.0

** Excludes one-off upsides (estimates)

Source: Company/Motilal Oswal Securities

Overall top-line growth was 23.5% for the quarter with acquisitions contributing about Rs4.5-5b, while organic top-line growth was 18% (excl Para-IV upsides).

RM Cost pressures visible...

Most of the companies have reported higher RM cost due to increased prices of inputs. Many inputs are linked to the petchem cycle and hence their prices have increased due to increase in crude oil prices globally. Also, cost of Chinese inputs have increased due to the stringent environmental norms being implemented (due to the onset of the Olympic Games). The table below shows the RM cost trend for leading pharmaceutical companies.

RM COST (RS M)

COMPANY	JUN-07	JUN-08	% CHG
Biocon	1295.3	1354.0	4.5
Cadila	2094.0	2376.8	13.5
Cipla	4492.2	5635.6	25.5
Dishman	709.7	589.9	-16.9
Divis Labs	1009.0	944.4	-6.4
Dr Reddy' s Labs	5914.0	7475.0	26.4
GSK Pharma	1552.9	1578.2	1.6
Jubilant Organosys	2745.0	3826.8	39.4
Lupin	2391.0	3720.2	55.6
Piramal Healthcare	2187.7	2517.5	15.1
Ranbaxy	9009.0	9633.0	6.9
Sun Pharma	1925.4	1893.2	-1.7
Total	35325.1	41544.6	17.6

Source: Company/Motilal Oswal Securities

...But inventory gains, better product and geographic mix saves the day

Despite input cost pressures, most of the pharmaceutical companies have been able to reduce material cost (as % of sales) due to better product-mix as well increasing contribution from emerging markets (better profitability).

However, Biocon's material cost (as % of sales) increased by 351bps due to absence of licensing income (Rs168m in 1QFY08) and slow-down in contract research business (which enjoys higher GPM). For Sun Pharma, the material cost declined significantly from 31.3% to 18.5% (as % of sales) mainly led by upsides from generic Protonix revenues under exclusivity in the US.

On an average, material costs declined by 397bps for our pharmaceutical universe for the quarter. We believe that this improvement would have been partly aided by higher inventory valuations for closing stocks.

RM COST (% OF SALES)

COMPANY	JUN-07	JUN-08	CHG (BPS)	REMARKS
Biocon	47.8	51.3	351.2	Absence of licensing fees & slow-down in contract research business
Cadila	36.6	34.0	-256.7	Better product-mix
Cipla	49.8	46.7	-312.6	Better product-mix
Dishman	42.3	25.0	-1724.5	Better product-mix & inventory gains
Divis Labs	44.2	35.5	-874.6	Better product-mix
Dr Reddy' s Labs	49.2	49.7	49.8	
GSK Pharma	39.7	37.9	-175.6	Better product-mix
Jubilant Organosys	49.9	46.3	-361.0	Better product-mix
Lupin	41.5	43.1	161.0	
Piramal Healthcare	36.0	35.5	-43.6	Better product-mix
Ranbaxy	55.9	52.9	-302.8	Better product & geographical mix
Sun Pharma	31.3	18.5	-1280.2	Better product-mix but mainly led by patent challenge products
Average	43.7	39.7	-397.5	

Source: Company/Motilal Oswal Securities

EBITDA Margins were also in-line with estimates

EBITDA margins were in-line with estimates. As expected, while most of the companies gained due to recent depreciation of the INR vs the US\$, large amount of forward covers have resulted in MTM forex losses, which has prevented any significant expansion in EBITDA Margins for the quarter.

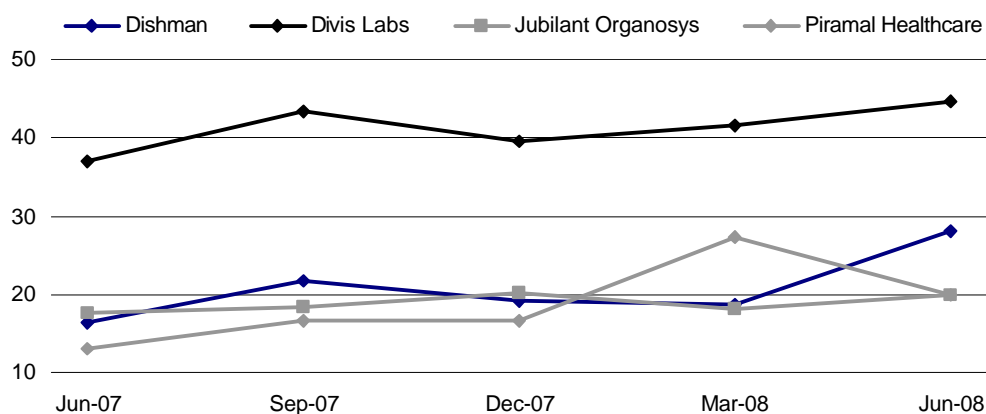
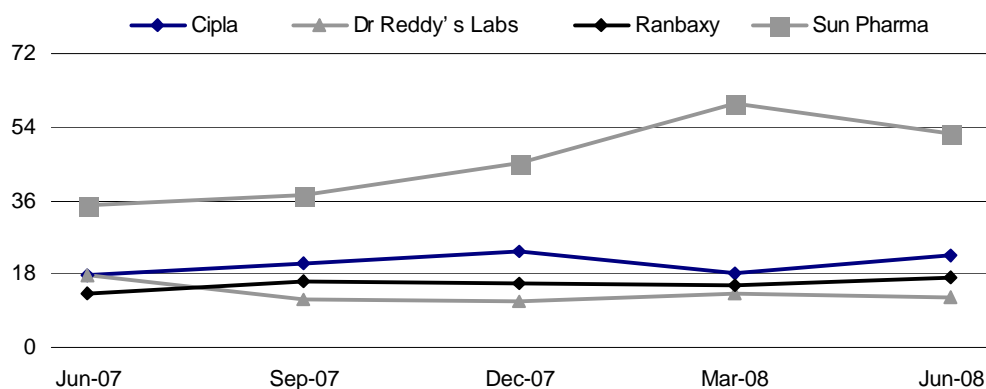
EBITDA PERFORMANCE (RS MILLION)

COMPANY	EBITDA			EBITDA MARGIN (%)		
	ACTUAL JUNE 07	ESTIMATED JUNE 08	ACTUAL JUNE 08	ACTUAL JUNE 07	ESTIMATED JUNE 08	ACTUAL JUNE 08
Biocon	765	816	576	28.2	28.0	21.8
Cadila Health	1,112	1,267	1,461	19.4	19.4	20.9
Cipla	1,607	2,010	2,701	17.8	19.0	22.4
Dishman Pharma	274	504	663	16.3	21.0	28.1
Divis Labs	843	1,036	1,188	36.9	38.5	44.6
Dr Reddy's Labs	2,132	2,020	1,815	17.7	14.0	12.1
GSK Pharma	1,223	1,353	1,429	31.2	31.6	34.3
Jubilant Organosys	952	1,381	1,658	17.6	18.7	20.1
Lupin	821	1,400	1,527	14.3	18.0	17.7
Piramal Healthcare	793	1,225	1,403	13.0	16.9	19.8
Ranbaxy Labs	2,265	3,390	3,261	13.4	16.9	16.9
Shasun Chemicals	91	223	(119)	4.7	9.8	-7.9
Sun Pharma**	2,148	2,881	2,785	34.9	37.4	36.9
Pharma Universe	15,026	19,506	20,348	18.9	20.3	20.7

** Excludes one-off upsides (estimates)

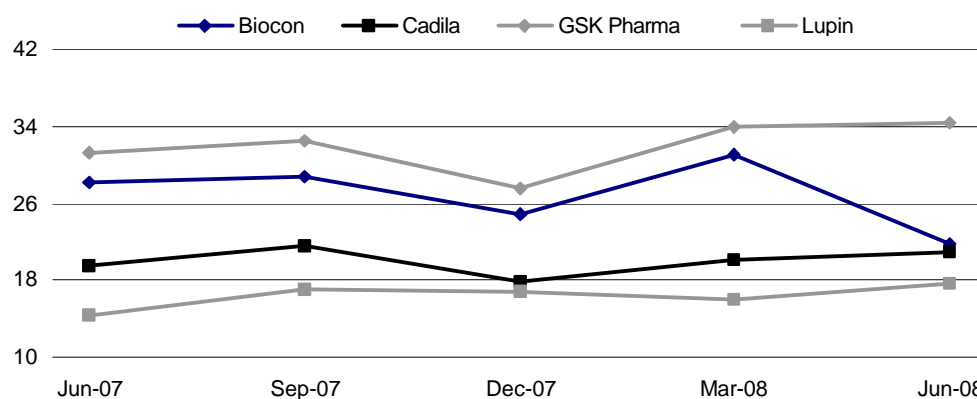
Source: Company/Motilal Oswal Securities

EBITDA MARGIN TREND



Source: Motilal Oswal Securities

EBITDA MARGIN TREND



Source: Motilal Oswal Securities

Forex losses were significant...

Most of the companies, being exporters, had booked significant forward covers in FY08, in anticipation of a further appreciation in the INR vs the US\$. These forward covers have been taken at approximately Rs39-41/US\$, while the closing rate for the quarter was approximately Rs43/US\$, thus forcing the companies to book MTM forex losses on such covers. We believe that most of the companies have covered their next 2-3 quarters of receivables through such contracts.

Many companies have resorted to cheaper foreign currency loans and FCCBs (mainly denominated in the US\$) and hence they were required to provide for a MTM forex loss on such borrowings. The companies, which showed significant adverse impact due to such loans include, Ranbaxy, Jubilant Organosys and Cipla. The table below highlights the impact of forex on individual companies:

FOREX GAIN/(LOSS) (RS M)

COMPANY	JUN-07	JUN-08
Biocon	(22)	(64)
Cadila	91	24
Cipla	86	(747)
Dishman	60	(165)
Divi's Labs		(90)
Dr. Reddy's Labs	285	(147)
Jubilant	879	(1076)
Lupin	193	
Piramal Healthcare	48	(208)
Ranbaxy	1614	(1500)
Shasun	57	(69)

Source: Company/Motilal Oswal Securities

... Resulting in lower than estimated PAT

Despite, reporting in-line top-line growth and EBIDA Margins, the PAT for our pharmaceutical universe was lower than estimates due to the impact of the forex losses (discussed above).

