SECTOR UPDATE

Indian pharma

US Generics – "The Dark Spot"

25 March 2014

BSE Sensex: 22055

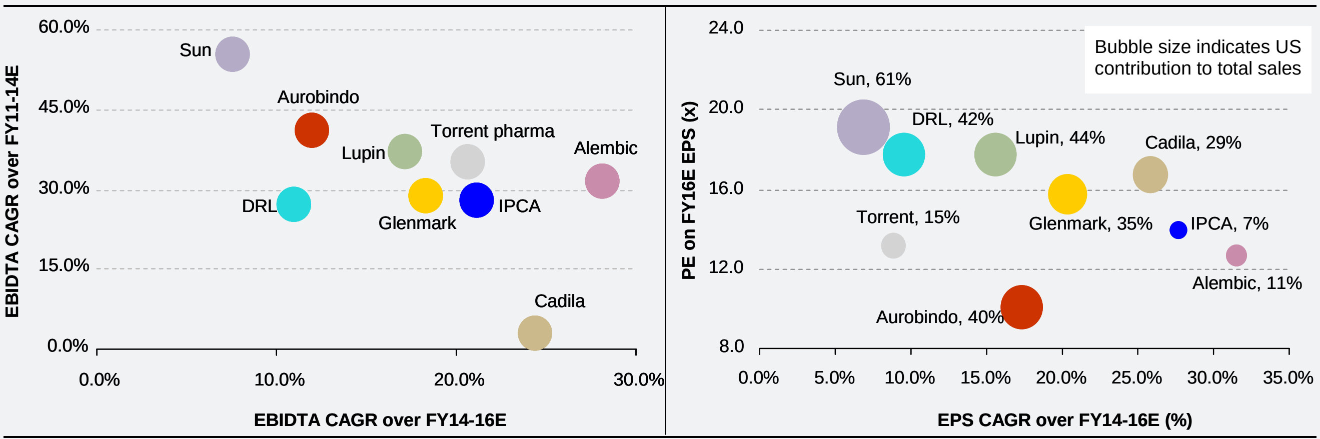
US generics market, a key driver of Indian pharma's growth, has always been a dynamic market but the pace of changes has accelerated in the last few years. This, we believe, has implication for all players – especially larger ones even as they have stepped up R&D investments to enhance the quality of their future growth. Some of these change agents include aggressive consolidation (distribution/ competitors), stricter FDA scrutiny/ resultant manufacturing disruptions and steady commoditization of FTFs. These factors, we believe, will enhance competitive intensity in the medium term while injecting unpredictability in near-term growth prospects of players. Overall, this will likely dilute the earnings visibility for US-focussed larger Indian pharma players (reflected in low-teen consensus EPS growth over FY14-16E). Given this construct and rich stock valuations, large cap pharma stocks' movement will primarily be a function of incremental surprises on niche US launches. Our top pharma picks are Dr Reddy's, Sun, Lupin, Ipca, Glenmark and Torrent Pharma.

US generics – the churn is on: Increasing distribution consolidation (ABC/ Walgreens; CVS/ Cardinal) will extract "synergy benefits" from generic players and will prima facie favour larger players. Frenetic M&A activity pursued by players like Watson is widening the gap between large and mid-size generics. Entry of a host of cost-competitive Indian generics will likely lead to reduction in FDA approval timelines post GDUFA and add to pricing challenges.

"FDA upside" is easing the pain: The challenges are exacerbated by increasingly fewer sole FTF launch opportunities as P-IV challenges get commoditized. However, FDA's increasing manufacturing process scrutiny leading to reducing competition across select products is a potent addition to the US flux as it has begun to throw up unexpected pricing upside opportunities (e.g. Cymbalta, Depakote ER, etc). For now, it is helping the "survivors" to more than counteract the structural pricing pressure and approval delays.

***"No Surprise, No Gains"*; US newsflow to drive large cap pharma:** We believe current valuations largely capture the earnings expectations for large cap Indian pharma, and that large caps' ability to surprise the street will determine stock movement. Given their phenomenal track records, quality ANDA and high quality management teams, the odds are in favour of large caps delivering positive surprises in the US business. Interestingly, smaller players with relatively limited US presence offer superior growth visibility and are potential re-rating candidates given their sharp earning discounts.

Exhibit 1: Midcaps are attractively placed versus large caps



*Source: Bloomberg, IDFC Securities Research; * For Alembic, Aurobindo and Cadila EPS /EBITDA is Bloomberg estimate*

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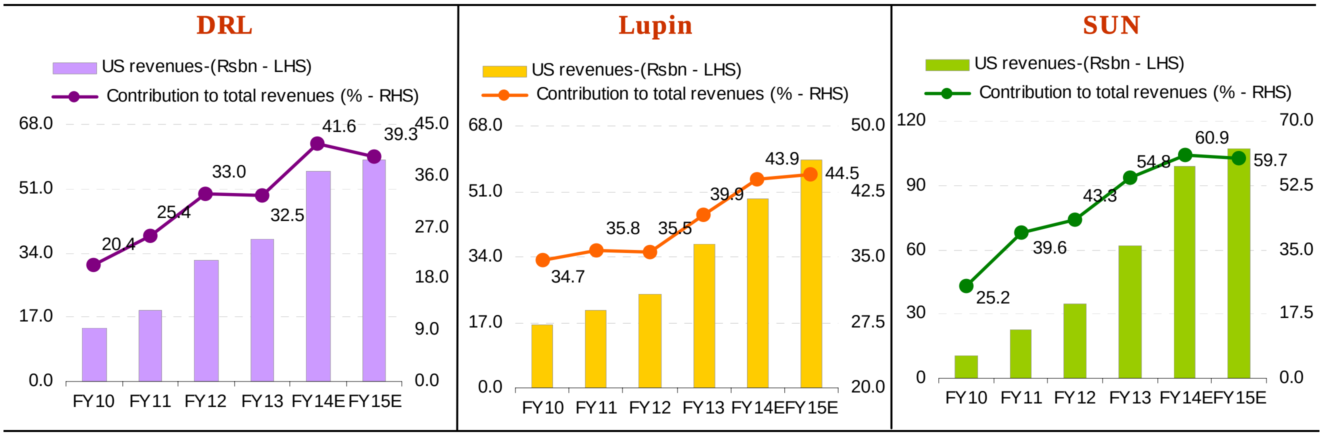
US generics: A dream run for Indian large caps

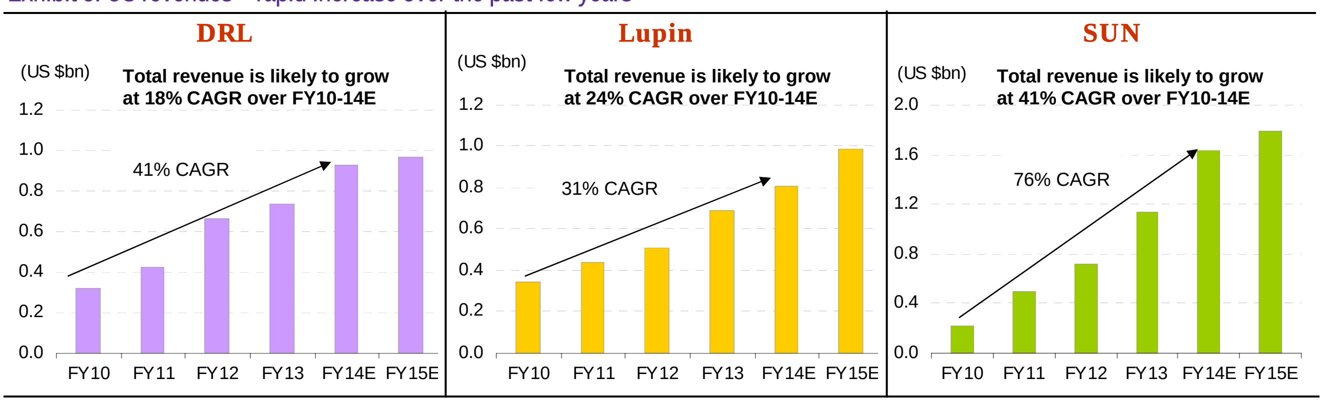
The US generics space has been major a growth driver for large cap Indian generic companies for the past few years. Over FY10-14E, Sun Pharma, Dr Reddy's and Lupin have registered an estimated 25-65% CAGR in constant currency and 30-75% in INR terms in their US generics business. By FY15E, We see US generics business reaching ~$1bn in size for Sun (ex-Taro), Dr Reddy's and Lupin with >40% contribution of the same to their revenues. Given that US geography offers higher margins, US generics' contribution towards profitability is much higher.

Exhibit 2: US has become the biggest revenue component for large Indian generics players



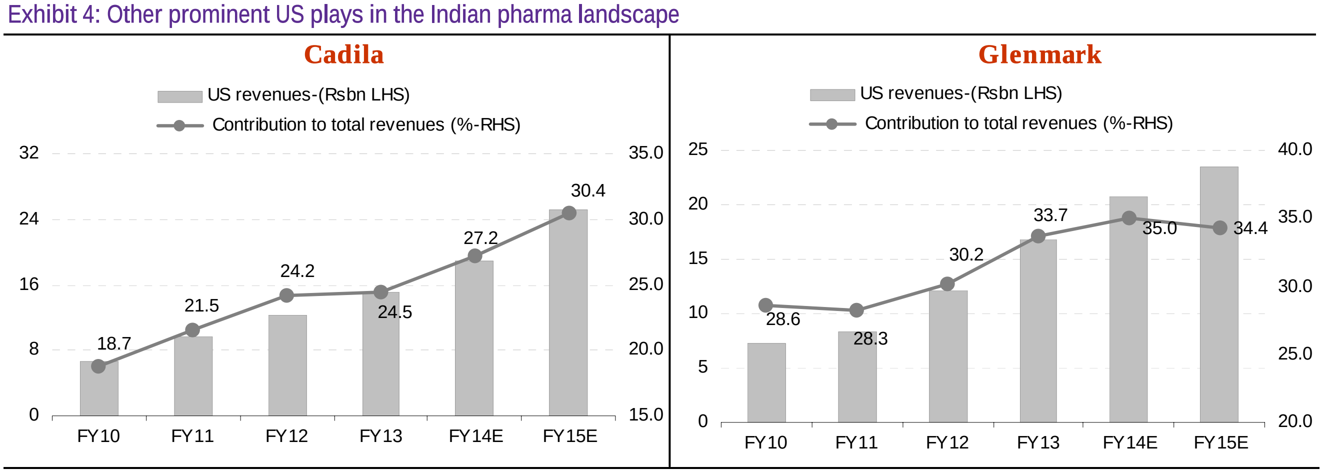
Source: Companies, IDFC Securities Research

Exhibit 3: US revenues – rapid increase over the past few years



Source: Companies, IDFC Securities Research

Exhibit 4: Other prominent US plays in the Indian pharma landscape



Source: Companies, IDFC Securities Research

❒ Readying for the next phase of growth – aggressively stepping up R&D investments

Leveraging their success so far, large Indian players (especially Sun, Dr Reddy's and Lupin) have been rapidly stepping up R&D investments and enhancing the quality of their future growth in the US market. This is visible in the ANDA approvals received by these players over the last few quarters, which underlines the progressive improvement in quality (defined by complexity/ niche nature of the drugs) of their filings.

Exhibit 5: Recent niche approvals

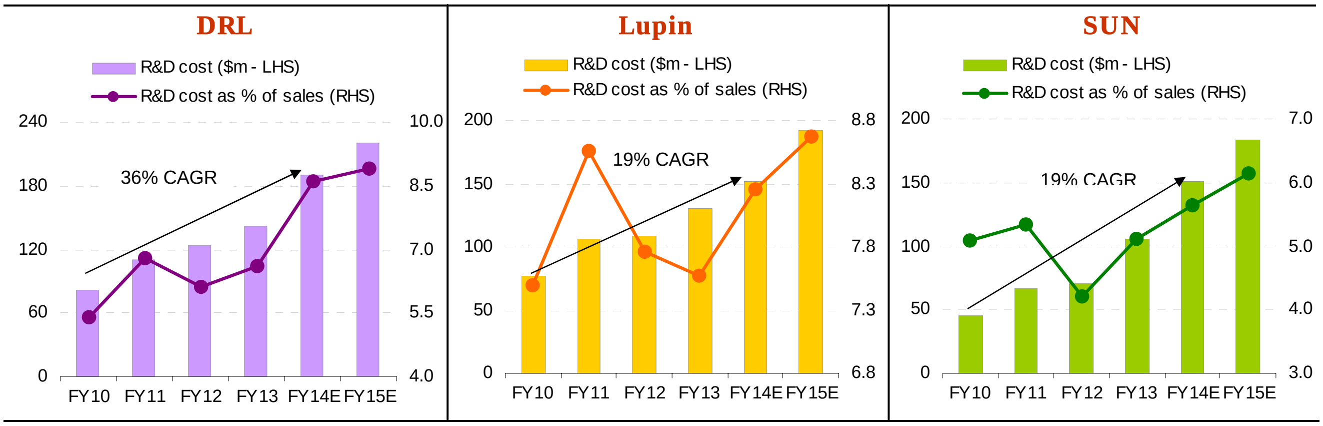
Products	Delivery form	Remarks
Dr Reddy's		
Dacogen	Injectable	First generic to get approval
Vidaza	Injectable	First generic to get approval
Sumatriptan autoinjector	Injectable	Second generic to get approval
Topro XRl	Oral	Complex product; limited competition
Fondaparinux	Injectable	Only generic in market so far
Lupin		
Tricor	Oral	Complex product; limited competition
Niaspan	Oral	Second generic to get approval; complex product
Sun Pharma		
Lipidox	Injectable	Only approved generics player
Sumatriptan autoinjector	Injectable	First generic to get approval
Depo-Testerone	Injectable	Complex product; shortage product
Astelin	Nasal spray	Three-player generic market

Source: Companies, IDFC Securities Research

We expect the trend to accelerate in the coming years as the R&D/ sales spend has been steadily going up with increasing focus on complex generic products. Cumulatively, Dr Reddy's, Sun and Lupin have filed 862 ANDAs so far, of which 580 (67%) have got approvals.