PAT PERFORMANCE (RS MILLION)

COMPANY	ACTUAL	EST.	ACTUAL	EST.	ACTUAL	VAR
	JUNE 07	JUNE 08	JUNE 08	CHG (%)	CHG (%)	(%)
Biocon	530	568	150	7.2	-71.7	-73.6
Cadila Health	739	724	897	-2.0	21.4	23.9
Cipla	1,198	1,570	1,400	31.1	16.9	-10.8
Dishman Pharma	214	284	277	32.7	29.6	-2.3
Divis Labs	673	898	965	33.5	43.4	7.4
Dr Reddy's Labs	1,828	1,080	1,348	-40.9	-26.3	24.8
GSK Pharma	964	1,160	1,149	20.2	19.1	-0.9
Jubilant Organosys	1,429	591	128	-58.6	-91.1	-78.4
Lupin	559	1,049	1,121	87.7	100.6	6.9
Piramal Healthcare	437	763	717	74.4	63.9	-6.0
Ranbaxy Labs	2,635	452	229	-82.8	-91.3	-49.4
Shasun Chemicals	49	-102	-315	-308.9	-746.1	209.2
Sun Pharma	2,272	2,729	2,636	20.1	16.0	-3.4
Total	13,527	11,765	10,701	-13.0	-20.9	-9.0

** Excludes one-off upsides (estimates)

Source: Company/Motilal Oswal Securities

PHARMA UNIVERSE PAT MARGIN (%)

ACTUAL	EST.	ACTUAL	EST.	ACTUAL
JUNE 07	JUNE 08	JUNE 08	CHG	CHG
17.0	12.2	10.9	-4.8	-6.1

Source: Motilal Oswal Securities

CRAMS players record above estimate performance

We note that all the companies in the CRAMS segment (except Shasun) have reported better than estimated performance for Jun-08 quarter. This was led by the increased outsourcing by MNC Pharma companies from India. However, the European operations for these companies (acquired units) have recorded single-digit top-line growth.

CRAMS COMPANIES PERFORMANCE (RS M)

COMPANY	SALES			EBITDA			EBITDA MARGIN			PAT		
	JUNE 07	JUNE 08	CHG (%)	JUNE 07	JUNE 08	CHG (%)	JUNE 07	JUNE 08	CHG (BPS)	JUNE 07	JUNE 08	CHG (%)
Dishman Pharma	1,680	2,359	40.4	274	663	142.1	16.3	28.1	1180	214	277	29.6
Divis Labs	2,281	2,661	16.7	843	1,188	41.0	36.9	44.6	771	673	965	43.4
Jubilant Organosys	5,400	8,266	53.1	952	1,658	74.2	17.6	20.1	243	1,429	128	-91.1
Piramal Healthcare	6,081	7,083	16.5	793	1,403	77.0	13.0	19.8	678	437	717	63.9
Shasun Chemicals	1,952	1,495	-23.4	91	(119)		4.7	-7.9	-1261	49	(315)	-746.1

Source: Motilal Oswal Securities

Generic companies have shown a mixed performance

Overall, Jun-08 quarter results for generic companies were a mixed bag. In the large-cap generics category, while Cipla's performance was above estimates, DRL recorded below estimate performance. Amongst mid-caps, Cadila and Lupin have recorded better than expected performance while that for Biocon was below estimates.

GENERIC COMPANIES PERFORMANCE (RS M)

COMPANY	SALES			EBITDA			EBITDA MARGIN			PAT		
	JUNE 07	JUNE 08	CHG (%)	JUNE 07	JUNE 08	CHG (%)	JUNE 07	JUNE 08	CHG (BPS)	JUNE 07	JUNE 08	CHG (%)
Biocon	2,710	2,639	-2.6	765	576	-24.7	28.2	21.8	-639	530	150	-71.7
Cadila Health	5,722	6,985	22.1	1,112	1,461	31.4	19.4	20.9	148	739	897	21.4
Cipla	9,018	12,071	33.9	1,607	2,701	68.1	17.8	22.4	455	1,198	1,400	16.9
Dr Reddy's Labs	12,018	15,038	25.1	2,132	1,815	-14.9	17.7	12.1	-567	1,828	1,348	-26.3
GSK Pharma	3,915	4,163	6.3	1,223	1,429	16.8	31.2	34.3	309	964	1,149	19.1
Lupin	5,757	8,624	49.8	821	1,527	85.9	14.3	17.7	344	559	1,121	100.6
Ranbaxy Labs	16,853	19,286	14.4	2,265	3,261	44.0	13.4	16.9	347	2,635	229	-91.3
Sun Pharma**	6,153	7,537	22.5	2,148	2,785	29.6	34.9	36.9	203	2,272	2,636	16.0
Total	79,540	98,206	23.5	15,026	20,348	35.4	18.9	20.7	183	13,527	10,701	-20.9

** : Excludes one-off upsides (estimates)

Source: Motilal Oswal Securities

Estimate revision

In-line with the Jun-08 quarter performance, we have revised our PAT estimates for our pharmaceutical universe. The following table gives the details on the changes in estimates:

ESTIMATE REVISION (RS/SHARE)

COMPANY NAME	EPS			EPS			EPS GR.		EPS GR.		REASON FOR CHANGE
	(PRE-RESULTS)			(POST-RESULTS)			(PRE-RESULTS)		(POST-RESULTS)		
	FY08	FY09/	FY10	FY08	FY09/	FY10	FY09	FY10/	FY09	FY10/	
	/CY07	CY08	/CY09	/CY07	/CY08	/CY09	/CY08	/CY09	/CY08	/CY09	
Biocon	22.5	27.5	31.6	22.5	25.4	30.6	22.40	14.70	12.95	20.54	Lower contract research income, higher RM and interest costs
Cadila	20.5	25.3	29.7	20.5	25.5	29.9	23.33	17.29	24.23	17.50	
Cipla	9.0	9.9	11.6	9.0	10.2	11.9	9.97	17.36	13.23	17.06	Higher domestic sales & tech. licensing income
Dishman	15.0	17.8	21.6	15.0	17.8	21.6	19.25	21.28	19.25	21.28	
Divis Labs	54.8	71.2	84.7	54.8	72.2	84.7	29.95	18.95	31.84	17.24	
Dr Reddy' s Labs	27.8	37.8	47.9	27.8	36.2	46.9	36.09	26.83	30.38	29.66	Higher than expected SG&A
GSK Pharma	47.2	53.1	59.9	47.2	53.1	59.9	12.44	12.82	12.44	12.82	
Jubilant Organosys	22.3	21.9	28.3	22.3	21.4	30.8	-1.93	29.27	-4.24	43.80	
Lupin	37.8	46.3	60.6	37.8	47.2	60.0	22.50	30.84	24.95	27.12	Higher growth in India & Japan
Piramal Healthcare	17.4	21.1	25.7	17.4	20.0	24.5	21.17	21.46	14.81	22.64	MTM forex losses, higher interest and tax outgo
Ranbaxy	19.4	16.6	22.7	19.4	15.6	22.0	-14.21	36.75	-19.58	41.39	Lower growth in India, Europe & Romania coupled with higher MTM forex losses
Sun Pharma (excl one-offs)	71.8	55.0	67.5	71.8	55.2	67.0	-23.45	22.80	-23.14	21.45	
Sun Pharma (incl one-offs)	71.8	71.7	72.7	71.8	71.9	72.3	-0.18	1.44	0.17	0.49	

Source: Motilal Oswal Securities

Outlook

We continue to be selectively bullish on the pharmaceutical sector. The key determinants of future success will be:

1. Generics – Geographically diversified presence, broad product portfolio including a pragmatic mix of normal, low-competition and patent challenge products, backward integration and cost effectiveness. **Top picks include Dr. Reddy's Labs, Lupin and Sun Pharma.**
2. CRAMS – Strict IPR compliance, chemistry skills, established relations with MNC pharmaceutical companies and ability to undertake front-ended capex. **Piramal Healthcare is our top pick in the CRAMS space.**
3. MNC Pharma – Parent's commitment, brand building ability and a pipeline of new launches. **GSK Pharma is our top pick in this space.**

Top picks

Dr. Reddy's Labs: Traction in the branded formulations and CCS businesses will be the key growth drivers for DRL over next two years. Sourcing of products from Indian facilities for the German market will have a positive impact on the profitability of the company. The recent acquisition of the BASF facility in the US is likely to help DRL participate in US government tenders and also facilitate packaging for its OTC business. Based on our current estimates, we expect DRL to record EPS of Rs36.2 and Rs47 for FY09E and FY10E respectively. DRL is currently valued at 16x FY09E and 12.4x FY10E earnings. Reiterate Buy with target price of Rs800 (37% upside).

Lupin: Lupin is likely to witness a gradual improvement in the underlying fundamentals led by an expanding US generics pipeline, niche / Para-IV opportunities in the US, strong performance from Suprax (branded product in US) and ramp-up in formulation revenues from its European initiative. Incremental benefits are likely to be visible from the Jammu facility which enjoys fiscal benefits. We expect the company to record EPS of Rs47.2 and Rs60 for FY09 and FY10 respectively. Given the strong earnings growth, valuations at 15.6x FY09 and 12.2x FY10 EPS are attractive. Reiterate Buy with target price of Rs860 (17% upside).

Piramal Healthcare: The macro environment for CRAMS business remains very favourable given India's inherent cost advantages and chemistry skills. We believe that PHL will be a key beneficiary of the increased outsourcing from India, given the strong MNC relations which the company enjoys. We believe that PHL's CRAMS business is gaining increased traction with more products being added to its CRAMS portfolio. Based on our current estimates, PHL is valued at 16.2x FY09E and 13.2x FY10E earnings. We believe that valuations do not fully reflect the scaling up of the CRAMS business and the expected benefits from acquired companies. Reiterate Buy with target price of Rs435 (34% upside).

GSK Pharma: We continue to be positive about GSK's long-term prospects. It is one of the best plays on IPR regime in India with plans to launch 3 patented products and 4 vaccines (2 already launched) by CY09E. We believe that the company deserves premium valuations due to the strong parentage (giving access to a large product pipeline), brand-building ability and its likely positioning in the post patent era. Although, GSK's top-line growth has been disappointing in the past, we believe that it is likely to outperform the average industry growth in the long-term (post 2009) as patented products start contributing meaningfully to the overall sales. We expect GSK to record EPS of Rs53.1 & Rs60 for CY08E and CY09E respectively. GSK is currently valued at 22x CY08E and 19.5x CY09E earnings. Reiterate Buy with price target of Rs1,392 (19% upside).

COMPARATIVE VALUATIONS

COMPANY	CMP (RS/SH)	TP (RS/SH.)	YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES (X)	EV/ EBITDA (X)
Aurobindo	306	557	3/08A	23,568	2,322	33.9	15.5	9.0	1.5	21.0	9.2	1.2	8.2
			3/09E	26,994	2,470	36.1	6.4	8.5	1.2	18.5	9.1	1.0	7.0
			3/10E	32,209	3,367	49.2	36.3	6.2	1.0	20.3	10.7	0.8	5.5
Aventis	815	1,001	12/07A	8,735	1,444	62.7	-14.7	13.0	2.8	21.5	33.1	1.6	8.3
			12/08E	9,087	1,462	63.5	1.3	12.8	2.5	19.6	29.7	1.5	7.2
			12/09E	9,926	1,557	67.6	6.5	12.1	2.3	18.9	28.7	1.2	5.8
Biocon	400	460	3/08A	10,540	2,250	22.5	12.4	17.8	2.7	15.3	14.6	3.6	12.8
			3/09E	17,421	2,541	25.4	13.0	15.7	2.4	15.2	13.9	2.3	10.6
			3/10E	20,155	3,063	30.6	20.5	13.1	2.1	16.1	15.3	1.9	8.5
Cadila	327	365	3/08A	23,245	2,632	20.5	9.9	15.9	3.9	26.7	23.6	1.9	9.7
			3/09E	28,009	3,200	25.5	24.2	12.8	3.1	27.0	22.4	1.6	8.1
			3/10E	32,523	4,086	29.9	17.5	10.9	2.7	27.9	23.9	1.4	6.6
Cipla	238	205	3/08A	42,268	7,005	9.0	3.5	26.4	4.9	18.5	19.6	4.4	21.8
			3/09E	49,201	7,932	10.2	13.1	23.3	4.2	18.0	19.1	3.8	17.9
			3/10E	56,865	9,285	11.9	16.9	19.9	3.6	18.0	19.4	3.2	15.3
Dishman	299	360	3/08A	8,031	1,215	15.0	36.1	20.0	5.1	32.8	15.9	3.8	19.9
			3/09E	10,340	1,449	17.8	19.3	16.7	3.9	29.7	17.7	3.0	13.2
			3/10E	12,163	1,757	21.6	21.3	13.8	3.1	28.0	18.6	2.5	10.8
Divi's Labs	1471	1,600	3/08A	10,332	3,536	54.8	84.2	26.9	11.0	50.2	47.6	9.3	23.0
			3/09E	12,742	4,661	72.2	31.8	20.4	7.7	44.3	44.3	7.3	17.2
			3/10E	15,663	5,465	84.7	17.2	17.4	5.7	37.5	40.3	5.8	13.7
Dr. Reddy's Labs	584	800	3/08A	50,007	4,669	27.8	-50.0	21.0	2.1	9.9	4.8	2.1	15.5
			3/09E	62,075	6,087	36.2	30.4	16.1	1.9	11.8	9.4	1.7	12.1
			3/10E	70,037	7,893	46.9	29.7	12.4	1.7	13.7	11.3	1.5	9.8
GSK Pharma	1165	1,392	12/07A	15,703	3,997	47.2	10.5	24.7	7.3	29.4	44.8	5.3	16.9
			12/08E	16,488	4,495	53.1	12.4	22.0	6.0	27.4	41.4	4.9	15.6
			12/09E	18,467	5,071	59.9	12.8	19.5	5.1	26.0	39.2	4.3	13.3
Jubilant Organosys	358	400	3/08A	24,889	4,118	22.3	80.6	16.0	4.0	37.8	17.0	2.4	12.6
			3/09E	37,319	3,943	21.4	-4.2	16.7	3.2	27.3	14.6	2.1	10.8
			3/10E	45,211	5,671	30.8	43.8	11.6	2.5	30.6	17.2	1.7	8.2
Lupin	735	860	3/08A	27,064	3,334	37.8	43.3	19.4	4.8	31.8	23.5	2.4	15.0
			3/09E	34,329	4,166	47.2	25.0	15.6	3.8	30.2	24.1	1.9	12.0
			3/10E	39,535	5,296	60.0	27.1	12.2	3.1	30.6	25.7	1.7	9.6
Piramal Healthcare	324	435	3/08A	28,728	3,643	17.4	58.9	18.6	5.7	32.5	24.9	2.6	13.6
			3/09E	33,077	4,182	20.0	14.8	16.2	4.1	29.4	22.8	2.2	11.0
			3/10E	37,666	5,129	24.5	22.6	13.2	3.4	28.0	22.5	1.9	9.2
Pfizer	579	681	11/07A	6,939	1,259	42.2	4.1	13.7	2.5	18.5	28.8	1.7	7.4
			11/08E	6,907	1,426	47.8	13.3	12.1	1.9	15.3	23.6	1.3	5.4
			11/09E	7,598	1,562	52.4	9.5	11.0	1.7	15.3	23.3	1.1	4.4
Ranbaxy	510	423	12/07A	69,756	7,745	19.4	51.6	26.4	6.8	27.8	11.7	3.3	24.8
			12/08E	79,890	6,229	15.6	-19.6	32.8	6.1	19.9	14.7	2.8	17.3
			12/09E	91,343	8,807	22.0	41.4	23.2	5.3	24.6	14.5	2.4	16.3
Shasun	34	47	3/08A	8,174	158	3.3	1,058.9	10.2	0.7	6.8	7.0	0.4	28.4
			3/09E	9,494	234	4.9	48.1	6.9	0.6	9.4	9.2	0.4	5.5
			3/10E	10,712	281	5.8	20.1	5.8	0.6	10.7	9.6	0.5	5.3
Sun Pharma	1477	1,600	3/08A	32,909	14,869	71.8	89.6	20.6	5.8	36.8	34.2	7.7	16.3
			3/09E	32,564	11,429	55.2	-23.1	26.8	4.9	19.8	21.4	7.5	20.5
			3/10E	37,692	13,881	67.0	21.5	22.0	4.1	20.3	21.8	6.1	16.4
Wockhardt	199	302	12/07A	26,531	3,460	29.0	35.3	6.9	1.7	29.6	15.9	1.8	7.4
			12/08E	35,020	2,993	25.1	-13.5	7.9	1.4	21.2	15.2	1.4	6.1
			12/09E	39,500	4,005	33.6	33.8	5.9	1.2	23.3	15.2	1.2	5.4

Source: Motilal Oswal Securities

Biocon

STOCK INFO.	BLOOMBERG
BSE Sensex: 14,450	BIOS IN
	REUTERS CODE
S&P CNX: 4,335	BION.BO

25 August 2008

Buy

Rs401

Previous Recommendation: Buy

Equity Shares (m)	100.0
52-Week Range	663/336
1,6,12 Rel. Perf. (%)	8/12/-6
M.Cap. (Rs b)	40.1
M.Cap. (US\$ b)	0.9

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	9,863	2,002	20.0	15.1	20.0	3.8	18.7	17.0	4.2	14.5
03/08A	10,540	2,250	22.5	12.4	17.8	2.7	15.3	14.6	3.6	12.8
03/09E	17,421	2,541	25.4	13.0	15.8	2.4	15.2	13.9	2.3	10.6
03/10E	20,155	3,063	30.6	20.5	13.1	2.1	16.1	15.3	1.9	8.5

Biocon's 1QFY09 results were below our estimates. Key highlights include:

- Net sales declined by 2.6% to Rs2.63b while PAT declined by 71% to Rs150m. Adjusted for the divestment of the Enzymes business; revenues have grown by 5.5%. EBITDA margins declined by 640bp to 21.8%. Slower growth in biopharma sales and a 3% decline in contract research revenues to Rs427m coupled with absence of licensing income impacted top-line growth and EBITDA margins. Lower sales growth coupled with Rs255m of MTM forex losses on foreign currency loans adversely impacted PAT for the quarter.
- Slow-down in Syngene operations is temporary** - Syngene is currently experiencing a slow-down due to capacity constraints and slow-down in its CCS business (~25% of Syngene revenues). While this is likely to continue for some more quarters, the BMS contract will start contributing from 4QFY09 onwards. We expect BMS revenues to ramp-up to Rs750m by FY10.

Based on the lower than expected performance for 1Q, we have reduced our EPS estimates by 8% to Rs25.4 and 3% to Rs30.6 respectively for FY09E and FY10E. Traction in the company's Insulin initiative, coupled with incremental contribution from immunosuppressants should augur well for Biocon's FY09 performance. Contract Research business is expected to grow at 25% CAGR). Licensing fees (estimated at Rs400-500m) is also likely to boost FY09 profits. However, higher R&D costs, significant capex (leading to increase in depreciation), higher expenses linked to the scale-up of the domestic formulations business and currency hedging, will continue to temper down earnings growth. Biocon is currently valued at 15.8x FY09E and 13.1x FY10E earnings. Maintain **Buy**.