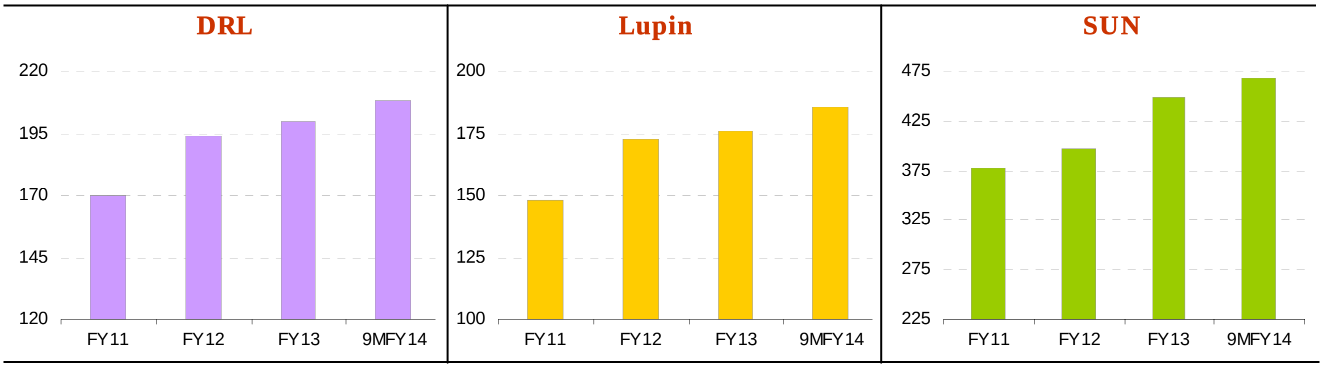
- Dr Reddy's spends ~60% of its R&D spend towards biosimilars as well as proprietary products along with increasing focus on complex generics. The injectables now contribute ~30% of the company's US sales; this reflects the quality of the niche portfolio Dr Reddy's is seeking to build in the US.
- Lupin is also looking to materially step up investments in development of complex drugs, including injectables, inhalation drugs and dermatology.
- Taro (Sun's US subsidiary, $777m revenues in FY14E) filed six ANDAs with the FDA during Q3FY14 and now has 25 ANDAs awaiting approval. While Taro's weak R&D pipeline was a key concern, it will gradually begin to mitigate as R&D activity picks up.

Exhibit 6: Stepping up R&D investments to leverage the success



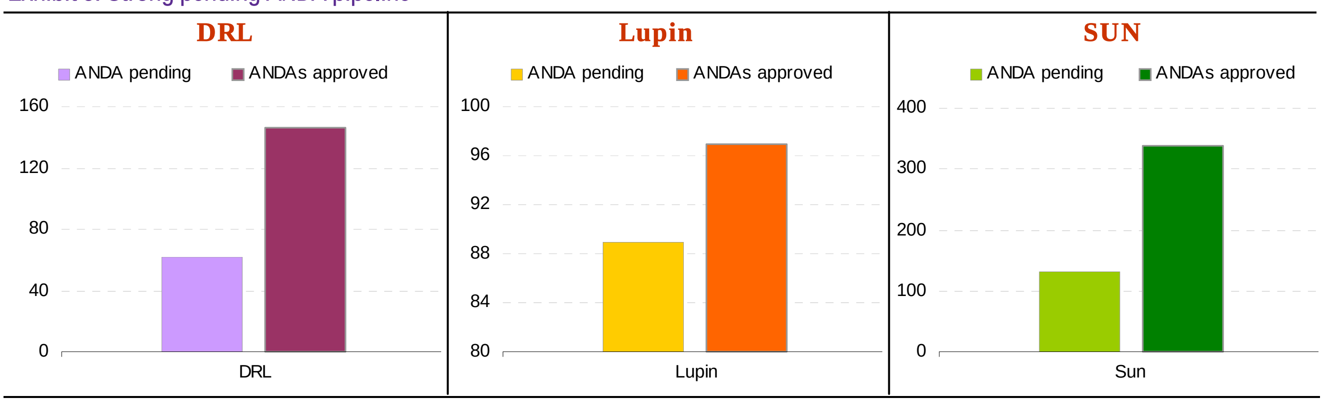
Source: Companies, IDFC Securities Research

Exhibit 7: Cumulative ANDA filings



Source: Companies, IDFC Securities Research

Exhibit 8: Strong pending ANDA pipeline

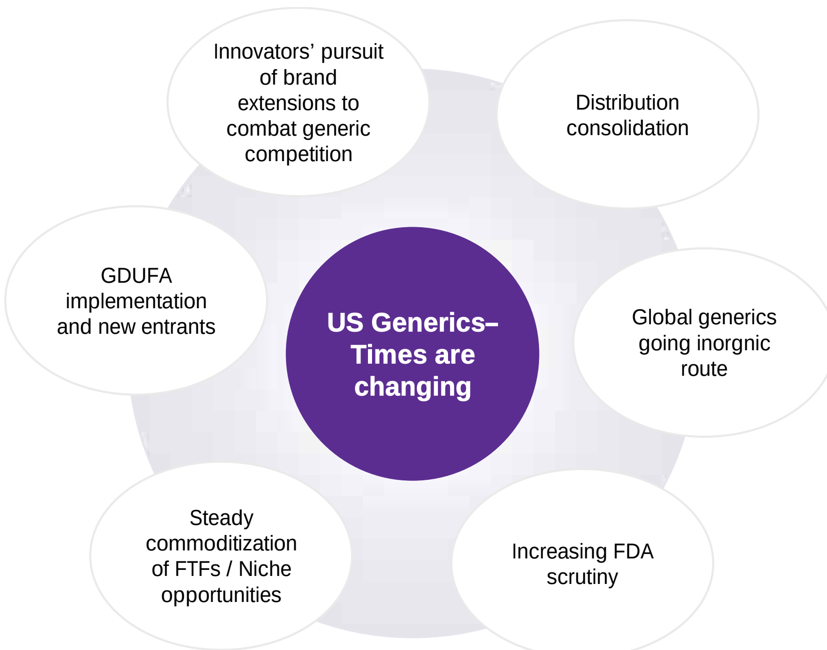


Source: Companies, IDFC Securities Research

US generics: Times are 'changing'

While US generics have always been a dynamic market, the pace of changes has accelerated over the last few years. This, we believe, has a significant implication for all players with exposure to this geography – especially the larger ones. Some of these change agents include aggressive consolidation (across distribution/ competitors), increasing FDA scrutiny/ resultant manufacturing disruptions and steady commoditization of FTF as well as niche opportunities. While there has been limited impact of the same until now, we see some of these factors leading to enhanced competitive intensity in the medium term and unpredictability in near-term growth prospects for players.

Exhibit 9: Challenging times ahead



Source: IDFC Securities Research

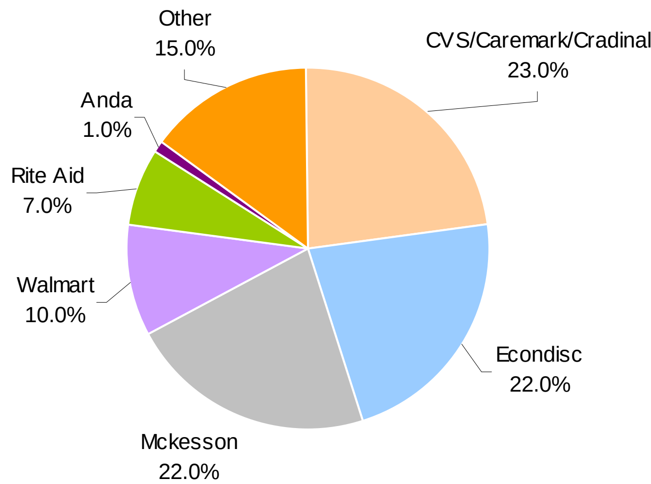
❐ Distribution consolidation to intensify pricing pressure on generics

The ongoing consolidation process in the US pharma distribution landscape witnessed unprecedented acceleration this year with three mega deals involving some of the largest wholesalers and retailers in the US and globally. We believe this will have material impact on the generic business dynamics, especially profitability, in the coming years.

- In March 2013, three pharmacy distribution giants – Walgreen, Alliance Boots and Amerisource-Bergen – formed a 10-year international alliance.
- In December 2013, a 50:50 JV was formed between CVS Caremark (7,600 CVS/ pharmacy stores) and Cardinal Health (second largest wholesale distributor in the US) to create the largest generic sourcing entity in the US market. The JV is likely to get operational from July 2014.
- In January 2014, McKesson entered into an agreement to buy out Celesio, one of the largest distributors in EU.

According to industry estimates, only seven players now control ~85% of the entire US generics market sourcing with the top three entities – Cardinal / CVS, Walgree/ ABC and Econdisc – controlling ~60% sourcing among them.

Exhibit 10: Top seven US buying entities account for 85% of generics market



Source: Actavis

The primary intent of all of these deals is to aggregate the generic drugs purchasing activity and leverage scale benefits. In their subsequent interaction with analysts / investor calls, managements across the three entities have indicated the intent to extract further pricing efficiencies from generic players as a key driver for consolidation synergies. For example, Walgreens anticipates ~$1bn of synergies across Walgreens/ Amerisource/ Alliance by FY16 with generics procurement and front-end sourcing accounting for a large part; Mckesson sees ~$300m savings by the 3rd/ 4th year of operational control; Cardinal estimates annual gains of $100m per annum just by accessing CVS/ Caremark's lower price points with additional gains accruing to the consolidated entity.

"The retail chains have lower price points than the wholesalers. That obviously led to the consolidation of the purchasing of the generics between Cardinal Health and CVS. This means price pressure. There is no question about it, this means price pressure for all the companies" – Siggi Olafsson, CEO Actavis in Actavis Plc's 2014 Analyst Day

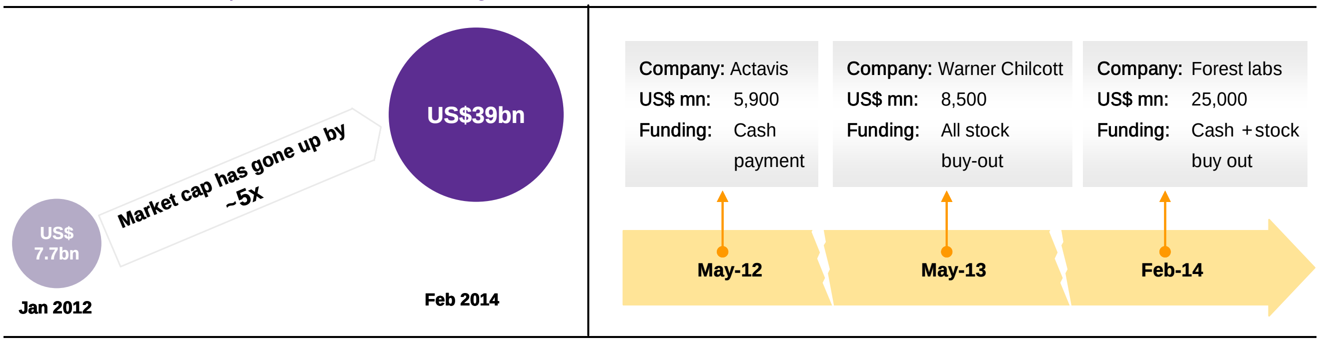
We believe that most of these synergies/ benefits will be extracted from generic companies, leading to pricing pressure and margin erosion. At the same time, we also see the bigger generic players grabbing a larger share of the business as part of this process. Notably, exclusive/ niche products will be critical for generic players to gain bargaining power vis-à-vis the distribution channels. This, in turn, implies further challenges for mid-small sized generic players operating in US market, especially those focussed on plain vanilla products (e.g. Ipca, Torrent, etc).

We believe generic companies should start feeling the heat of these consolidation deals FY15 onwards.

❒ Global generics going the inorganic route – widening gap with Indian companies

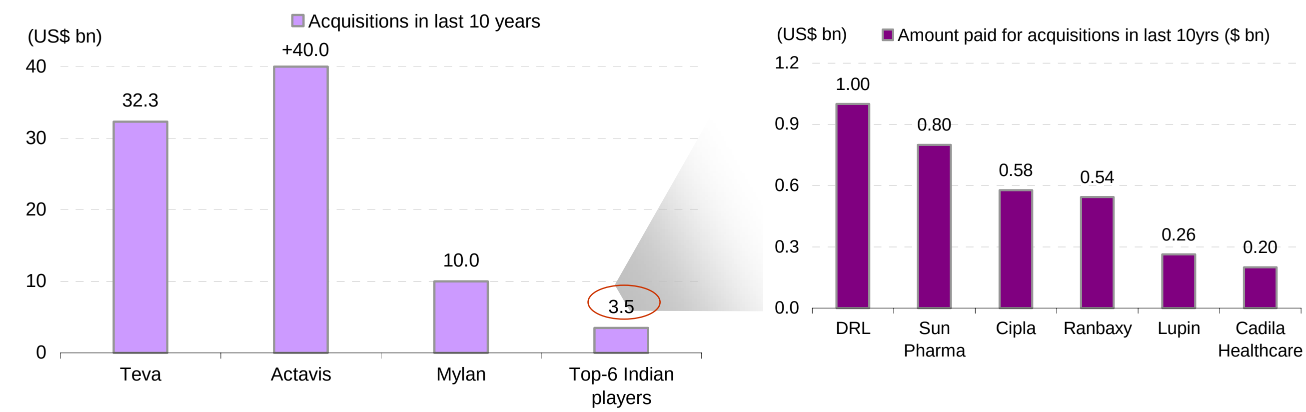
Along with supplier consolidation, the global generics landscape, especially in the US, is also undergoing a shift as leading generic players are aggressively leveraging M&A to strengthen their generic businesses and transform the business models. A case in point is Actavis (erstwhile Watson), wherein three of the biggest acquisitions over the last 24 months have transformed its "erstwhile generics only" business model into a much superior "specialty-cum-generics" business. In the process, it has created significant shareholder value too.

Exhibit 11: Actavis acquisitions have created significant shareholder value



Source: Bloomberg, Companies, IDFC Securities Research

Exhibit 12: Indian generics players lag far behind global peers in terms of inorganic growth

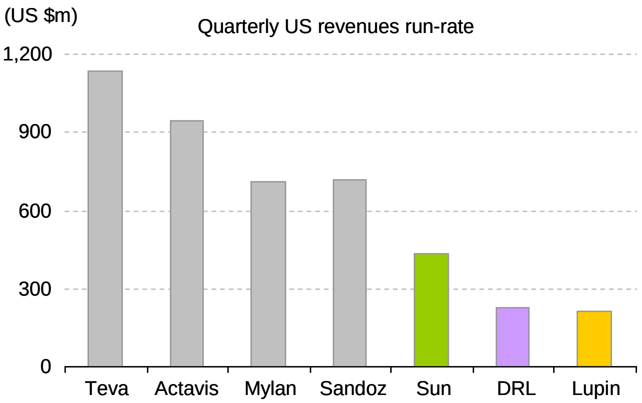


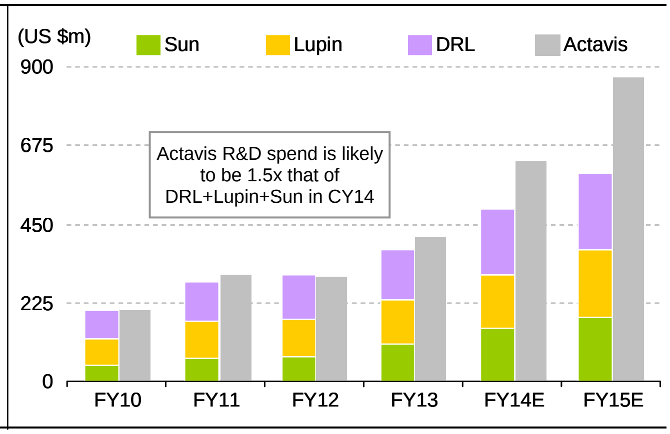
Source: Companies, IDFC Securities Research

In contrast, Indian players have till now largely shied away from taking bold bets and the gap between global peers and Indian companies has widened.

- Indian generics' current revenue base is sharply lower wrt the larger generic peers – this has implications on their bargaining power vis-à-vis a significantly consolidated distribution set-up.
- More importantly, we believe this gap dilutes Indian generic players' ability to invest in R&D. Given that Indian generics as well global majors will increasingly chase the same big-ticket opportunities in US generics (e.g. inhalers, biosimilars, complex injectables, etc), they will be at a disadvantage due to their much lower R&D spends. A case in point is Actavis, whose FY14E R&D budget is ~3x that of the larger Indian players.

Exhibit 13: Widening gap between global and Indian generics players… both revenues and R&D spend





Source: Companies, IDFC Securities Research **Actavis-CY*

❒ Increasing USFDA scrutiny – a growing regulatory risk

Over the last few years, the USFDA has been steadily raising the bar on the expected quality standards for all drug manufacturing facilities, especially for injectables, which intend to supply to the US. We believe the FDA has also been curtailing the leeway it was historically giving to generic players as they sought to make their facilities FDA-compliant. This is reflected in the increased frequency of issuance of warning letters/ import alerts. In addition, the FDA is seeking to bring US and overseas manufacturing facilities on par in terms of re-inspection frequency and quality standards.

Quite a few manufacturing facilities across the globe, especially injectable manufacturers, have found it difficult to comply with the FDA's upgraded quality norms. This is the primary reason which has led to the higher frequency of issuance of warning letters/ import alerts. This, in turn, has created unexpected, and at times severe, manufacturing disruptions across various drugs categories. At the same time, it has created opportunities for generic players which are compliant with the FDA manufacturing norms.

Exhibit 14: A spate of import alerts/ warning letters in recent times

Companies	Events	Remarks
Wockhardt	Gets FDA import alert for its Walut plant (May 13) & Chikalthana (Nov-13)	Both injectable and oral facilities were impacted
Ranbaxy	Gets FDA import alert for its Mohali and Tonsa plant in 2013	Presently, Ranbaxy does not have any FDA compliant manufacturing facility in India
Sun	Gets warning letter for its Karkhadi plant in March 2014	Minimal financial impact with 1% of overall sales contributed by this plant
Ben Venue	Got warning letter for its Bedford plant in Sept 2013	Despite significant investments, Ben Venue facility was eventually shut by the owners as they struggled to make it compliant with FDA norms
Hospira	Got four warning letters in 2012/13 across facilities	Still struggling to completely resolve the issues
Sandoz	Got warning letter for its Unterach, Austria plant in June 2013	This injectables facility was a key component of $1.3bn EBEWE buyout
Teva	Got warning letter at its Irvine plant, California in 2009	Took over two years and significant investments to restart the facility

Source: Companies, IDFC Securities Research

From an Indian player's perspective, given that India has the second largest number of FDA approved plants (370) outside the US and that the frequency and intensity of inspections is set to increase, these manufacturers are likely to witness increasing instances of the FDA issuing warning letters/ import alerts. This is a rapidly emerging regulatory risk for the Indian generic companies.

- According to the latest FDA budget estimates, it intends to effect a 40% jump in foreign inspections and 40% cut in inspection of US plants. In fact, 2014 onwards, the number of foreign facility inspections is slated to be higher than those of US facilities – a dramatic shift in focus.
- The FDA has also increased the number of inspectors in India to 19 from 12 currently.

Among Indian players, Ranbaxy and Wockhardt have had multiple and severe compliance issues in the recent past with significant adverse implications on their business. Recently, even Sun Pharma's Karkhadi (March 2014) facility received an import alert. While the financial implication of this ban was insignificant for Sun, it highlights the increasing regulatory risk for all US-focussed generic players in India.

❒ Steady commoditisation of FTFs; sole FTFs increasingly a rarity

Historically, P-IVs challenges and the associated 180-day exclusivity opportunities have been integral to growth strategies of bigger players in the US generic market (e.g. Teva, Watson, etc). Given a steady reduction in big-ticket patent expiries and increasing number of players pursuing P-IV challenges, we see increasing instances of multiple players filing P-IV challenges on n+1 day across drugs and obtaining FTF status. In the process, the value of the 180-day exclusivity, the Holy Grail of US generics market, stands considerably diminished.

According to a recent Actavis presentation, 70% FTFs filed by the top 13 generic companies involve shared exclusivity.

"As you look at the foundations of the generic industry, the foundation of the generic industry was often the opportunity in the United States for Paragraph IV exclusivity. Many of these large opportunities are changing. There are less there…"

Jeremy Levin, ex Teva CEO

"The US generic business is large and important business for Teva moving forward and it will remain a large and important business for Teva for a long time, but it is changing. The competition for Para IV is increasing, the complexity of products themselves, the patents are getting tougher. So there are less exclusivities…"

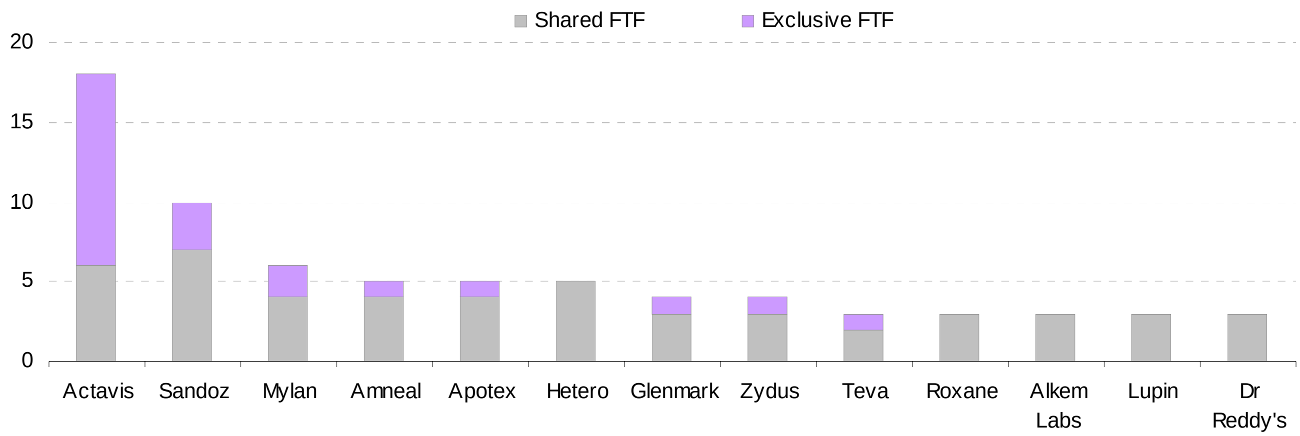
William Marth, ex Teva President USA

Exhibit 15: Increasing instances of >8 potential FTF filers

Product	Innovator	No of FTFs	Shared FTF generic players
Vimpat	UCB	15	Ranbaxy, Aurobindo,Glenmark,Sun,Cadila, Alembic,Accord, Mylan, Apotex, Sandoz,Watson,Amneal,Hetero, Breckenridge,ScieGen
Crestor	Astrazenca	8	Apotex, Sandoz, Mylan, Aurobindo, Cobalt,Par, Sun,Teva
Effient	Lilly	12	Par,DRL, Sun,Actavis, Glenmark, Aurobindo,Teva, Mylan, Apotex,Accord,Amneal,Intas,Cadila
Savella	Forest Labs	9	Mylan, Apotex, Hetero, Lupin, Par, Amneal, Glenmark, FTUS and Ranbaxy

Source: Companies, IDFC Securities Research

Exhibit 16: About 70% of FTFs filed by top 13 companies involve shared exclusivity



Source: Actavis, IDFC Securities Research

Given that sole 180-day exclusivity will be incrementally tougher to obtain, a P-IV challenge-based strategy is unlikely to create frequent big revenue/ profit opportunities over the medium term. Therefore, larger generic players will necessarily need to shift focus towards development of complex drugs to drive growth on their large revenue bases. This strategy will necessitate sharply higher R&D investments and scale-up in R&D capabilities. Arguably, it is a tougher strategy to execute compared to a P-IV challenge strategy.

Interestingly, Lupin has been a recent beneficiary of the rare exception of this trend, wherein it enjoyed sole exclusivity on two of its FTFs, i.e. Zymaxid (~$62m sales) and Trizivir (~$112m sales). Lupin's gains were further accentuated by the fact that the innovators did not opt to launch an Authorized Generic in either of the cases. This was a material contributor to the company's strong US performance over the last two quarters.

❐ "Niche opportunities" = Plain vanilla within no time (*a la* OCs)

Historically, given the manufacturing complexities and technology requirement, Oral Contraceptives (OCs) was a classic "niche segment" with limited competition. Till 3-4 years ago, Teva and Watson were the only two generic players dominating the space with the segment expected to be a limited competition and highly profitable market, except for likely entry of 1-2 more players like Lupin and Mylan.

However, as multiple new players pursued this niche opportunity over the last 3-4 years, it has converted into a crowded space (*near plain vanilla*) and with sharply lower profit potential in the medium term.

Interesting developments in the "erstwhile niche" OC space are:

- Some of the largest OC drugs have multiple P-IV filers; e.g. Ortho Tri-Cyclen has nine P-IV challenges, Yaz has seven P-IV filers while Yasmin has six P-IV filers. This indicates that as many as nine players are targeting this "niche" segment.
- A Chinese generic player, Novast Labs, has already got FDA approvals for 16 OC ANDAs.
- Ranbaxy Labs has tied up with a German contract manufacturer, Haupt Labs, to develop and manufacture a portfolio of OC products.

These data points indicate that while OC may be a profitable niche opportunity in the short term, it could turn into a fairly crowded market in the medium term.

Similar trends have been witnessed in relatively complex drugs like Lansoprazole ER, Tacrolimus, etc, where early entrants enjoyed significant upside but more than five players have eventually entered the market over a period of time and brought about sharp price erosions.

In our view, this likely commoditization of the OC segment/ other niche products indicates the challenges for generic players in terms of identifying and creating sustainable niche/ high profit opportunities.

❒ GDUFA and new entrants – a recipe for higher pricing pressure over medium term

The GDUFA (Generic Drug User Fee Act) programme was implemented from October 2012 for faster ANDA/ DMF processing and clearing of application backlogs in the next five years. By 2017, the FDA aims to review and act on 90% of ANDA applications within 10 months of submission as against an average review time of >30 months now. In our view, while this will lead to accelerated monetization of ANDA filings for larger players, it will also reduce opportunities for profits arising out of delay in approval of competing generic products.

At the same time, successful implementation of the GDUFA programme should also benefit the new wave of cost-competitive generic players from India (Ipca, Torrent, Alembic, Ajanta, etc) that are in the initial phase of building US ANDA pipelines. GDUFA implementation should enable them to significantly accelerate monetization of their ANDA filings compared to current standards.

Given these dynamics, we believe that GDUFA implementation may very well lead to enhanced competition and pricing pressure in the US market in the medium term, especially on plain vanilla products. This reinforces our view that larger generic players need to significantly step up focus on complex drugs to ensure sustainable growth in the US generics market.

Exhibit 17: Key timelines of GDUFA (implemented from October 2012)

FY15	FY16	FY17
• In the third year of the cohort, 60% of the ANDAs will be acted upon within 15 months.	• During the fourth year, the FDA will review and act on 75% of the ANDA applications within 15 months of submission.	• FDA will review and act on 90% of the completed electronic applications within 10 months of date of submission. • By the end of FY17, the FDA will review and act on 90% of all ANDAs pending on 1 Oct 2012.

Source: IDFC Securities Research

❒ Innovators' pursuit of brand extensions to combat generic competition

Given the slowdown in R&D productivity, most innovators have stepped up efforts to launch differentiated/ value added versions of their existing brands to delay/ negate imminent generic competition. Successful launch of such variants may lead to sharp erosion in the generic opportunity on the existing brand.