CONSOLIDATED QUARTERLY PERFORMANCE

(Rs Million)

Y/E MARCH	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	2,710	2,790	2,370	2,670	2,639	4,574	4,741	5,467	10,540	17,421
YoY Change (%)	27.8	12.0	-4.0	-4.0	-2.6	68.8	69.9	130.7	6.9	65.3
Total Expenditure	1,945	1,985	1,779	1,840	2,063	3,619	3,779	4,210	7,550	13,671
EBITDA	765	805	591	830	576	955	962	1,257	2,990	3,750
Margins (%)	28.2	28.8	24.9	31.1	21.8	20.9	20.3	23.0	28.4	21.5
Depreciation	216.4	233.6	240.0	250.0	253.0	260.0	310.0	330.0	940.0	1,153.0
Interest	27.5	26.7	25.8	20.0	37.0	40.0	40.0	47.2	100.0	164.2
Other Income	9.9	19.2	210.9	120.0	-129.0	125.0	160.0	189.0	360.0	345.0
PBT	531	564	536	680	157	780	772	1,069	2,310	2,778
Tax	15	38	18	60	17	44	43	62	130	167
Rate (%)	2.8	6.7	3.3	8.8	10.8	5.6	5.6	5.8	5.6	6.0
Minority Interest	-14	-14	-12	-30	-10	15	20	45	-70	70
PAT	530	540	530	650	150	721	709	962	2,250	2,541
YoY Change (%)	34.5	19.0	-5.3	7.1	-71.7	36.1	31.3	81.3	12.0	13.0
Margins (%)	19.6	19.3	22.4	24.3	5.7	15.8	14.9	17.6	21.3	14.6

E: MOST Estimates

Cadila Healthcare

STOCK INFO.	BLOOMBERG
BSE Sensex: 14,450	CDH IN
	REUTERS CODE
S&P CNX: 4,335	CADI.BO

25 August 2008

Buy

Rs326

Previous Recommendation: Buy

Equity Shares (m)	125.6
52-Week Range	350/203
1,6,12 Rel. Perf. (%)	8/47/8
M.Cap. (Rs b)	40.9
M.Cap. (US\$ b)	0.9

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END*	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	18,288	2,343	18.7	43.5	17.5	4.7	29.9	24.1	2.4	12.6
03/08A	23,245	2,632	20.5	9.9	15.9	3.9	26.7	23.6	1.9	9.7
03/09E	28,009	3,200	25.5	24.2	12.8	3.1	27.0	22.4	1.6	8.1
03/10E	32,523	4,086	29.9	17.5	10.9	2.7	27.9	23.9	1.3	6.6

Cadila's 1QFY09 performance was above estimates. Key highlights:

- Net sales grew by 22% to Rs6.98b (vs est. of Rs6.54b), driven by 60% YoY growth in formulation exports to Rs1.6b. API exports grew by 12.6% to Rs759m while domestic sales grew by only 7.3% to Rs4.2b. Domestic sales growth was impacted by a slow-down in the formulations segment which grew by only 6%. EBITDA margins improved by 150bp YoY to 20.9% (vs est. of 19.4%) led by 36% growth in US, better than expected Pantoprazole supplies to Nycomed (as generics are very cautious in this market) and better profitability in the French business. PAT recorded 21% growth to Rs897m (vs est. of Rs724m).
- While we have upgraded our estimates based on the better than expected performance for 1Q as well as the upgraded guidance on Pantoprazole, our EPS estimates have not changed much due to the higher than expected interest costs. We expect Cadila to record 21% earnings CAGR for FY08-10 period. We expect the company to record EPS of Rs25.5 and Rs29.9 for FY09E and FY10E respectively. Our estimates take into account the proposed demerger of the consumer business and related equity dilution. Traction in international business, commencement of Hospira supplies coupled with a de-risked business model should ensure good long-term potential for the company. Cadila is currently valued at 12.8x FY09E, and 10.9x FY10E consolidated earnings. We believe that valuations are attractive given the expected traction in the business.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(Rs Million)

Y/E MARCH	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Revenues	5,722	6,097	5,794	5,632	6,985	6,805	7,006	7,214	23,245	28,009
YoY Change (%)	28.4	28.4	22.7	29.3	22.1	11.6	20.9	28.1	312.7	20.5
Total Expenditure	4,610	4,780	4,759	4,498	5,524	5,393	5,735	5,896	18,647	22,549
EBITDA	1,112	1,317	1,035	1,134	1,461	1,412	1,270	1,317	4,598	5,460
Margins (%)	19.4	21.6	17.9	20.1	20.9	20.7	18.1	18.3	19.8	19.5
Depreciation	239	235	270	225	246	270	290	313	969	1,119
Interest	73	137	121	113	148	155	160	171	444	634
Other Income	94	10	57	-43	27	35	40	42	118	144
PBT before EO Income	894	955	701	753	1,094	1,022	860	876	3,303	3,852
EO Exp/(Inc)	0	24	45	0	0	0	0	0	69	0
PBT after EO Income	894	931	656	753	1,094	1,022	860	876	3,234	3,852
Tax	121	114	177	201	123	153	129	172	613	578
Rate (%)	13.5	12.2	27.0	26.7	11.3	15.0	15.0	19.7	19.0	15.0
Minority Int/Adj on Consol	34	16	-37	32	74	0	0	0	45	74
Reported PAT	739	801	516	520	897	868	731	703	2,576	3,200
Adj PAT	739	822	549	520	897	868	731	703	2,632	3,200
YoY Change (%)	26.5	16.6	12.4	33.7	21.4	5.6	33.3	35.3	406.1	21.6
Margins (%)	12.9	13.5	9.5	9.2	12.8	12.8	10.4	9.8	11.3	11.4

E: MOST Estimates; Quarterly numbers don't add up to full year numbers due to restatement

Cipla

Neutral

Rs237

STOCK INFO.	BLOOMBERG
BSE SENSEX: 14,450	CIPLA IN
	REUTERS CODE
S&P CNX: 4,335	CIPL.BO

25 August 2008

Previous Recommendation: Neutral

Equity Shares (m)	777.3
52-Week Range (Rs)	243/161
1,6,12 Rel. Perf. (%)	4/36/38
M.Cap. (Rs b)	184.8
M.Cap. (US\$ b)	4.2

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	35,706	6,766	8.7	7.3	27.3	5.7	21.0	23.9	5.2	22.6
03/08A	42,268	7,005	9.0	3.5	26.4	4.9	18.5	19.6	4.4	21.8
03/09E	49,201	7,932	10.2	13.1	23.3	4.2	18.0	19.1	3.8	17.9
03/10E	56,865	9,285	11.9	16.9	19.9	3.6	18.0	19.4	3.2	15.3

Cipla's 1QFY09 operational performance was above expectations. Key highlights:

- Net Sales grew by 34% to Rs12.07b (vs estimate of Rs10.5b) and PAT grew by 17% to Rs1.4b (vs estimate of Rs1.57b). While reported PAT was below our estimates, EBITDA margins at 22.4% were above our estimates. PAT was impacted by Rs746m of MTM forex loss on hedged positions and forex loans.
- Top-line growth was driven by a 117% jump in API exports, which, we believe may have included one-off supplies (not quantified) of Alendronate Sodium to Teva for the latter's 180-day exclusivity in the US. We estimate these supplies to have contributed about Rs800m to revenues and Rs400m to PAT during the quarter. Exports accounted for 50% of revenues and grew by 50% for the quarter while the domestic formulations business (net of excise) grew by 19%. Other Operating Income (including technology licensing income) grew by 68% and accounted for 3% of revenues. The company has guided that it will be able to grow this income in FY09E despite the higher base of FY08 of Rs2.2b.

We believe that Cipla has one of the strongest generic pipelines amongst Indian companies. It has tie-ups with 12 US-based generic companies for supply of products. This coupled with the company's low-risk strategy and strong capex should ensure good long-term potential. We continue to believe that Cipla could be an acquisition target given the absence of succession planning at the company. Based on the better than expected 1Q results, we have raised our EPS estimates by 3% each for FY09E and FY10E. We estimate Cipla to record EPS of Rs10.2 and Rs11.9 for FY09E and FY10E respectively. Cipla is currently valued at 23.3x FY09E and 19.9x FY10E earnings. Maintain **Neutral**.

QUARTERLY PERFORMANCE

(Rs Million)

Y/E MARCH	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	9,018	10,984	11,045	11,221	12,071	12,220	12,920	11,989	42,268	49,201
YoY Change (%)	4.4	22.6	25.4	20.4	33.9	11.3	17.0	6.8	18.4	16.4
Total Expenditure	7,411	8,744	8,422	9,194	9,371	9,618	10,074	9,783	33,772	38,845
EBITDA	1,607	2,240	2,623	2,027	2,701	2,602	2,846	2,207	8,497	10,355
Margins (%)	17.8	20.4	23.7	18.1	22.4	21.3	22.0	18.4	20.1	21.0
Depreciation	303	328	330	367	382	400	450	442	1,326	1,674
Interest	8	24	38	46	37	45	45	51	116	178
Other Income	185	418	242	407	-576	200	250	846	1,252	720
Profit before Tax	1,482	2,307	2,497	2,021	1,705	2,357	2,601	2,560	8,307	9,223
Tax	284	401	390	227	305	330	364	292	1,302	1,291
Rate (%)	19.2	17.4	15.6	11.2	17.9	14.0	14.0	11.4	15.7	14.0
Reported PAT	1,198	1,906	2,107	1,795	1,400	2,027	2,237	2,267	7,005	7,932
YoY Change (%)	-29.7	5.7	14.2	25.4	16.9	6.3	6.2	26.4	3.5	13.2
Margins (%)	13.3	17.4	19.1	16.0	11.6	16.6	17.3	18.9	16.6	16.1

E: MOST Estimates

Dishman Pharma

STOCK INFO.	BLOOMBERG
BSE SENSEX: 14,450	DISH IN
	REUTERS CODE
S&P CNX: 4,335	DISH.BO

25 August 2008

Buy

Previous Recommendation: Buy

Rs297

Equity Shares (m)	81.6
52-Week Range	427/250
1,6,12 Rel. Perf. (%)	7/26/9
M.Cap. (Rs b)	24.2
M.Cap. (US\$ b)	0.6

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END*	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	5,750	893	11.0	94.1	27.0	6.8	35.4	15.6	5.1	26.4
03/08A	8,031	1,215	15.0	36.1	19.9	5.1	32.8	15.9	3.8	19.8
03/09E	10,340	1,449	17.8	19.3	16.7	3.9	29.7	17.7	2.9	13.1
03/10E	12,163	1,757	21.6	21.3	13.7	3.0	28.0	18.6	2.5	10.7

Dishman reported 40.4% top-line growth to Rs2.36b (vs estimate of Rs2.4b) and 29.6% PAT growth to Rs277m (vs estimate of Rs284m). Adjusted for impact of acquisitions, top-line growth was 24%.