Teva has recently launched a new Copaxone formulation and has reported encouraging results in its initial efforts to switch patients to this new formulation. It is aiming to convert 45% of Rx to the new formulation prior to the patent expiration in May 2014. If the gCopaxone approvals get significantly delayed, it may lead to further shrinkage of opportunity for the generics (Mylan / Natco, Sandoz /Momenta, Dr Reddy's and Synthon).

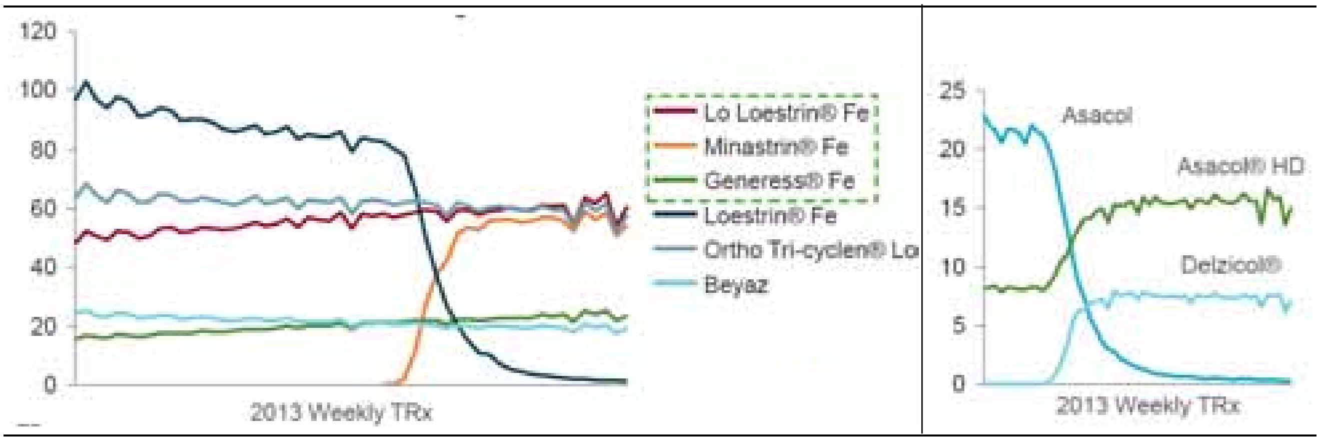
Warner Chilcott has successfully managed to switch ~100% Rx to new variants in case of two of its brands, i.e. Asacol and Loestrin Fe. This has been a negative surprise for Lupin which planned to launch Loestrin Fe in July 2014 and had a settlement to launch Asacol Authorized Generic.

Exhibit 18: Recent instance of successful brand extension launches

Products	Innovator	Remarks	Impact
Copaxone	Teva	Introduced 40ml/mg product with 3 times a week usage as against daily intake	Aiming to switch 45% of Rx to the new formulation prior to patent expiry ; Have already managed to switch x5 of new Rx to the new formulation; any delay in generic approval to further reduce the opportunity
Asacol	Warner Chilcott	Introduced an equivalent (but newly patented) product by innovator – Delzicol	Have managed to switch Rx entirely to the new formulation; Lupin was a potential AG upon gAsacol launch
Loestrin	Warner Chilcott	Introduced an equivalent product Minastrin 24 Fe	Have managed to switch Rx entirely to the new formulation; Lupin was expected to launch Loestrin Fe in July'14 as per settlement however opportunity has been considerably diminished

Source: Companies, IDFC Securities Research

Exhibit 19: Minastrin (substitute of Loestrin) and Delzicol (substitute of Asacol) gaining market share



Source: Actavis

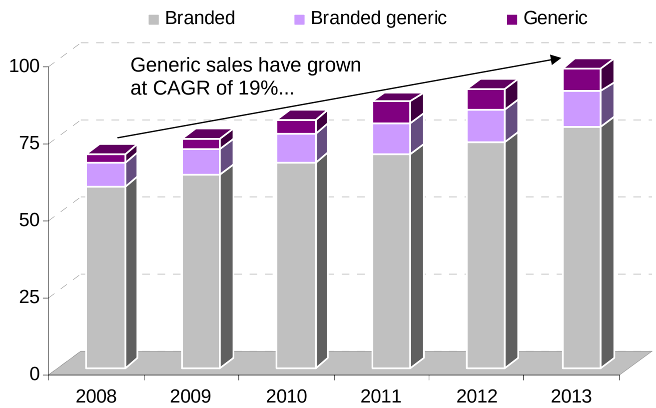
"FDA upside": The big near-term positive

While the larger generic players have been facing various short-term/ structural challenges in the US market, we believe the resultant "FDA upside" has effectively neutralized these challenges over the last few quarters. Typically, sharp pricing gains emanate from manufacturing shortages resulting from FDA action on various manufacturing facilities as also delayed ANDA approvals.

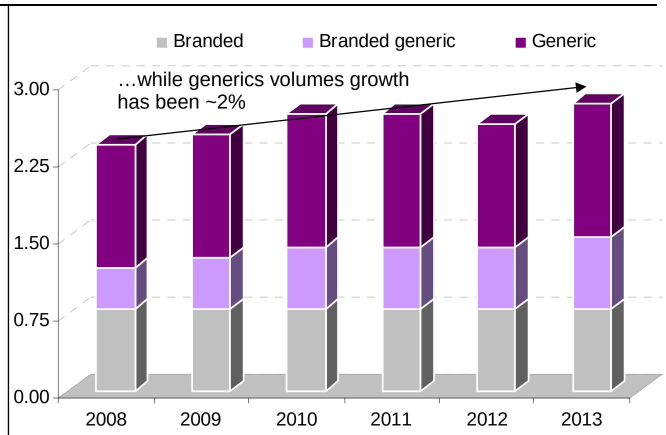
Given that the FDA seems committed to enhancing the quality standards as well as frequency of inspections, these unexpected manufacturing disruptions and pricing upsides may continue in the near term. This is a big positive for generic players which can keep their "head above the water"/ comply with the FDA standards as they stand to benefit from these unpredictable upsides.

Developments in the US injectables space are especially illustrative of this trend where the FDA action has created significant manufacturing disruptions and pricing upside opportunities for survivors. According to industry sources, while generic injectables volumes have registered 2% CAGR over 2008-13, sales value has seen a whopping 19% CAGR over this period. While the number of units sold has been almost flat, sales value has grown ~2.5x over this period – indicative of the sharp pricing gains.

Exhibit 20: US injectables by value ($bn)



US injectables by volume (billion vials)



Source: Hikma

Large Indian players – big beneficiary of "FDA upside"

Three of the largest Indian players in the US, i.e. Sun, Lupin and Dr Reddy's, have managed to largely comply with the FDA GMP standards and, in the process, have been significant beneficiaries of the various pricing/ low competition-related upside opportunities. This has helped them materially shore up their earnings over the last few years. On the other hand, players like Ranbaxy and Wockhardt have been the big losers as they struggled to meet the FDA manufacturing standards.

Exhibit 21: Sun Pharma – the biggest Indian beneficiary of the "FDA upside" emanating from shortages

Opportunity	Context	Gains
Taro	Sun took control of Taro, a dermatology focussed business, in FY11 Since FY12, there has a broad-based and fairly aggressive increase in dermatology generic prices due to supply shortages Taro has been one of the biggest gainers	Over FY11-14E, Taro sales and EBITDA has increased by ~$350m with relatively limited volume growth
	Sun took control of Taro, a dermatology focussed business, in FY11 Since FY12, there has a broad-based and fairly aggressive increase in dermatology generic prices due to supply shortages	From 25% margins in FY11, Taro will likely book 60% EBITDA margins in FY14E
Doxil	Oncology drug with peak sales of >$200m in US; innovator J&J In 2011, FDA shut down Ben Venue, the contract manufacturer of J&J's Doxil leading to shortages Given that Doxil was a life saving drug, FDA first gave emergency license for Sun Pharma to import its generic drug (Lipodox) in Feb 2012 Later on, Lipodox ANDA was granted final approval in Jan'13 much ahead of the Doxil exclusivity expiry (May-14) Currently , J&J's drug is no longer available in the market and Sun's Lipodox is the only available alternative Presently, there is no certainty on J&J's relaunch / approval for other generics	We estimate Lipodox's US revenues of >$100m in FY13, ~$150m in FY14E and ~$180m in FY15E
Doxycycline Hyclate	Sun acquired the product through its Dec'12 acquisition of URL Pharma At the start of 2013, there was a severe shortage of the drug due to unavailability of supplies from a couple of players Prices moved up (>15x); Sun was one of the biggest gainers	We estimate Doxycycline revenues of >$100m in FY14E and ~$60m in FY15E

Source: Companies, IDFC Securities Research

Exhibit 22: Some other interesting "FDA upside" opportunity for Indian players

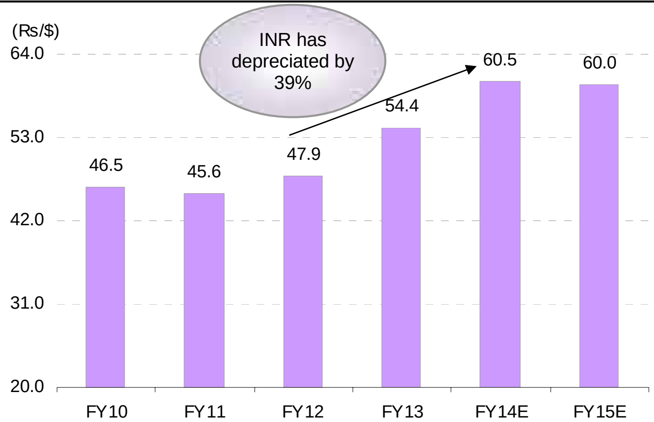
Opportunity	Context	Indian Gainers
Cymbalta	$4.5bn CNS drug with patent expiration in Dec'13	Aurobindo
	9-10 players expected to launch	Lupin
	However, only 7 players got approvals initially and only 6 launched; some of the players had relatively limited supplies in place	Sun
	It led to significantly lower price erosion and a very attractive generic market (>$0.5bn at current prices)	Torrent
Depakote	Wockhardt held ~35% market share and had to withdraw post its import alert	Dr Reddys
ER	Prices moved up >5x	Zydus Cadila
Toprol XR	Wockhardt held ~20% market share and had to withdraw post its import alert	Dr Reddys
Tricor	$1.4bn drug	Lupin
	Impax, Ranbaxy and Wockhardt approvals got stalled due to FDA ban	
	Existing players benefitted	

Source: Companies, IDFC Securities Research

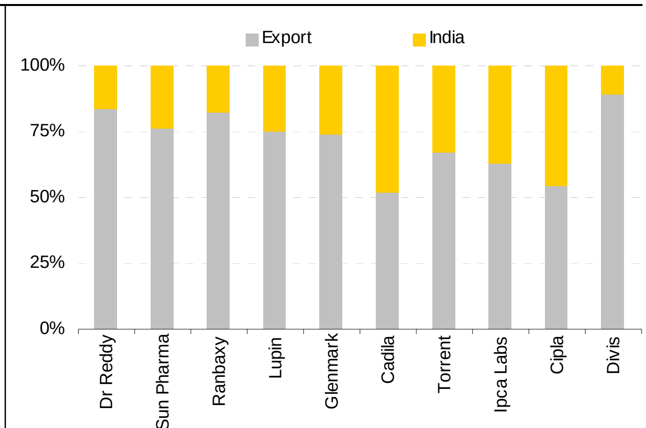
❒ Weak currency – adding to the FDA upside…

Over 1 April 2011-31 December 2013, INR depreciated by ~39% against the USD. The gains have been particularly sharp in 9MFY14E as the INR declined 14% yoy. This has accentuated the impact of the "FDA upsides" enjoyed by the Indian companies. Realisations have consistently gone up for Indian pharma companies (exports account for >50% of revenues for all generic companies in our coverage).

Exhibit 23: INR lost 39% vs. US$ over April 2011-Dec 2013



Exports accounts for over 50% of revenues



Source: Bloomberg, Companies, IDFC Securities Research

❒ US market newsflow/ earnings surprises to drive large cap pharma stocks

With 40-60% of their sales and potentially a larger proportion of profits emanating from the US market, Indian large cap players' earnings performance is primarily a function of their US growth trajectory. Given a fairly formidable combination of the three fairly unpredictable elements that govern US market earnings, i.e. FDA upsides, currency realizations and structural challenges, we believe the US market growth – and thereby the consolidated earnings growth of larger Indian pharma companies – have become relatively less predictable over the years.

This is reflected in the large positive deviations in reported earnings and consensus estimates (1-year forward) for the three large Indian companies over the last three years. This has led to a re-rating of these businesses.

Exhibit 24: Consensus earnings have seen sharp upgrades over last three years

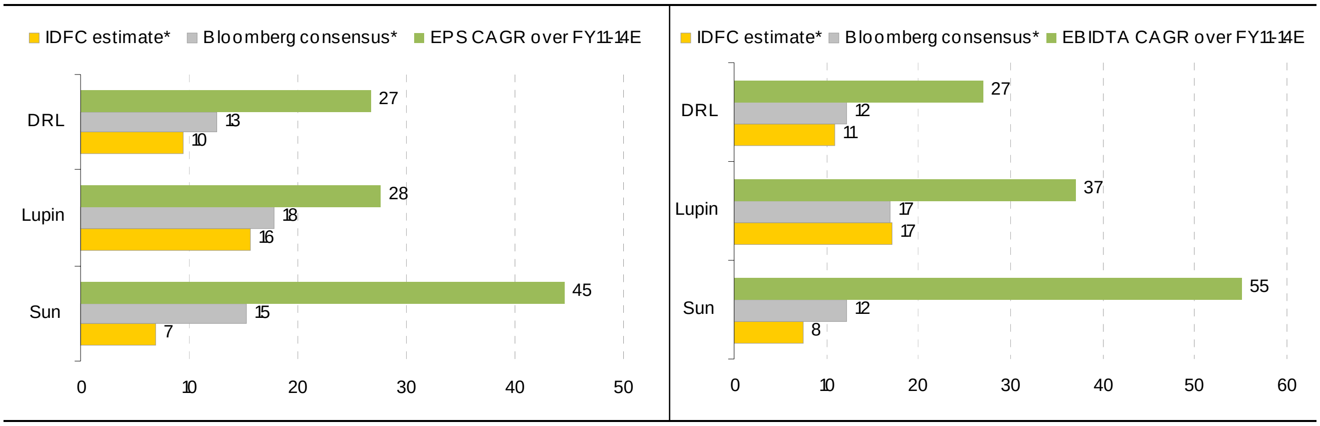
DRL	Consensus	Actual	% Upgrade/ (downgrade)	Sun	Consensus	Actual	% Upgrade/ (downgrade)	Lupin	Consensus	Actual	% Upgrade/ (downgrade)
FY12	83.0	90.5	9.0	FY12	10.0	12.8	27.7	FY12	22.2	19.4	(12.4)
FY13	96.0	94.5	(1.6)	FY13	12.9	17.3	33.5	FY13	26.8	29.5	9.9
FY14E	107.7	126.9	17.8	FY14E	19.0	24.2	27.1	FY14E	34.7	38.5	10.9
FY15E	142	?		FY15E	28.1	?		FY15E	46	?	