- While top-line growth was in-line with est., EBITDA margins at 28.1% were above our est. of 21% led by better product-mix, reduced outsourcing of finished goods and inventory valuation gains.
- The recent depreciation of the INR vs the US\$ also positively impacted margins as Dishman generally covers only 25-40% of its revenues through forward contracts. The depreciating currency also positively impacted the realisations for the MM Business (22% of sales).
- Despite good operational performance, PAT growth at 29.6% was lower than top-line growth due to Rs165m of MTM forex losses (mainly on forex loans).
- Acquired businesses (from Solvay) contributed Rs279m to sales for the quarter.

Key growth drivers for Dishman will be ramp-up in the India-based contracts, with supplies to Solvay expected to record 21% for CAGR for FY07-09, while non-Solvay contracts are expected to grow at 53% CAGR (albeit on a low base). We believe that Dishman will be a key beneficiary of the increased pharmaceutical outsourcing from India. Higher than expected currency appreciation remains a key risk. Based on our current estimates, Dishman is valued at 16.7x FY09E and 13.7x FY10E consolidated earnings. Maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(Rs Million)

Y/E MARCH	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	1,680	1,866	2,066	2,419	2,359	2,450	2,550	2,981	8,031	10,340
YoY Change (%)	104.2	59.5	19.0	17.6	40.4	31.3	23.4	23.2	38.8	28.8
Total Expenditure	1,406	1,461	1,667	1,968	1,696	1,930	1,975	2,417	6,502	8,017
EBITDA	274	405	398	451	663	520	575	564	1,529	2,322
Margins (%)	16.3	21.7	19.3	18.6	28.1	21.2	22.5	18.9	19.0	22.5
Depreciation	89	111	104	167	144	130	140	132	472	547
Interest	61	72	77	96	93	80	100	95	305	367
Other Income	107	91	125	154	-141	80	50	231	477	220
PBT after EO Income	230	314	342	342	285	390	385	568	1,228	1,628
Tax	4	32	22	12	3	19	19	40	70	81
Deferred Tax	12	0	0	-69	5	23	23	46	-57	98
Rate (%)	7.0	10.3	6.4	-16.7	2.7	11.0	11.0	15.2	1.1	11.0
Reported PAT	214	282	321	399	277	347	343	482	1,215	1,449
YoY Change (%)	15.7	67.8	31.3	20.0	29.6	23.3	6.9	20.9	30.8	19.3
Margins (%)	12.7	15.1	15.5	16.5	11.8	14.2	13.4	16.2	15.1	14.0

E: MOST Estimates

Divi's Laboratories

STOCK INFO.	BLOOMBERG
BSE SENSEX: 14,450	DIVI IN
	REUTERS CODE
S&P CNX: 4,335	DIVI.BO

25 August 2008

Neutral

Previous Recommendation: Neutral

Rs1,474

Equity Shares (m)	64.6	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	1,930/1,075	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	5/21/39	03/07A	7,244	1,919	29.7	172.1	49.6	17.6	43.5	40.0	13.3	39.2
M.Cap. (Rs b)	95.1	03/08A	10,332	3,536	54.8	84.2	26.9	11.0	50.2	47.6	9.3	23.0
M.Cap. (US\$ b)	2.2	03/09E	12,742	4,661	72.2	31.8	20.4	7.7	44.3	44.3	7.3	17.3
		03/10E	15,663	5,465	84.7	17.2	17.4	5.7	37.5	40.3	5.8	13.7

Divi's Labs 1QFY09 performance was above estimates. Key highlights:

- Net sales grew by 16.7% to Rs2.66b (vs estimate of Rs2.68b) while PAT grew by 43% to Rs965m (vs estimate of Rs898m). EBITDA margins were above estimates at 44.6% (vs estimate of 38.5%). Bottom-line growth was adversely impacted by higher depreciation and Rs89.9m of MTM forex losses.
- Carotenoids supplies have commenced** – Divi's has commissioned its Carotenoids facility on 01-Jun-2008 and has commenced supplies to its partners. We expect a gradual ramp-up in these supplies over the next two years.
- Guides 25% top-line growth** – Management has guided for 25% top-line growth for FY09E led by increased traction in both the CCS and Generics businesses. The company completed its capex of Rs1.76b on new facilities in FY08 which is likely to contribute to revenues in FY09E.

We expect earnings growth to moderate to about 32% compared to the 84% growth recorded in FY08, due to significantly high base of FY08. The company's capacities are nearing optimum utilization (expect for the new Carotenoids facility) with no major capex planned in the near future. We expect Divi's to be one of the key beneficiaries of increased pharmaceutical outsourcing from India. The company's existing relationships with innovator companies should help it in procuring more MNC contracts. Divi's is currently valued at 20.4x FY09E and 17.4x FY10E earnings. Maintain **Neutral**.

QUARTERLY PERFORMANCE

(Rs Million)

Y/E MARCH	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Op Revenue	2,281	2,425	2,842	2,784	2,661	3,045	3,453	3,583	10,332	12,742
YoY Change (%)	41.8	50.3	90.0	10.2	16.7	25.6	21.5	28.7	42.6	23.3
Total Expenditure	1,438	1,375	1,721	1,628	1,473	1,728	2,040	2,106	6,163	7,347
EBITDA	843	1,050	1,121	1,156	1,188	1,317	1,413	1,477	4,169	5,395
Margins (%)	36.9	43.3	39.4	41.5	44.6	43.3	40.9	41.2	40.4	42.3
Depreciation	86	78	91	102	107	107	110	111	357	436
Interest	34	32	18	18	20	25	25	20	102	90
Other Income	34	15	45	41	-38	50	60	71	136	143
PBT	757	956	1,057	1,077	1,023	1,235	1,338	1,416	3,847	5,012
Tax	49	1	62	82	42	86	94	129	194	351
Deferred Tax	36	42	-11	51	16	0	0	-16	118	0
Rate (%)	11.1	4.5	4.8	12.4	5.7	7.0	7.0	7.9	8.1	7.0
Adj PAT	673	913	1,007	944	965	1,149	1,244	1,303	3,536	4,661
YoY Change (%)	151.6	191.7	207.5	-6.7	43.4	25.9	23.6	38.1	84.2	31.8
Margins (%)	29.5	37.6	35.4	33.9	36.3	37.7	36.0	36.4	34.2	36.6

E: MOST Estimates

Dr Reddy's Laboratories

STOCK INFO.	BLOOMBERG
BSE SENSEX: 14,450	DR IN
	REUTERS CODE
S&P CNX: 4,335	REDY.BO

25 August 2008

Buy

Previous Recommendation: Buy

Rs586

Equity Shares (m)	168.2	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range (Rs)	760/464	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	-9/25/-7	03/07A	65,095	9,323	55.5	521.1	10.6	2.4	22.4	14.3	1.6	7.2
M.Cap. (Rs b)	98.5	03/08A	50,007	4,669	27.8	-50.0	21.1	2.1	9.9	4.8	2.1	15.5
M.Cap. (US\$ b)	2.3	03/09E	62,075	6,087	36.2	30.4	16.2	1.9	11.8	9.4	1.7	12.2
		03/10E	70,037	7,893	46.9	29.7	12.5	1.7	13.7	11.3	1.5	9.9

Dr. Reddy's Labs 1QFY09 results were below expectations. Key highlights:

- Sales improved 25% to Rs15b (v/s estimate of Rs14.4b) due to low base of 1QFY08 and contribution from acquisitions. Organic growth for the quarter was at 21% to Rs14.5b. The recent depreciation of the INR vs the US\$ and Euro has also partly helped the company record better top-line growth. Despite this, EBITDA Margins at 12.1% were lower than estimates of 14% due to higher than expected SG&A expenses at 31.2% of revenues. Reported PAT declined by 26% to Rs1.34b (vs estimate of Rs1.08b) due to lower forex gains (Rs147m vs Rs285m for 1QFY08) and higher tax rate at 15% of PBT vs 9% for 1QFY08.
- German operations to show improvement in FY09E** - DRL is in the process of shifting manufacturing of products back to its Indian facilities (which could result in cost savings of about 30%). Management indicated that its German operations are likely to register an improvement in EBITDA margins in FY09E as compared to FY08 (13% EBITDA margin). This will, however, be partly tempered down by the 6-8% price cut announced in Jun-08.
- Reiterates FY09 Guidance** - DRL has maintained its FY09E guidance for a top-line growth of 25% (in INR terms) and GPM of over 50%. SG&A expenses (as % of revenues) are likely to reduce in the coming quarters.

Traction in the branded formulations and CCS businesses will be the key growth drivers for DRL over next two years. Sourcing of products from Indian facilities for the German market will have a positive impact on the profitability of the company. The recent acquisition of the BASF facility in the US is likely to help DRL participate in US government tenders and will also facilitate packaging for its OTC business. The impact of this acquisition will be visible in FY10. Based on the lower than expected operational performance and to factor-in the equity dilution due to warrants, we have reduced our EPS estimates by 9% and 6.7% for FY09E and FY10E respectively. Based on our revised estimates, we expect DRL to record EPS of Rs36.2 and Rs46.9 for FY09E and FY10E respectively. DRL is currently valued at 16.2x FY09E and 12.5x FY10E earnings. Maintain **Buy**.

Y/E MARCH	(Rs Million)									
	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Gross Sales	12,018	12,669	12,321	12,999	15,038	15,253	15,269	16,515	50,007	62,075
YoY Change (%)	-14.5	-36.8	-20.2	-16.5	25.1	20.4	23.9	27.1	-23.2	24.1
EBITDA	2,132	1,461	1,383	1,725	1,815	1,903	2,217	2,570	6,701	8,504
Margins (%)	17.7	11.5	11.2	13.3	12.1	12.5	14.5	15.6	13.4	13.7
Depreciation & Amortization	351	410	2,740	693	391	400	400	409	4,194	1,600
Other Income	231	372	129	200	166	30	30	31	932	257
Profit before Tax	2,012	1,423	-1,228	1,232	1,590	1,533	1,847	2,192	3,439	7,161
Tax	181	-1,248	-380	218	242	230	277	325	-1,229	1,074
Rate (%)	9.0	-87.7	30.9	17.7	15.2	15.0	15.0	14.8	-35.7	15.0
Reported PAT	1,831	2,671	-848	1,015	1,348	1,303	1,570	1,866	4,669	6,087
Minority Interest	3	1	3	-17	0	0	0	0	-10	0
Adjusted PAT	1,828	2,670	-851	1,032	1,348	1,303	1,570	1,866	4,679	6,087
YoY Change (%)	34.8	-4.6	-145.3	-68.3	-26.3	-51.2	-	80.8	-49.6	30.1
Margins (%)	15.2	21.1	-6.9	7.9	9.0	8.5	10.3	11.3	9.4	9.8

E: MOST Estimates

GlaxoSmithKline Pharmaceuticals

STOCK INFO.	BLOOMBERG
BSE SENSEX: 14,450	GLXO IN
	REUTERS CODE
S&P CNX: 4,335	GLAX.BO

25 August 2008

Buy

Previous Recommendation: Buy

Rs1,163

Equity Shares (m)	84.7	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range (Rs)	1,212/800	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	5/39/4	12/06A	15,384	3,617	42.7	18.1	27.2	8.2	30.3	46.4	5.6	18.2
M.Cap. (Rs b)	98.5	12/07A	15,703	3,997	47.2	10.5	24.6	7.2	29.4	44.8	5.3	16.8
M.Cap. (US\$ b)	2.3	12/08E	16,488	4,495	53.1	12.4	21.9	6.0	27.4	41.4	4.9	15.5
		12/09E	18,467	5,071	59.9	12.8	19.4	5.0	26.0	39.2	4.3	13.3

GSK Pharma's 2QCY08 results were better than estimates. Key highlights:

- Net sales grew 6.3% to Rs4.16b vs estimate of Rs4.28b while adjusted PAT improved by 19% to Rs1.15b (in-line with estimates). We estimate that on a like-to-like basis (excl fine chemicals business), net sales recorded 11% growth while PAT recorded 19% growth for the quarter.
- Priority Products (~65-70% of revenues) grew in double-digits (not quantified) leading to 309bp expansion in EBITDA Margins to 34.3% (vs estimate of 31.6%).
- Guidance:** Management had, in the past, guided that its Priority Business is likely to grow in-line with average industry growth (11-12%) while the DPCO business (28% of revenues) will remain flat. It has also guided that EBITDA margins will be retained at CY07 levels (31-32%) for CY08E as well. It expects to launch about 9 patented/low-competition products over the next 2 years.

We continue to be positive about GSK's long-term prospects. It is one of the best plays on IPR regime in India with plans to launch 9 patented/low-competition products by CY09E. We believe that the company deserves premium valuations due to the strong parentage (giving access to a large product pipeline), brand-building ability and it's likely positioning in the post patent era. We expect GSK to record EPS of Rs53.1 and Rs59.9 for CY08E and CY09E respectively. GSK is currently valued at 21.9x CY08E and 19.4x CY09E earnings. Maintain **Buy**.

QUARTERLY PERFORMANCE

(Rs Million)

Y/E DECEMBER	CY07				CY08				CY07	CY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	4,203	3,915	4,193	3,392	4,215	4,163	4,369	3,740	15,703	16,488
YoY Change (%)	-1.2	-3.1	5.6	8.8	0.3	6.3	4.2	10.3	2.1	5.0
Total Expenditure	2,753	2,692	2,826	2,460	2,780	2,734	2,966	2,687	10,731	11,214
EBITDA	1,450	1,223	1,366	932	1,435	1,429	1,403	1,054	4,972	5,274
Margins (%)	34.5	31.2	32.6	27.5	34.1	34.3	32.1	28.2	31.7	32.0
Depreciation	37	37	38	50	37	39	42	45	162	163
Other Income	577	312	339	385	428	341	436	540	1,307	1,745
PBT before EO Expense	1,990	1,498	1,667	1,261	1,826	1,731	1,797	1,549	6,112	6,857
Tax	563	502	555	374	622	585	604	515	1,993	2,315
Deferred Tax	10	32	22	59	-9	-2	0	0	122	-10
Rate (%)	28.8	35.6	34.6	34.3	33.6	33.7	33.6	33.3	34.6	33.6
Adjusted PAT	1,418	964	1,091	829	1,213	1,149	1,193	1,034	3,997	4,552
YoY Change (%)	37.1	5.9	10.1	21.6	-14.5	19.1	9.4	24.8	10.5	13.9
Margins (%)	33.7	24.6	26.0	24.4	28.8	27.6	27.3	27.6	25.5	27.6
Extra-Ord Expense	0	0	-1,399	20	0	0	0	0	-1,379	0
Reported PAT	1,418	964	2,490	809	1,213	1,149	1,193	1,034	5,377	4,552

E: M0St Estimates

Jubilant Organosys

STOCK INFO.	BLOOMBERG
BSE SENSEX: 14,450	JOL IN
	REUTERS CODE
S&P CNX: 4,335	JUBO.BO

25 August 2008

Buy

Rs357

Previous Recommendation: Buy

Equity Shares (m)	144.0
52-Week Range	391/244
1,6,12 Rel. Perf. (%)	-2/14/27
M.Cap. (Rs b)	51.3
M.Cap. (US\$ b)	1.2

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	18,097	2,280	12.4	44.0	28.8	5.7	26.4	15.4	3.3	18.5
03/08A	24,889	4,118	22.3	80.6	16.0	4.0	37.8	17.0	2.3	12.6
03/09E	37,319	3,943	21.4	-4.2	16.7	3.2	27.3	14.6	2.1	10.7
03/10E	45,211	5,671	30.8	43.8	11.6	2.5	30.6	17.2	1.7	8.2

Jubilant's 1QFY09 operational results were better than estimates. Key highlights:

- Net sales was up 53% to Rs8.26b while PAT declined 91% to Rs128m. While operational performance was better v/s estimates with EBITDA of Rs1.65b (EBITDA margin at 20.1%), PAT was adversely impacted due to Rs1.07b of translation forex losses on FCCBs/forex debt. Topline growth of 53% was led by strong growth in CRAMS business (48% organic growth) and consolidation of the Hollister & Draxis acquisition (contributed Rs1.17b to revenues).
- Guidance** - Jubilant has guided for over 50% topline growth in FY09 led by higher growth in the CRAMS business (owing to execution of new contracts), new launches in the generic segment, full impact of acquisitions coupled with the benefit of expanded capacities at Hollister. Organically, we expect the company to record 35% topline growth.

We expect Jubilant to record EPS of Rs21.4 and Rs30.8 for FY09E and FY10E respectively (including Draxis). Jubilant is currently valued at 16.7x FY09E and 11.6x FY10E consolidated earnings. It is likely to benefit from the increased outsourcing from India due to its existing relationships with global pharmaceutical and agrochemical players and significant ramp-up in Hollister (USA). This will result in 35% revenue and earnings CAGR over FY07-10. Currency appreciation, higher Molasses prices and delay in commissioning of new facilities (significant capex/investments of Rs7b) are the key risks to our positive stance. A potential listing of the contract research business can unlock value for investors in the long term. We maintain **Buy**.

QUARTERLY PERFORMANCE

(Rs Million)

Y/E MARCH	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	5,400	6,183	6,416	6,890	8,266	9,069	9,460	10,523	24,889	37,319
YoY Change (%)	31.3	32.7	36.7	48.7	53.1	46.7	47.4	52.7	37.5	49.9
Total Expenditure	4,448	5,050	5,121	5,633	6,608	7,240	7,525	8,579	20,252	29,952
EBITDA	952	1,133	1,295	1,257	1,658	1,829	1,935	1,945	4,637	7,367
Margins (%)	17.6	18.3	20.2	18.2	20.1	20.2	20.5	18.5	18.6	19.7
Depreciation	194	237	247	361	337	400	450	500	1,039	1,687
Interest	84	109	123	21	138	200	250	271	337	859
Other Income	996	385	231	-182	-1,002	200	300	502	1,430	0
PBT before EO Expense	1,670	1,172	1,156	693	182	1,429	1,535	1,675	4,691	4,821
Extra-Ord Expense	0	0	36	93	0	0	0	0	129	0
Tax	273	76	244	-20	61	257	276	273	573	868
Rate (%)	16.3	6.5	21.8	-3.3	33.6	18.0	18.0	16.3	12.6	18.0
PAT	1,397	1,096	876	620	121	1,172	1,258	1,402	3,989	3,953
Minority Interest	-32	-4	-7	27	-7	7	8	2	-16	10
Adjusted PAT	1,429	1,100	911	689	128	1,165	1,251	1,400	4,118	3,943
YoY Change (%)	210.0	102.2	43.0	8.0	-91.1	5.9	37.3	103.1	80.6	-4.2
Margins (%)	26.5	17.8	14.2	10.0	1.5	12.8	13.2	13.3	16.5	10.6

E: MOST Estimates

Lupin

STOCK INFO.	BLOOMBERG
BSE SENSEX: 14,450	LPC IN
	REUTERS CODE
S&P CNX: 4,335	LUPN.BO

25 August 2008

Buy

Rs735

Previous Recommendation: Buy

Equity Shares (m)	80.3
52-Week Range	779/430
1,6,12 Rel. Perf. (%)	1/53/28
M.Cap. (Rs b)	59.1
M.Cap. (US\$ b)	1.3

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	20,057	2,327	26.4	23.0	27.9	6.8	31.1	20.1	3.2	21.9
03/08A	27,064	3,334	37.8	43.3	19.4	4.8	31.8	23.5	2.4	15.0
03/09E	34,329	4,166	47.2	25.0	15.6	3.8	30.2	24.1	1.9	12.0
03/10E	39,535	5,296	60.0	27.1	12.2	3.1	30.6	25.7	1.7	9.6

Lupin's 1QFY09 results were in-line with our estimates. Key highlights:

- Net sales grew by 50% to Rs8.6b (vs estimates of Rs7.7b) while adjusted PAT grew by 100% to Rs1.12b (v/s estimate of Rs1b). Organic top-line growth (excluding Kyowa & Rubamin acquisitions) was 32%; Kyowa contributed Rs920m and Rubamin Rs82m to sales. EBITDA margins expanded by 344bp to 17.7% (vs estimate of 18%) partly led by Ramipril sales in the US (not quantified) which enjoyed limited competition for few days in June 2008.
- Niche/IPR opportunities gaining visibility** – Lupin has a track record of launching low-competition IPR driven products in the US for the past few years. We expect this trend to continue in the future also with the company targeting to launch oral contraceptive products in the coming years.
- Core business gaining strength** – We expect Lupin to record 21% revenue CAGR for the core business in the FY08-10 period led by 23% CAGR for the regulated dosage form business and 21% CAGR for the domestic formulations business.