Source: Bloomberg, IDFC Securities Research Note: Consensus estimates for each year taken as on May 30

Going forward, the relatively lower visibility on the US generic launches across most of the companies, combined with uncertainty on currency, "FDA upsides" and general pricing pressure in the US market, would add to the earnings unpredictability. Given the track record of larger Indian players in terms of successfully launching a series of complex/ high value products and their high quality pipelines coupled with top-notch management teams, we are optimistic on their ability to deliver positive surprises to consensus estimates.

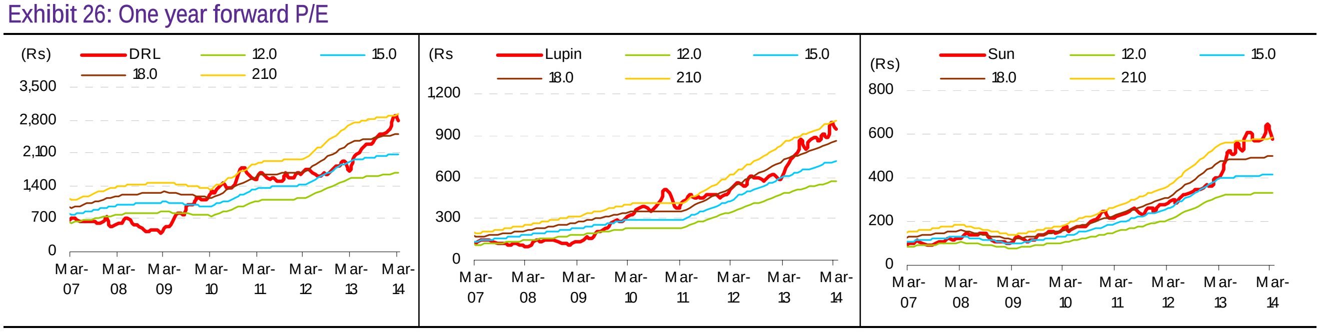
In our view, this "unpredictability with a positive bias" is also reflected in the relatively muted consensus earnings estimates for the top three Indian pharma companies (13-18% earnings CAGR over FY14-16E vs 28-45% CAGR delivered over FY11-14E) but reasonably rich earnings multiples (18-20x FY16E earnings).

Exhibit 25: Moderate EPS and EBIDTA growth likely for Sun, DRL and Lupin over FY14-16E



*Source: Bloomberg, IDFC Securities Research * Note: IDFC and Bloomberg estimate are over FY14-16E*

Exhibit 26: One year forward P/E



Source: Bloomberg, IDFC Securities Research

However, given the rich multiples and concerns related to potential currency appreciation and unpredictability on FDA regulatory actions, we expect the price movement, especially for US-driven large cap pharma stocks, to primarily be a function of their ability to positively surprise the market on either newsflow on niche launches in the US, earnings upsides or value adding M&A activity. In summary, we see limited scope for multiple re-rating for these stocks and gains will primarily be driven by earnings upgrades. The stocks may stay range-bound till they deliver positive surprise on any of these counts – *No Surprise, No Gains.* With this broad construct, our top large cap pharma picks are Dr Reddy's, Sun and Lupin.

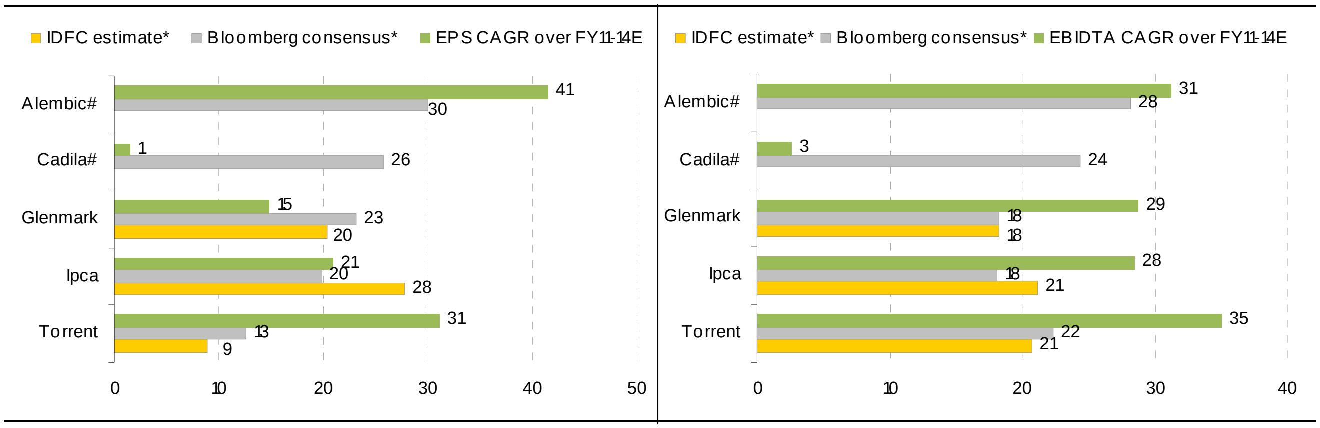
Given the changing dynamics in US generics, we believe Indian large cap pharma companies need to pursue M&A strategies to equip their business models for the next phase of growth. Indian generic players have largely been shy of taking "bold bets" till now. Players with strong balance sheets, demonstrated willingness to take risks and past track record have an edge over peers in executing this strategy. With > $1bn cash on books, demonstrated appetite to take risks and a successful M&A track record, Sun Pharma looks best placed to pursue this strategy. Apart from Sun, Lupin and Dr Reddy's also fare well on these parameters.

❒ Mid-cap pharma – potential re-rating candidates?

Interestingly, consensus earnings estimates (FY14-16E) for Indian midcap pharma stocks are superior to those of the large cap peers. We believe this is a function of lesser proportion of the "less predictable" US earnings in mid-cap companies' profits. However, earnings multiples are at a sharp discount to those of large cap peers despite reasonably strong return ratios and superior earnings visibility.

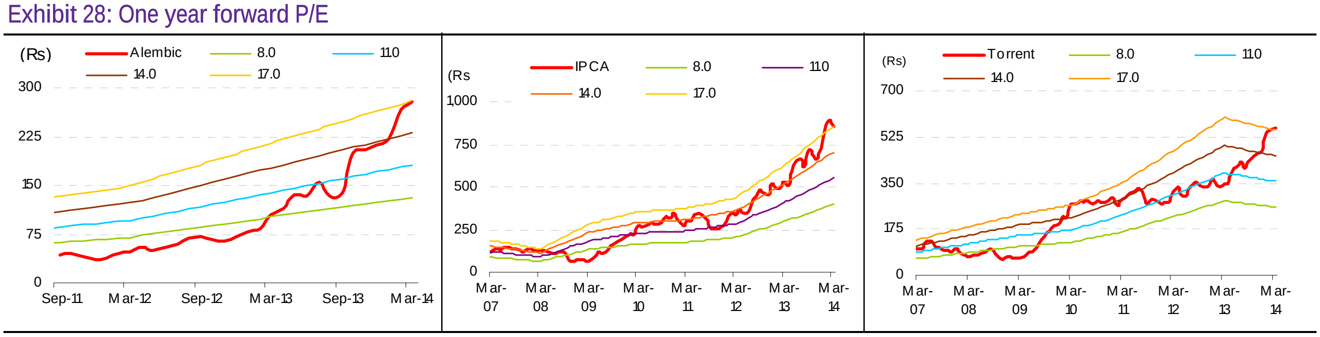
Giving the strong earnings growth visibility, potential earnings surprises and positive newsflow may drive a re-rating in some of these midcap stocks. Our midcap picks include Ipca, Torrent and Glenmark.

Exhibit 27: Strong EPS and EBIDTA growth likely for mid-cap Indian generics over FY14-16E



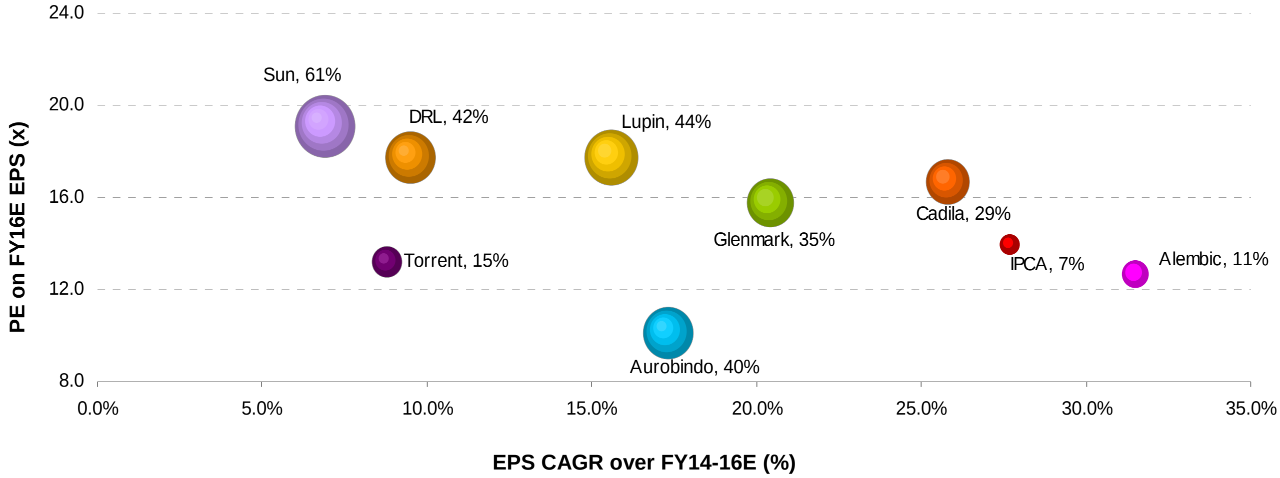
Source: Bloomberg, IDFC Securities Research; * Note: IDFC and Bloomberg estimate are over FY14-16E, #: Alembic and Cadila are not under our coverage

Exhibit 28: One year forward P/E



Source: Bloomberg, IDFC Securities Research; For Alembic EPS is Bloomberg estimate

Exhibit 29: Midcaps are attractively placed versus large caps



Source: Bloomberg, IDFC Securities Research; Bubble size indicates US contribution to total sales; For Alembic, Aurobindo and Cadila EPS is Bloomberg estimate

Exhibit 30: Comparative valuations

	Price (Rs)	Reco	T Price (Rs)	EPS (Rs) FY15E	EPS (Rs) FY16E	EPS CAGR (%) FY14-16E	P/E (x) FY16E	EV/EBITDA (x) FY16E	RoCE (%) FY16E	RoE (%) FY16E
Biocon	435	N	466	24.0	28.0	16.2	15.5	9.3	14.6	15.4
Cipla	391	N	424	18.7	22.3	11.9	17.5	9.7	16.7	14.7
Dishman Pharma	85	OP	129	16.1	20.1	22.6	4.3	3.1	12.7	12.3
Dr Reddy's Lab	2,749	OP	3,113	139.3	155.7	9.5	17.7	11.1	20.1	21.8
GSK Pharma	2,568	UP	2,551	71.9	85.0	23.0	30.2	23.6	26.5	33.1
Glenmark Pharma	581	OP	671	29.9	36.8	20.4	15.8	10.0	22.8	23.7
IPCA Laboratories	844	OP	965	50.2	60.3	27.7	14.0	9.3	28.6	26.6
Lupin	951	OP	1,073	47.9	53.6	15.6	17.7	10.6	30.6	24.6
Ranbaxy Lab	349	N	364	80.7	19.6	NA	17.8	9.4	11.3	12.2
Sanofi India	2,768	OP	3,478	120.5	139.1	15.5	19.9	11.3	22.5	20.5
Sun Pharma	581	OP	690	27.7	30.4	6.9	19.1	12.9	27.2	22.5
Torrent Pharma	552	OP	626	32.4	41.7	8.8	13.2	8.0	23.5	28.9

Source: Companies, IDFC Securities Research; OP=Outperformer, UP=Underperformer, N=Neutral; Prices as of March 24, 2014

Biocon

Neutral (Rs: 435; Mkt cap: Rs87.1bn; US$1.4bn)

Income statement

Year to 31 Mar (Rs m)	FY12	FY13	FY14E	FY15E	FY16E
Net sales	**20,865**	**24,456**	**28,860**	**34,097**	**39,997**
% growth	*15.5*	*17.2*	*18.0*	*18.1*	*17.3*
Operating expenses	15,692	19,423	22,178	26,190	30,809
EBITDA	**5,173**	**5,033**	**6,682**	**7,906**	**9,188**
% change	*(0.8)*	*(2.7)*	*32.8*	*18.3*	*16.2*
Other income	618	1,103	860	750	750
Net interest	(123)	(81)	(20)	(20)	(20)
Depreciation	1,744	1,793	2,017	2,219	2,441
Pre-tax profit	3,924	4,262	5,505	6,418	7,477
Current tax	541	975	1,211	1,476	1,720
Profit after tax	**3,384**	**3,287**	**4,294**	**4,942**	**5,758**
Minorities	-	(39)	(141)	(150)	(150)
Net profit after non-recurring items	3,384	3,248	4,153	4,792	5,608
% change	*(7.9)*	*(4.0)*	*27.9*	*15.4*	*17.0*