We expect Lupin to record 27% earnings CAGR for FY08-10 period. We expect 20+% RoCE for the next few years led by traction in regulated and domestic formulations markets and incremental savings from tax-exempt zones. Lupin is currently valued at 15.6x FY09E and 12.2x FY10E consolidated earnings. We maintain **Buy**. Earlier than expected competition for Suprax (in US) and significant currency appreciation are the key risks to our positive stance.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(Rs Million)

Y/E MARCH	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	5,757	6,590	7,213	7,504	8,624	8,257	8,445	9,004	27,064	34,329
YoY Change (%)	14.1	34.9	42.7	41.1	49.8	25.3	17.1	20.0	34.4	26.8
Total Expenditure	4,936	5,464	5,998	6,307	7,097	6,929	7,165	7,594	22,705	28,784
EBITDA	821	1,126	1,215	1,197	1,527	1,328	1,280	1,410	4,358	5,545
Margins (%)	14.3	17.1	16.8	16.0	17.7	16.1	15.2	15.7	16.1	16.2
Depreciation	127	140	175	206	193	200	210	249	647	852
Interest	89	80	101	104	102	106	103	124	374	435
Other Income	159	188	1,389	328	202	220	250	343	2,065	1,015
PBT	764	1,094	2,329	1,216	1,433	1,242	1,217	1,380	5,402	5,273
Tax	206	338	520	255	313	261	256	278	1,318	1,107
Rate (%)	26.9	30.9	22.3	20.9	21.8	21.0	21.0	20.1	24.4	21.0
Reported PAT	558	756	1,809	961	1,120	982	962	1,102	4,084	4,166
Extra-Ordinary Exp/(Inc)	0	0	-748	0	0	0	0	0	-748	0
Recurring PAT	559	756	1,060	959	1,121	982	962	1,102	3,334	4,166
YoY Change (%)	4.4	45.9	70.9	47.0	100.6	29.8	-9.3	15.0	43.3	25.0
Margins (%)	9.7	11.5	14.7	12.8	13.0	11.9	11.4	12.2	12.3	12.1

E: MOSt Estimates

Piramal Healthcare

STOCK INFO.	BLOOMBERG
BSE Sensex: 14,450	PIHC IN
	REUTERS CODE
S&P CNX: 4,335	NICH.BO

25 August 2008

Buy

Previous Recommendation: Buy

Rs325

Equity Shares (m)	209.0
52-Week Range	389/199
1,6,12 Rel. Perf. (%)	4/32/62
M.Cap. (Rs b)	67.9
M.Cap. (US\$ b)	1.6

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	24,202	2,319	11.0	85.4	29.6	6.5	23.1	19.8	3.1	22.3
03/08A	28,728	3,643	17.4	58.9	18.6	5.7	32.5	24.9	2.6	13.7
03/09E	33,077	4,182	20.0	14.8	16.2	4.1	29.4	22.8	2.2	11.1
03/10E	37,666	5,129	24.5	22.6	13.2	3.4	28.0	22.5	1.9	9.2

➤ Piramal Healthcare's 1Q performance was in-line with estimates with top-line growth of 16.5% to Rs7.1b (vs estimate of Rs7.25b) and adjusted PAT growth of 64% to Rs717m (vs est. of Rs763m). PAT was adversely impacted by a MTM translation forex loss of Rs208.2m on outstanding foreign currency loans due to the depreciation of the INR vs the US\$ and GBP.

➤ EBITDA Margins at 19.8% (up 680bp) were better than est. of 16.9%. Low base of 1QFY08 (wherein sales of Phensedyl were adversely impacted due to Coedine short-supply) coupled with cost benefits arising out of NCE research spin-off and restructuring of UK operations has helped the company record higher EBITDA Margins. Adjusted for the NCE research spin-off, EBITDA Margins have expanded by 380bp while PAT has recorded 21.1% growth. Margins have also improved due to shift of manufacturing of some products from UK operations to India.

The macro environment for CRAMS business remains very favourable given India's inherent cost advantages and chemistry skills. We believe that PHL will be a key beneficiary of the increased outsourcing from India, given the strong MNC relations which the company enjoys. We believe that PHL's CRAMS business is gaining increased traction with more products being added to its CRAMS portfolio. Based our revised estimates, PHL is currently valued at 16.2x FY09E and 13.2x FY10E earnings. We believe that valuations do not fully reflect the scaling up of the CRAMS business and the expected benefits from acquired companies. Maintain **Buy**.

QUARTERLY PERFORMANCE

(Rs Million)

Y/E MARCH	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	6,081	7,566	7,323	7,759	7,083	8,000	8,750	9,244	28,729	33,077
YoY Change (%)	16.4	15.6	12.8	20.3	16.5	5.7	19.5	19.1	16.2	15.1
Total Expenditure	5,288	6,317	6,112	5,643	5,680	6,530	6,933	7,237	23,311	26,379
EBITDA	793	1,249	1,212	2,116	1,403	1,470	1,818	2,008	5,418	6,698
Margins (%)	13.0	16.5	16.5	27.3	19.8	18.4	20.8	21.7	18.9	20.3
Depreciation	249	263	269	166	270	300	350	404	947	1,324
Interest	111	111	122	119	120	120	130	142	463	512
Other Income	68	80	40	-128	-207	20	30	38	61	-119
PBT before EO Expense	500	955	861	1,704	806	1,070	1,368	1,500	4,068	4,744
Extra-Ord Expense	3	27	56	253	41	40	39	0	339	120
PBT after EO Expense	497	928	805	1,451	766	1,030	1,329	1,499	3,729	4,624
Tax	18	127	79	153	87	95	122	121	377	424
Deferred Tax	45	-47	0	2	0	40	40	50	0	130
Rate (%)	12.7	8.6	9.8	10.7	11.3	13.1	12.2	11.5	10.1	12.0
PAT	434	848	726	1,296	679	895	1,167	1,328	3,352	4,069
Less: Minority Interest	0	0	-1	15	-2	1	1	20	14	20
Reported PAT	434	848	728	1,281	681	894	1,166	1,308	3,338	4,049
Adj PAT	437	872	778	1,507	717	929	1,200	1,308	3,643	4,154
YoY Change (%)	-18.8	33.3	40.5	145.1	63.9	6.5	54.2	-13.2	53.5	14.0

E: MOSt Estimates; Quarterly numbers don't add up to full year numbers due to restatement

Ranbaxy Laboratories

STOCK INFO.	BLOOMBERG
BSE SENSEX: 14,450	RBXY IN
	REUTERS CODE
S&P CNX: 4,335	RANB.BO

25 August 2008

Neutral

Previous Recommendation: Neutral

Rs512

Equity Shares (m)	372.7
52-Week Range (Rs)	614/300
1,6,12 Rel. Perf. (%)	5/42/42
M.Cap. (Rs b)	190.9
M.Cap. (US\$ b)	4.4

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
12/06A	61,377	5,103	12.8	135.8	40.1	7.4	19.9	11.4	3.7	25.8
12/07A	69,756	7,745	19.4	51.6	26.5	6.9	27.8	11.7	3.3	24.9
12/08E	79,890	6,229	15.6	-19.6	32.9	6.1	19.9	14.7	2.8	17.3
12/09E	91,343	8,807	22.0	41.4	23.3	5.3	24.6	14.5	2.4	16.4

* Excludes upsides from FTF products

- Ranbaxy's 2Q sales grew by 14.4% (vs estimate of 19.3%) while adj. PAT declined by 91% to Rs229m (vs estimate of Rs452m). PAT was impacted by Rs1.9b translation forex loss related to outstanding FCCBs & ECBs. We believe that operational PAT for the quarter was at Rs1.6b, led by 347bp EBITDA margin expansion partly boosted by forex gains of US\$10m on forward contracts. In US\$ terms, top-line grew by 11% led by a higher growth in various semi-regulated markets and a 12% growth in US. Exceptions to these were key markets of India and Romania which experienced a slowdown with India recording flat growth and Romania recording 5% growth.
- Reiterates CY08E guidance** - Management has reiterated its CY08E guidance of 18-19% top-line growth and EBITDA Margins at about 17%. We believe that it may be difficult for the company to achieve its top-line growth target given that it has recorded only 13.3% top-line growth for 1HCY08. While management has guided for a strong 2HCY08, we have reduced our top-line growth estimate from 19.7% to 15.2% for CY08E.

Based on our revised estimates, we expect Ranbaxy to record core EPS of Rs15.6 and Rs22 for CY08E and CY09E respectively. Ranbaxy is currently valued at 32.9x CY08E and 23.3x CY09E core earnings. We value Ranbaxy's Para-IV pipeline at Rs87/share on fully diluted equity. We believe that further clarity on Daiichi's strategic intent behind acquiring Ranbaxy and on the potential for further value creation is unlikely to come through in the near future. Any synergies from the combination of the two companies would be visible only in the long-term. Maintain **Neutral**.