Balance sheet

As on 31 Mar (Rs m)	FY12	FY13	FY14E	FY15E	FY16E
Paid-up capital	1,000	1,000	1,000	1,000	1,000
Reserves & surplus	21,724	25,946	28,866	32,323	36,396
Total shareholders' equity	22,762	27,599	30,660	34,267	38,490
Total current liabilities	11,865	11,157	11,710	12,438	13,257
Total debt	2,708	2,488	6,488	6,488	6,488
Deferred tax liabilities	(78)	412	412	412	412
Other non-current liabilities	2,115	2,505	2,605	2,705	2,905
Total liabilities	16,610	16,562	21,215	22,043	23,062
Total equity & liabilities	**39,372**	**44,161**	**51,875**	**56,310**	**61,552**
Net fixed assets	15,568	16,938	22,841	24,042	23,601
Investments	5,563	5,866	5,866	5,866	5,866
Total current assets	17,209	20,067	21,878	25,112	30,795
Other non-current assets	1,032	1,290	1,290	1,290	1,290
Working capital	5,344	8,910	10,168	12,674	17,538
Total assets	**39,372**	**44,161**	**51,875**	**56,310**	**61,552**

Cash flow statement

Year to 31 Mar (Rs m)	FY12	FY13	FY14E	FY15E	FY16E
Pre-tax profit	3,924	4,262	5,505	6,418	7,477
Depreciation	1,744	1,793	2,017	2,219	2,441
Chg in Working capital	650	(2,070)	(2,390)	(1,782)	(1,957)
Total tax paid	(541)	(975)	(1,211)	(1,476)	(1,720)
Ext ord. Items & others	974	390	100	100	200
Operating cash Inflow	6,752	3,400	4,021	5,478	6,441
Capital expenditure	(2,438)	(3,421)	(7,920)	(3,420)	(2,000)
Free cash flow (a+b)	4,314	(21)	(3,899)	2,058	4,441
Chg in investments	(958)	(303)	-	-	-
Debt raised/(repaid)	(634)	(220)	4,000	-	-
Dividend (incl. tax)	(1,031)	(1,132)	(1,233)	(1,334)	(1,535)
Misc	(874)	3,172	-	-	-
Net chg in cash	816	1,496	(1,132)	724	2,906

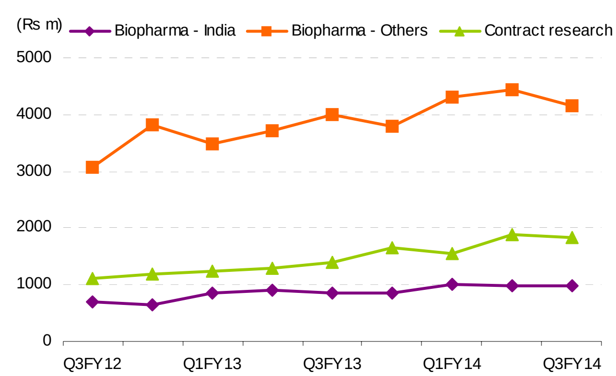
Key ratios

Year to 31 Mar	FY12	FY13	FY14E	FY15E	FY16E
EBITDA margin (%)	24.8	20.6	23.2	23.2	23.0
EBIT margin (%)	16.4	13.2	16.2	16.7	16.9
PAT margin (%)	16.2	13.3	14.4	14.1	14.0
RoE (%)	15.6	12.9	14.3	14.8	15.4
RoCE (%)	12.9	10.7	12.8	13.5	14.6
Gearing (x)	(0.1)	(0.2)	0.0	0.0	(0.1)

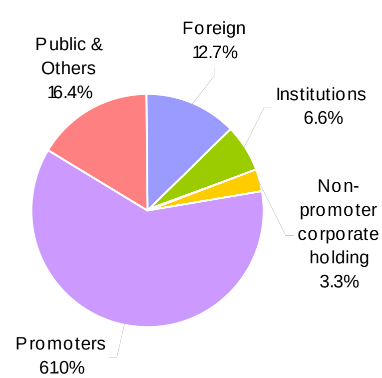
Valuations

Year to 31 Mar	FY12	FY13	FY14E	FY15E	FY16E
Reported EPS (Rs)	16.9	16.2	20.8	24.0	28.0
Adj. EPS (Rs)	16.9	16.2	20.8	24.0	28.0
PE (x)	25.7	26.8	20.9	18.2	15.5
Price/ Book (x)	3.8	3.2	2.8	2.5	2.3
EV/ Net sales (x)	4.1	3.4	3.1	2.6	2.1
EV/ EBITDA (x)	16.3	16.6	13.3	11.1	9.3
EV/ CE (x)	3.1	2.5	2.2	2.0	1.8

Revenue trend across key markets



Shareholding pattern



As of December 2013

Cipla

Neutral (Rs: 391; Mkt cap: Rs314bn; US$5.2bn)

Income statement

Year to 31 Mar (Rs m)	FY12	FY13	FY14E	FY15E	FY16E
Net sales	**70,207**	**82,793**	**100,995**	**118,321**	**138,357**
% growth	*11.0*	*17.9*	*22.0*	*17.2*	*16.9*
Operating expenses	53,828	61,167	79,101	93,882	109,381
EBITDA	**16,379**	**21,626**	**21,893**	**24,439**	**28,976**
% change	*21.3*	*32.0*	*1.2*	*11.6*	*18.6*
Other income	1,395	2,221	2,520	1,800	1,800
Net interest	(383)	(339)	(1,591)	(2,013)	(2,013)
Depreciation	2,912	2,952	3,610	4,193	4,847
Pre-tax profit	**14,508**	**20,494**	**19,170**	**20,033**	**23,916**
Deferred tax	201	-	-	-	-
Current tax	2,864	5,304	4,842	5,008	5,979
Profit after tax	11,443	15,190	14,328	15,025	17,937
Non-recurring items	-	259	-	-	-
Net profit after non-recurring items	11,443	15,448	14,328	15,025	17,937
% change	*15.6*	*35.0*	*(7.3)*	*4.9*	*19.4*

Key ratios

Year to 31 Mar	FY12	FY13	FY14E	FY15E	FY16E
EBITDA margin (%)	23.3	26.1	21.7	20.7	20.9
EBIT margin (%)	19.2	22.6	18.1	17.1	17.4
PAT margin (%)	16.3	18.3	14.2	12.7	13.0
RoE (%)	16.0	18.2	14.9	13.8	14.7
RoCE (%)	17.1	20.0	15.9	15.5	16.7
Gearing (x)	(0.2)	(0.2)	(0.2)	(0.2)	(0.3)

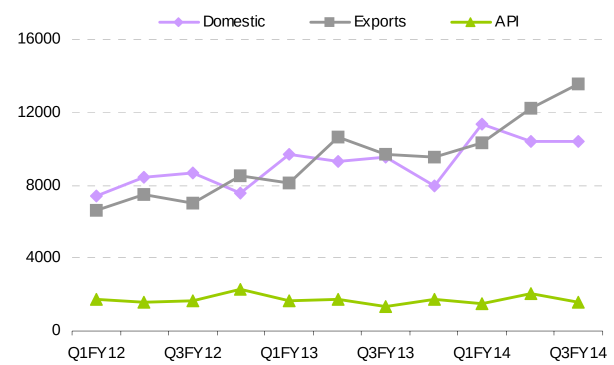
Valuations

Year to 31 Mar	FY12	FY13	FY14E	FY15E	FY16E
Reported EPS (Rs)	14.2	19.2	17.8	18.7	22.3
Adj. EPS (Rs)	14.2	18.9	17.8	18.7	22.3
PE (x)	27.5	20.7	21.9	20.9	17.5
Price/ Book (x)	4.1	3.5	3.1	2.7	2.4
EV/ Net sales (x)	4.3	3.6	2.9	2.4	2.0
EV/ EBITDA (x)	18.4	13.8	13.4	11.8	9.7
EV/ CE (x)	3.7	2.8	2.4	2.1	1.8

Balance sheet

As on 31 Mar (Rs m)	FY12	FY13	FY14E	FY15E	FY16E
Paid-up capital	1,606	1,606	1,606	1,606	1,606
Reserves & surplus	74,784	88,581	100,746	113,283	128,359
Total shareholders' equity	76,389	90,187	102,352	114,889	129,965
Total current liabilities	12,214	11,093	12,634	14,767	16,898
Total debt	135	9,669	16,169	16,169	16,169
Deferred tax liabilities	2,332	2,805	2,805	2,805	2,805
Other non-current liabilities	2,432	2,824	3,065	3,342	3,661
Total liabilities	17,113	26,391	34,673	37,084	39,534
Total equity & liabilities	**93,503**	**116,578**	**137,025**	**151,972**	**169,498**
Net fixed assets	35,870	39,878	41,768	42,575	42,728
Total current assets	57,633	76,700	95,257	109,397	126,770
Working capital	45,419	65,608	82,623	94,630	109,872
Total assets	**93,503**	**116,578**	**137,025**	**151,972**	**169,498**

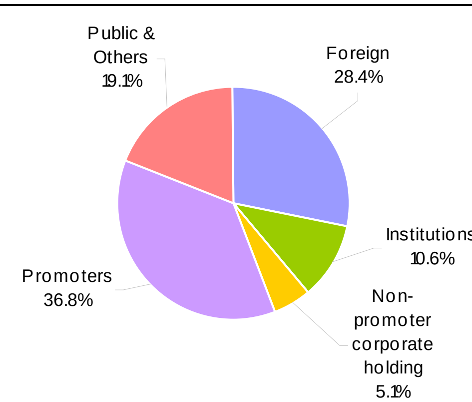
Revenue trend across key segments (Rs m)



Cash flow statement

Year to 31 Mar (Rs m)	FY12	FY13	FY14E	FY15E	FY16E
Pre-tax profit	14,508	20,494	19,170	20,033	23,916
Depreciation	2,912	2,952	3,610	4,193	4,847
Chg in Working capital	3,916	(7,027)	(7,159)	(6,973)	(7,759)
Total tax paid	(2,864)	(5,304)	(4,842)	(5,008)	(5,979)
Ext ord. Items & others	230	650	241	277	319
Operating cash Inflow	18,702	11,765	11,020	12,522	15,344
Capital expenditure	(4,987)	(6,960)	(5,500)	(5,000)	(5,000)
Free cash flow (a+b)	13,715	4,805	5,520	7,522	10,344
Chg in investments	(6,751)	(12,698)	(12,093)	-	-
Debt raised/(repaid)	(5,275)	9,535	6,500	-	-
Dividend (incl. tax)	(3,198)	(1,881)	(2,163)	(2,488)	(2,861)
Misc	1,454	765	43	-	-
Net chg in cash	(55)	525	(2,194)	5,034	7,483

Shareholding pattern



As of December 2013

Dishman Pharma

Outperformer (Rs: 86; Mkt cap: Rs6.9bn; US$114m)

Income statement

Year to 31 Mar (Rs m)	FY12	FY13	FY14E	FY15E	FY16E
Net sales	**11,241**	**12,583**	**13,349**	**14,842**	**16,359**
% growth	*9.0*	*11.9*	*6.1*	*11.2*	*10.2*
Operating expenses	8,996	9,645	10,263	11,396	12,498
EBITDA	**2,245**	**2,939**	**3,086**	**3,446**	**3,861**
% change	*11.5*	*30.9*	*5.0*	*11.7*	*12.0*
Other income	129	179	100	80	70
Net interest	(730)	(777)	(695)	(680)	(560)
Depreciation	765	838	1,068	1,143	1,223
Pre-tax profit	878	1,410	1,393	1,703	2,148
Current tax	312	450	306	392	516
Profit after tax	**566**	**960**	**1,086**	**1,311**	**1,632**
Net profit after non-recurring items	566	960	1,086	1,311	1,632
% change	*(29.1)*	*69.5*	*13.1*	*20.7*	*24.5*

Key ratios

Year to 31 Mar	FY12	FY13	FY14E	FY15E	FY16E
EBITDA margin (%)	20.0	23.4	23.1	23.2	23.6
EBIT margin (%)	13.2	16.7	15.1	15.5	16.1
PAT margin (%)	5.0	7.6	8.1	8.8	10.0
RoE (%)	6.3	9.8	10.0	11.0	12.3
RoCE (%)	7.9	10.6	9.7	11.0	12.7
Gearing (x)	0.9	0.8	0.7	0.5	0.3

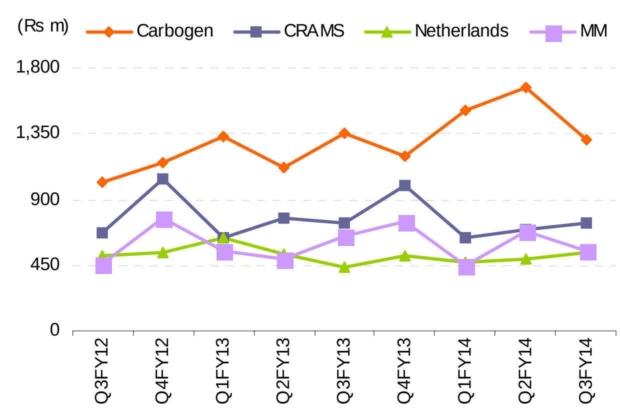
Valuations

Year to 31 Mar	FY12	FY13	FY14E	FY15E	FY16E
Reported EPS (Rs)	7.0	11.8	13.4	16.1	20.1
Adj. EPS (Rs)	7.0	11.8	13.4	16.1	20.1
PE (x)	12.3	7.2	6.4	5.3	4.3
Price/ Book (x)	0.7	0.7	0.6	0.6	0.5
EV/ Net sales (x)	1.3	1.2	1.1	0.9	0.7
EV/ EBITDA (x)	6.7	5.2	4.7	3.8	3.1
EV/ CE (x)	0.8	0.7	0.7	0.6	0.6

Balance sheet

As on 31 Mar (Rs m)	FY12	FY13	FY14E	FY15E	FY16E
Paid-up capital	161	161	161	161	161
Reserves & surplus	9,158	10,183	11,144	12,317	13,798
Total shareholders' equity	9,320	10,345	11,305	12,478	13,959
Total current liabilities	3,638	2,242	2,833	2,813	3,024
Total debt	8,496	8,891	8,391	6,891	5,391
Deferred tax liabilities	446	580	580	580	580
Other non-current liabilities	687	853	864	877	891
Total liabilities	13,266	12,566	12,668	11,161	9,886
Total equity & liabilities	**22,586**	**22,911**	**23,973**	**23,639**	**23,845**
Net fixed assets	12,426	12,592	12,324	12,180	11,957
Total current assets	8,073	8,208	9,539	9,348	9,777
Other non-current assets	2,088	2,111	2,111	2,111	2,111
Working capital	4,435	5,966	6,707	6,535	6,753
Total assets	**22,587**	**22,911**	**23,973**	**23,639**	**23,845**

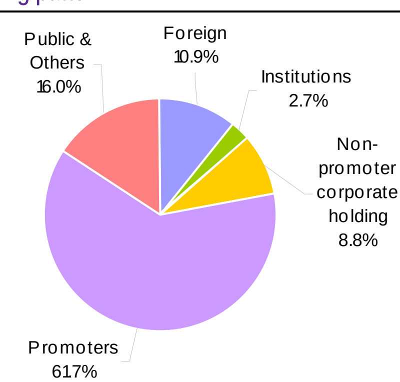
Revenue trend across key segments



Cash flow statement

Year to 31 Mar (Rs m)	FY12	FY13	FY14E	FY15E	FY16E
Pre-tax profit	878	1,410	1,393	1,703	2,148
Depreciation	765	838	1,068	1,143	1,223
Chg in Working capital	834	(1,575)	(418)	164	(485)
Total tax paid	(312)	(450)	(306)	(392)	(516)
Ext ord. Items & others	91	166	11	13	14
Operating cash Inflow	2,257	389	1,748	2,631	2,384
Capital expenditure	(2,089)	(1,027)	(800)	(1,000)	(1,000)
Free cash flow (a+b)	167	(638)	948	1,631	1,384
Chg in investments	(249)	14	-	-	-
Debt raised/(repaid)	(189)	395	(500)	(1,500)	(1,500)
Dividend (incl. tax)	(114)	(114)	(126)	(138)	(152)
Misc	200	313	-	-	1
Net chg in cash	(185)	(30)	322	(7)	(267)

Shareholding pattern



As of December 2013

Dr Reddys Laboratories

Outperformer (Rs: 2,749; Mkt cap: Rs468bn; US$7.7bn)

Income statement

Year to 31 Mar (Rs m)	FY12	FY13	FY14E	FY15E	FY16E
Net sales	**96,741**	**116,277**	**133,924**	**148,692**	**165,671**
% growth	*29.5*	*20.2*	*15.2*	*11.0*	*11.4*
Operating expenses	73,000	91,366	101,741	113,035	126,012
EBITDA	**23,741**	**24,910**	**32,183**	**35,658**	**39,659**
% change	*51.6*	*4.9*	*29.2*	*10.8*	*11.2*
Other income	980	1,100	1,500	1,800	2,000
Net interest	(220)	95	150	300	300
Depreciation	5,214	5,681	6,943	7,830	8,510
Pre-tax profit	19,976	20,893	27,220	30,147	33,699
Current tax	4,670	4,900	5,265	6,584	7,359
Profit after tax	**15,306**	**15,993**	**21,955**	**23,563**	**26,340**
Non-recurring items	(1,044)	(688)	497	-	-
Net profit after non-recurring items	14,262	15,305	22,452	23,563	26,340
% change	*36.1*	*7.3*	*46.7*	*5.0*	*11.8*

Key ratios

Year to 31 Mar	FY12	FY13	FY14E	FY15E	FY16E
EBITDA margin (%)	24.5	21.4	24.0	24.0	23.9
EBIT margin (%)	19.2	16.5	18.8	18.7	18.8
PAT margin (%)	15.8	13.8	16.4	15.8	15.9
RoE (%)	29.6	25.1	27.6	23.8	21.8
RoCE (%)	22.6	19.6	22.2	20.8	20.1
Gearing (x)	0.2	0.2	0.0	(0.1)	(0.2)

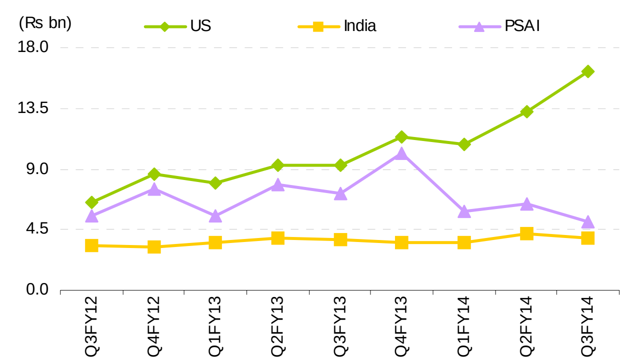
Valuations

Year to 31 Mar	FY12	FY13	FY14E	FY15E	FY16E
Reported EPS (Rs)	84.3	90.5	132.7	139.3	155.7
Adj. EPS (Rs)	90.5	94.5	129.8	139.3	155.7
PE (x)	30.4	29.1	21.2	19.7	17.7
Price/ Book (x)	8.1	6.7	5.2	4.3	3.5
EV/ Net sales (x)	5.0	4.1	3.5	3.1	2.7
EV/ EBITDA (x)	20.2	19.2	14.6	12.8	11.1
EV/ CE (x)	5.2	4.6	3.8	3.2	2.6

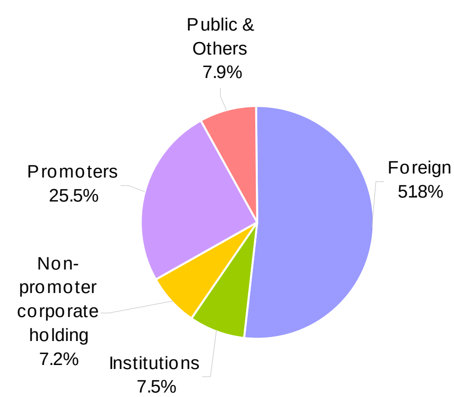
Balance sheet

As on 31 Mar (Rs m)	FY12	FY13	FY14E	FY15E	FY16E
Paid-up capital	848	848	848	848	848
Reserves & surplus	56,596	68,982	88,223	108,381	131,122
Total shareholders' equity	57,444	69,830	89,071	109,229	131,969
Total current liabilities	27,585	31,685	31,312	34,459	37,990
Total debt	32,210	32,191	32,191	32,191	32,191
Deferred tax liabilities	1,132	1,132	1,132	1,132	1,132
Other non-current liabilities	1,106	1,106	1,106	1,106	1,106
Total liabilities	62,033	66,114	65,741	68,888	72,419
Total equity & liabilities	**119,477**	**135,944**	**154,813**	**178,117**	**204,389**
Net fixed assets	33,246	37,569	42,825	47,295	51,085
Total current assets	69,945	83,782	99,593	120,728	145,510
Other non-current assets	16,286	14,594	12,394	10,094	7,794
Working capital	42,360	52,096	68,281	86,269	107,520
Total assets	**119,477**	**135,944**	**154,813**	**178,117**	**204,389**

Sales in key geographies



Shareholding pattern



As of December 2013

Cash flow statement

Year to 31 Mar (Rs m)	FY12	FY13	FY14E	FY15E	FY16E
Pre-tax profit	19,976	20,893	27,220	30,147	33,699
Depreciation	5,214	5,681	6,943	7,830	8,510
Chg in Working capital	(4,720)	(7,622)	(8,680)	(4,144)	(4,799)
Total tax paid	(4,670)	(4,900)	(5,265)	(6,584)	(7,359)
Ext ord. Items & others	(1,194)	(688)	497	-	-
Operating cash Inflow	14,606	13,364	20,715	27,249	30,051
Capital expenditure	(7,101)	(8,312)	(10,000)	(10,000)	(10,000)
Free cash flow (a+b)	7,505	5,052	10,715	17,249	20,051
Chg in investments	(10,795)	104	180	220	250
Debt raised/(repaid)	8,638	(19)	-	-	-
Capital raised/(repaid)	253	-	-	-	-
Dividend (incl. tax)	(2,675)	(2,919)	(3,211)	(3,405)	(3,600)
Misc	(1,275)	(104)	(180)	(220)	(250)
Net chg in cash	1,650	2,115	7,504	13,844	16,452

Glaxosmithkline pharma **Underperformer (Rs: 2568; Mkt cap: Rs216bn; US$3.6bn)**

Income statement

Year to 31 Mar (Rs m)	CY11	CY12	CY13	CY14E	CY15E
Net sales	**23,380**	**25,999**	**25,202**	**29,240**	**33,443**
% growth	*10.7*	*11.2*	*(3.1)*	*16.0*	*14.4*
Operating expenses	15,935	18,112	20,241	22,520	25,297
EBITDA	**7,445**	**7,887**	**4,961**	**6,721**	**8,146**
% change	*0.9*	*5.9*	*(37.1)*	*35.5*	*21.2*
Other income	379	265	350	399	455
Net interest	1,596	1,974	1,920	2,040	2,210
Depreciation	204	178	199	209	219
Pre-tax profit	9,216	9,947	7,032	8,951	10,591
Current tax	2,902	3,176	2,274	2,864	3,389
Profit after tax	**6,313**	**6,771**	**4,758**	**6,086**	**7,202**
Non-recurring items	(2,008)	(999)	262	-	-
Net profit after non-recurring items	4,306	5,772	5,020	6,086	7,202
% change	*(23.6)*	*34.1*	*(13.0)*	*21.3*	*18.3*

Key ratios

Year to 31 Mar	CY11	CY12	CY13	CY14E	CY15E
EBITDA margin (%)	31.8	30.3	19.7	23.0	24.4
EBIT margin (%)	31.0	29.7	18.9	22.3	23.7
PAT margin (%)	27.0	26.0	18.9	20.8	21.5
RoE (%)	32.8	34.6	23.8	29.6	33.1
RoCE (%)	28.0	27.8	16.9	22.6	26.5
Gearing (x)	(1.1)	(1.2)	(1.2)	(1.2)	(1.1)

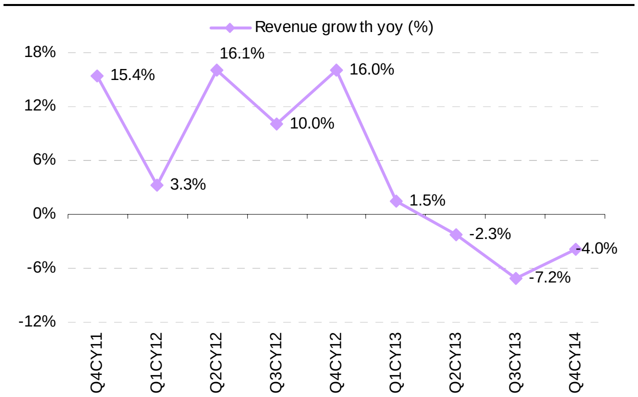
Valuations

Year to 31 Mar	CY11	CY12	CY13	CY14E	CY15E
Reported EPS (Rs)	50.8	68.1	59.3	71.9	85.0
Adj. EPS (Rs)	74.5	79.9	56.2	71.9	85.0
PE (x)	34.5	32.1	45.7	35.7	30.2
Price/ Book (x)	11.3	10.9	10.8	10.3	9.7
EV/ Net sales (x)	8.4	7.5	7.7	6.6	5.7
EV/ EBITDA (x)	26.4	24.6	39.1	28.7	23.6
EV/ CE (x)	7.2	6.9	6.9	6.6	6.3

Balance sheet

As on 31 Mar (Rs m)	CY11	CY12	CY13	CY14E	CY15E
Paid-up capital	847	847	847	847	847
Reserves & surplus	18,328	19,147	19,211	20,243	21,517
Total shareholders' equity	19,175	19,994	20,058	21,090	22,364
Total current liabilities	2,717	4,779	5,147	5,710	6,374
Total debt	46	46	46	46	46
Other non-current liabilities	8,148	8,148	8,148	8,148	8,148
Total liabilities	10,911	12,973	13,341	13,904	14,568
Total equity & liabilities	**30,086**	**32,967**	**33,399**	**34,995**	**36,932**
Net fixed assets	1,153	1,332	1,333	1,325	1,307
Investments	479	480	480	480	480
Total current assets	27,839	30,540	30,972	32,575	34,530
Deferred tax assets	615	615	615	615	615
Working capital	25,122	25,761	25,825	26,865	28,156
Total assets	**30,086**	**32,967**	**33,399**	**34,995**	**36,932**

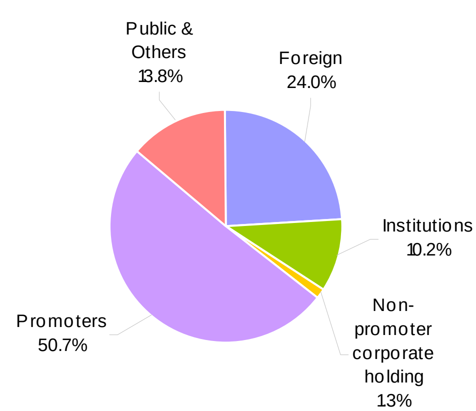
Revenue growth trend



Cash flow statement

Year to 31 Mar (Rs m)	CY11	CY12	CY13	CY14E	CY15E
Pre-tax profit	9,216	9,947	7,032	8,951	10,591
Depreciation	204	178	199	209	219
Chg in Working capital	(2,751)	1,593	526	(378)	(340)
Total tax paid	(2,902)	(3,176)	(2,274)	(2,864)	(3,389)
Ext ord. Items & others	1,240	(999)	262	-	-
Operating cash Inflow	5,006	7,544	5,745	5,918	7,081
Capital expenditure	(181)	(357)	(200)	(201)	(202)
Free cash flow (a+b)	4,826	7,187	5,545	5,717	6,879
Chg in investments	5	571	-	-	-
Debt raised/(repaid)	(6)	-	-	-	-
Dividend (incl. tax)	(4,452)	(4,955)	(4,955)	(5,054)	(5,928)
Misc	(39)	1	-	-	-
Net chg in cash	334	2,804	590	662	951