QUARTERLY PERFORMANCE

(Rs Million)

Y/E DECEMBER	CY07				CY08				CY07	CY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Income	15,821	16,853	17,746	19,007	16,986	19,286	20,804	22,814	69,427	79,890
YoY Change (%)	22.4	15.7	10.3	7.0	7.4	14.4	17.2	20.0	13.2	15.1
EBITDA	1,908	2,265	2,847	2,961	2,552	3,261	3,433	3,533	9,981	12,779
Margins (%)	12.1	13.4	16.0	15.6	15.0	16.9	16.5	15.5	14.4	16.0
Depreciation	557	565	613	493	621	672	690	709	2,228	2,692
Interest	313	351	394	385	384	465	480	515	1,443	1,844
Other Income	604	2,051	543	196	-713	-1,832	1,220	918	3,394	-407
PBT before EO Expense	1,642	3,400	2,383	2,279	834	292	3,483	3,227	9,704	7,836
Extra-Ord Expense	0	0	-223	-44	-895	0	0	0	-267	-895
PBT after EO Expense	1,642	3,400	2,606	2,323	1,729	292	3,483	3,227	9,971	8,731
Tax	355	738	516	461	361	63	697	626	2,070	1,746
Rate (%)	21.6	21.7	19.8	19.8	20.9	21.6	20.0	19.4	20.8	20.0
Reported PAT	1,287	2,662	2,090	1,862	1,368	229	2,786	2,601	7,901	6,985
Minority Interest	11	27	0	0	0	0	20	20	38	40
Adj PAT after Minority Int.	1,276	2,635	1,911	1,818	660	229	2,766	2,581	7,651	6,229
YoY Change (%)	78.7	117.6	21.7	-0.8	-48.3	-91.3	44.7	42.0	49.9	-18.6
Margins (%)	8.1	15.6	10.8	9.6	3.9	1.2	13.3	11.3	11.0	7.8

E: MOST Estimates

Sun Pharmaceuticals Industries

STOCK INFO.	BLOOMBERG
BSE SENSEX: 14,450	SUNP IN
	REUTERS CODE
S&P CNX: 4,335	SUN.BO

25 August 2008

Buy

Rs1,469

Previous Recommendation: Buy

Equity Shares (m)	193.4
52-Week Range	1,520/886
1,6,12 Rel. Perf. (%)	3/50/64
M.Cap. (Rs b)	284.2
M.Cap. (US\$ b)	6.5

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/08A	32,909	14,869	71.8	89.6	20.5	5.7	36.8	34.2	7.6	16.2
03/09E	32,564	11,429	55.2	-23.1	26.6	4.9	19.8	21.4	7.4	20.4
03/09E*	38,187	14,895	71.9	0.2						
03/10E	37,692	13,881	67.0	21.5	21.9	4.1	20.3	21.8	6.1	16.3
03/10E*	40,108	14,967	72.3	0.5						

* Includes Para-IV upsides

SPIL's sales grew 66.4% to Rs10.23b while PAT grew 120% to Rs5b. Revenues & PAT were boosted by exclusivity-based supplies of Pantoprazole & Ethyol (not quantified by mgt. but we estimate sales at Rs2.8b with PAT contribution of Rs2.3b). Exclusivity based sales were lower than our est. as the company seems to have supplied lower quantities of Pantoprazole (not quantified). This was evident from the almost 50% decline in sales of distributed products for Caraco.

Management indicated that it refused fresh business for supplying Pantoprazole due to the lower pricing demanded by the new customers. Adjusted for these one-offs, net sales grew by 21% to Rs7.4b (vs est. of Rs7.7b) while PAT grew by 16% to Rs2.6b (vs est. of Rs2.7b).

Core revenue growth was led by 29% growth in formulation exports to Rs2.5b. API exports and domestic formulations business grew by 17% each for the quarter. Domestic revenues contributed 43% to total sales.

We expect SPIL to record core EPS of Rs55.2 and Rs67 for FY09E and FY10E respectively. Including upsides from visible Para-IV opportunities, we estimate EPS of Rs72 and Rs72.3 respectively. An expanding generic portfolio coupled with change in product mix in favor of high-margin exports is likely to bring in long-term benefits for SPIL. Its ability to sustain high growth rates at superior margins even on a high base is a clear positive. With the domestic business progressing well and increasing traction on the US front (both in Caraco and from India), the possibility of a rapid scale-up over the next couple of years is high. Key drivers for future include ramp-up in US, the expected value unlocking by leveraging acquired companies (Able Labs & Valeant) and monetization of the Para-IV pipeline. SPIL is currently valued at 26.6x FY09E and 21.9x FY10E earnings (excl Para-IV upsides which have a DCF value of Rs19/share). We maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(Rs Million)

Y/E MARCH	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Revenues	6,153	6,465	7,902	12,389	10,239	10,029	8,964	8,955	32,909	38,187
YoY Change (%)	23.4	23.4	50.1	133.2	66.4	55.1	13.4	-27.7	58.3	16.0
EBITDA	2,148	2,409	3,547	7,407	5,379	4,836	2,799	2,527	15,511	15,543
Margins (%)	34.9	37.3	44.9	59.8	52.5	48.2	31.2	28.2	47.1	40.7
Depreciation	226	230	245	268	277	285	295	312	969	1,168
Net Other Income	606	111	179	556	472	498	519	545	1,451	2,034
PBT	2,528	2,290	3,481	7,695	5,574	5,050	3,023	2,761	15,994	16,408
Tax	98	1	116	270	299	252	139	65	485	756
Rate (%)	3.9	0.0	3.3	3.5	5.4	5.0	4.6	2.3	3.0	4.6
Profit after Tax	2,430	2,289	3,365	7,425	5,275	4,797	2,884	2,696	15,509	15,652
Share of Minority Partner	158	104	181	197	261	180	185	131	640	757
Adj Net Profit	2,272	2,185	3,184	7,228	5,015	4,617	2,699	2,565	14,869	14,895
YoY Change (%)	28.6	17.2	60.1	240.8	120.7	111.3	-15.2	-64.5	92.1	0.2
Margins (%)	36.9	33.8	40.3	58.3	49.0	46.0	30.1	28.6	45.2	39.0

E: MOST Estimates; * Quarterly results have been recasted and hence do not tally with full year results

Wockhardt

STOCK INFO.	BLOOMBERG
BSE SENSEX: 14,450	WOCK IN
	REUTERS CODE
S&P CNX: 4,335	WCKH.BO

25 August 2008

Neutral

Previous Recommendation: Neutral

Rs200

Equity Shares (m)	109.4
52-Week Range	448/170
1,6,12 Rel. Perf. (%)	7/-26/-46
M.Cap. (Rs b)	21.8
M.Cap. (US\$ b)	0.5

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
12/06A	17,290	2,558	21.4	-0.5	9.3	2.0	27.2	15.0	1.8	7.9
12/07A	26,531	3,460	29.0	35.3	6.9	1.7	29.6	15.9	1.8	7.4
12/08E	35,020	2,993	25.1	-13.5	8.0	1.4	21.2	15.2	1.4	6.1
12/09E	39,500	4,005	33.6	33.8	5.9	1.2	23.3	15.2	1.2	5.4

Wockhardt's 2QCY08 results were above our estimates. Key highlights:

- Wockhardt's revenue grew by 48.3% YoY to Rs9.35b, driven by acquisitions (Morton Grove and Negma). We believe that organic top-line growth is about 18%. The recent depreciation of the INR vs the US\$ and the Euro would have also boosted top-line growth.
- EBITDA margins expanded by 60bp YoY to 24.7% due to better product-mix. However MTM forex losses on borrowings negated these benefits resulting in PAT growth of 2%. Adjusted PAT (pre R&D capitalization) was up 4% to Rs901m.
- Wockhardt had announced acquisition of Morton Grove (on 24-Oct-07) in the US for \$38m. Morton was a loss-making company with sales of \$52m and net loss of \$3-5m.
- The company has proposed plans to raise about \$150m through a QIP issue to fund future acquisitions. We note that its FCCBs will be up for redemption in Sep-09 and bond holders are unlikely to convert at the current market price.

We believe that Wockhardt still has to display the ability to fully leverage its assets (particularly the biotech facilities) and scale up substantially in regulated markets, for a further re-rating in its valuation multiples. The proposed fund raising of US\$150m will continue to be an overhang on valuations of the company (current market capitalization is US\$500m). Wockhardt is currently valued at 8x CY08E and 6x CY09E earnings (without accounting for potential equity dilutions). We believe that earnings growth adjusted for R&D capitalization is likely to be in single-digits for the next two years. Maintain **Neutral**.

CONSOLIDATED QUARTERLY PERFORMANCE

(Rs Million)

Y/E DECEMBER	CY07				CY08				CY07	CY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Gross Sales	5,228	6,303	7,381	7,620	7,857	9,350	9,149	8,664	26,531	35,020
YoY Change (%)	48.7	52.7	68.6	44.7	50.3	48.3	24.0	13.7	53.4	32.0
Total Expenditure	4,069	4,781	5,572	5,720	6,120	7,042	7,170	6,764	20,142	27,096
EBITDA	1,159	1,522	1,809	1,900	1,737	2,308	1,979	1,900	6,389	7,924
Margins (%)	22.2	24.1	24.5	24.9	22.1	24.7	21.6	21.9	24.1	22.6
Depreciation	181	172	196	236	241	252	285	351	785	1,129
Interest	129	85	268	492	565	880	400	400	974	2,245
Other Income	22	25	26	37	-234	126	30	43	110	-35
PBT before EO Items	871	1,290	1,371	1,209	697	1,302	1,324	1,192	4,740	4,515
PBT after EO Items	871	1,290	1,371	1,209	697	1,302	1,324	1,192	4,740	4,515
Tax	208	266	288	155	205	261	310	172	917	948
Rate (%)	23.9	20.6	21.0	12.8	29.4	20.0	23.4	14.4	19.3	21.0
Minority Interest					17				33	
Reported PAT	663	1,024	1,083	1,055	509	1,041	1,014	1,020	3,857	3,567
R&D Capitalized	180	170	180	118	240	228	240	292	648	1,000
Adjusted PAT	552	870	972	997	345	901	867	842	3,459	2,993
YoY Change (%)	1.8	37.2	53.0	29.2	-37.6	3.6	-10.9	-15.5	35.2	-13.5
Margins (%)	10.6	13.8	13.2	13.1	4.4	9.6	9.5	9.7	13.0	8.5

E: MOSt Estimates; Quarterly numbers don't add up to annual numbers due to re-classification

N O T E S



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The MOST group and its Directors own shares in the following companies covered in this report: Aventis Pharma and GSK Pharma

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