Shareholding pattern



As of December 2013

Glenmark Pharma

Outperformer (Rs: 581; Mkt cap: Rs158bn; US$2.6bn)

Income statement

Year to 31 Mar (Rs m)	FY12	FY13	FY14E	FY15E	FY16E
Net sales	**40,206**	**50,123**	**59,383**	**68,500**	**79,669**
% growth	*36.1*	*24.7*	*18.5*	*15.4*	*16.3*
Operating expenses	30,226	39,511	46,642	53,576	61,826
EBITDA	**9,980**	**10,613**	**12,741**	**14,925**	**17,843**
% change	*67.2*	*6.3*	*20.1*	*17.1*	*19.6*
Other income	182	107	100	100	101
Net interest	(1,466)	(1,600)	(1,919)	(1,900)	(1,800)
Depreciation	979	1,270	2,185	2,665	3,145
Pre-tax profit	6,197	7,340	8,867	10,459	13,000
Current tax	238	1,107	1,951	2,301	2,990
Profit after tax	**5,959**	**6,233**	**6,917**	**8,158**	**10,010**
Minorities	(40)	(83)	(50)	(50)	(50)
Non-recurring items	(1,316)	-	-	-	-
Net profit after non-recurring items	4,603	6,150	6,867	8,108	9,960
% change	*1.5*	*33.6*	*11.6*	*18.1*	*22.8*

Key ratios

Year to 31 Mar	FY12	FY13	FY14E	FY15E	FY16E
EBITDA margin (%)	24.8	21.2	21.5	21.8	22.4
EBIT margin (%)	22.4	18.6	17.8	17.9	18.4
PAT margin (%)	14.7	12.3	11.6	11.8	12.5
RoE (%)	26.4	23.6	23.5	23.8	23.7
RoCE (%)	21.2	19.5	19.3	20.6	22.8
Gearing (x)	0.8	0.8	0.8	0.6	0.4

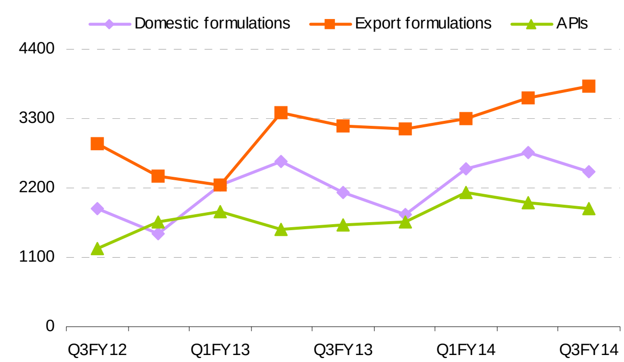
Valuations

Year to 31 Mar	FY12	FY13	FY14E	FY15E	FY16E
Reported EPS (Rs)	17.0	22.7	25.3	29.9	36.8
Adj. EPS (Rs)	21.9	22.7	25.3	29.9	36.8
PE (x)	26.6	25.6	22.9	19.4	15.8
Price/ Book (x)	6.5	5.6	5.2	4.2	3.4
EV/ Net sales (x)	4.4	3.6	3.1	2.7	2.2
EV/ EBITDA (x)	17.7	16.9	14.4	12.2	10.0
EV/ CE (x)	4.0	3.5	3.2	3.0	2.7

Balance sheet

As on 31 Mar (Rs m)	FY12	FY13	FY14E	FY15E	FY16E
Paid-up capital	271	271	271	271	271
Reserves & surplus	23,745	27,359	29,934	37,091	45,783
Total shareholders' equity	24,265	27,874	30,498	37,706	46,448
Total current liabilities	10,516	14,296	16,402	18,722	21,482
Total debt	22,445	27,649	31,019	28,019	25,019
Deferred tax liabilities	(2,674)	(3,803)	(4,003)	(4,203)	(4,403)
Other non-current liabilities	106	123	123	123	123
Total liabilities	30,394	38,265	43,541	42,661	42,221
Total equity & liabilities	**54,658**	**66,139**	**74,040**	**80,367**	**88,669**
Net fixed assets	24,247	27,682	29,698	31,032	31,887
Investments	298	323	323	323	323
Total current assets	29,504	37,530	43,415	48,408	55,855
Other non-current assets	609	604	604	604	604
Working capital	18,988	23,234	27,013	29,686	34,373
Total assets	**54,658**	**66,139**	**74,040**	**80,367**	**88,669**

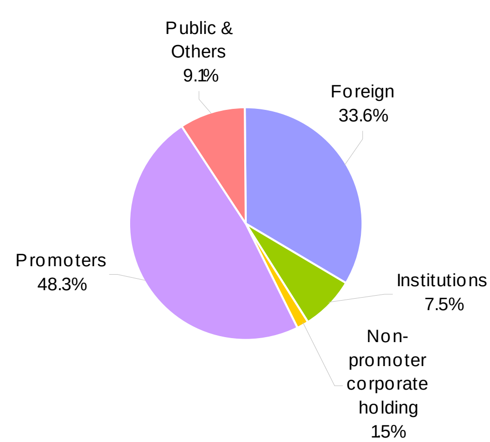
Revenue trend across key markets (Rs m)



Cash flow statement

Year to 31 Mar (Rs m)	FY12	FY13	FY14E	FY15E	FY16E
Pre-tax profit	6,197	7,340	8,867	10,459	13,000
Depreciation	979	1,270	2,185	2,665	3,145
Chg in Working capital	617	(1,336)	(4,747)	(3,969)	(4,225)
Total tax paid	(238)	(1,107)	(1,951)	(2,301)	(2,990)
Ext ord. Items & others	(1,327)	18	-	-	-
Operating cash Inflow	6,228	6,185	4,354	6,854	8,929
Capital expenditure	(3,712)	(4,700)	(4,200)	(4,000)	(4,000)
Free cash flow (a+b)	2,517	1,486	154	2,854	4,929
Chg in investments	(17)	(25)	-	-	-
Debt raised/(repaid)	1,360	5,204	3,370	(3,000)	(3,000)
Dividend (incl. tax)	(633)	(634)	(792)	(951)	(1,268)
Misc	(1,977)	(3,119)	(3,700)	(200)	(200)
Net chg in cash	1,251	2,912	(969)	(1,296)	462

Shareholding pattern



As of December 2013

IPCA

Outperformer (Rs: 844; Mkt cap: Rs106bn; US$1.7bn)

Income statement

Year to 31 Mar (Rs m)	FY12	FY13	FY14E	FY15E	FY16E
Net sales	**23,590**	**28,131**	**32,850**	**38,827**	**46,189**
% growth	*24.2*	*19.2*	*16.8*	*18.2*	*19.0*
Operating expenses	18,452	21,899	24,659	29,031	34,450
EBITDA	**5,138**	**6,231**	**8,190**	**9,796**	**11,739**
% change	*36.6*	*21.3*	*31.4*	*19.6*	*19.8*
Other income	120	143	200	200	200
Net interest	(413)	(334)	(250)	(250)	(250)
Depreciation	671	867	1,027	1,320	1,565
Pre-tax profit	3,646	4,542	6,211	8,426	10,124
Deferred tax	-	372	-	-	-
Current tax	881	927	1,553	2,107	2,531
Profit after tax	**2,764**	**3,243**	**4,658**	**6,320**	**7,593**
Minorities	(7)	(11)	-	-	-
Net profit after non-recurring items	2,757	3,232	4,658	6,320	7,593
% change	*5.3*	*17.2*	*44.1*	*35.7*	*20.1*

Key ratios

Year to 31 Mar	FY12	FY13	FY14E	FY15E	FY16E
EBITDA margin (%)	21.8	22.2	24.9	25.2	25.4
EBIT margin (%)	18.9	19.1	21.8	21.8	22.0
PAT margin (%)	11.7	11.5	14.2	16.3	16.4
RoE (%)	23.9	23.0	26.5	28.2	26.6
RoCE (%)	25.4	26.1	29.5	29.0	28.6
Gearing (x)	0.5	0.4	0.3	0.2	0.1

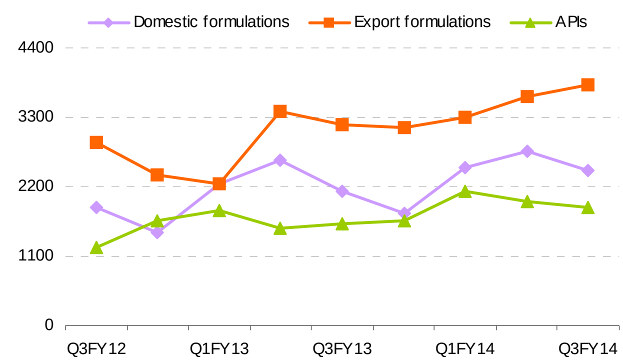
Valuations

Year to 31 Mar	FY12	FY13	FY14E	FY15E	FY16E
Reported EPS (Rs)	21.9	25.7	37.0	50.2	60.3
Adj. EPS (Rs)	21.9	25.7	37.0	50.2	60.3
PE (x)	38.5	32.9	22.8	16.8	14.0
Price/ Book (x)	8.5	6.8	5.4	4.2	3.3
EV/ Net sales (x)	4.8	4.0	3.4	2.9	2.4
EV/ EBITDA (x)	21.8	17.9	13.7	11.3	9.3
EV/ CE (x)	5.9	5.0	4.2	3.5	2.8

Balance sheet

As on 31 Mar (Rs m)	FY12	FY13	FY14E	FY15E	FY16E
Paid-up capital	252	252	252	252	252
Reserves & surplus	12,281	15,285	19,362	24,955	31,676
Total shareholders' equity	12,533	15,537	19,614	25,206	31,927
Total current liabilities	3,414	3,415	3,995	4,634	5,537
Total debt	6,011	6,170	6,170	6,170	6,170
Other non-current liabilities	377	544	606	732	858
Total liabilities	9,802	10,129	10,772	11,536	12,565
Total equity & liabilities	**22,335**	**25,666**	**30,385**	**36,743**	**44,493**
Net fixed assets	10,150	12,098	14,371	16,552	18,987
Investments	341	90	90	90	90
Total current assets	12,547	14,545	16,992	21,169	26,484
Deferred tax assets	(939)	(1,304)	(1,304)	(1,304)	(1,304)
Other non-current assets	236	236	236	236	236
Working capital	9,132	11,131	12,997	16,535	20,947
Total assets	**22,335**	**25,666**	**30,385**	**36,743**	**44,493**

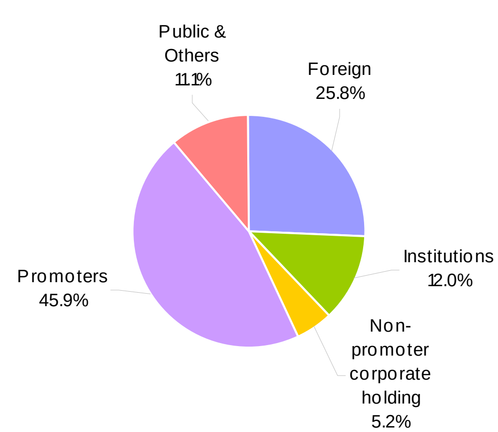
Revenue trend across key segments (Rs m)



Cash flow statement

Year to 31 Mar (Rs m)	FY12	FY13	FY14E	FY15E	FY16E
Pre-tax profit	3,646	4,542	6,211	8,426	10,124
Depreciation	671	867	1,027	1,320	1,565
Chg in Working capital	(424)	(1,538)	(2,175)	(2,430)	(2,771)
Total tax paid	(881)	(927)	(1,553)	(2,107)	(2,531)
Ext ord. Items & others	(43)	167	63	126	126
Operating cash Inflow	2,969	3,112	3,572	5,336	6,512
Capital expenditure	(3,106)	(2,815)	(3,300)	(3,500)	(4,000)
Free cash flow (a+b)	(138)	296	272	1,836	2,512
Chg in investments	68	251	-	-	-
Debt raised/(repaid)	709	160	-	-	-
Dividend (incl. tax)	(465)	(509)	(581)	(727)	(872)
Misc	(155)	264	-	-	-
Net chg in cash	18	461	(309)	1,109	1,640

Shareholding pattern



As of December 2013

Lupin

Outperformer (Rs: 951; Mkt cap: Rs428bn; US$7.0bn)

Income statement

Year to 31 Mar (Rs m)	FY12	FY13	FY14E	FY15E	FY16E
Net sales	**70,829**	**96,413**	**114,242**	**135,596**	**151,877**
% growth	*21.4*	*36.1*	*18.5*	*18.7*	*12.0*
Operating expenses	56,382	73,713	85,680	101,306	113,425
EBITDA	**14,447**	**22,700**	**28,562**	**34,290**	**38,452**
% change	*21.3*	*57.1*	*25.8*	*20.1*	*12.1*
Other income	144	279	2,229	350	350
Net interest	(355)	(410)	(200)	(200)	(200)
Depreciation	2,275	3,322	2,530	2,834	3,174
Pre-tax profit	11,961	19,247	28,061	31,606	35,428
Deferred tax	329	13	-	-	-
Current tax	2,756	5,829	9,773	9,798	10,983
Profit after tax	**8,875**	**13,405**	**18,288**	**21,808**	**24,446**
Minorities	(199)	(263)	(300)	(350)	(400)
Net profit after non-recurring items	8,676	13,142	17,988	21,458	24,046
% change	*0.6*	*51.5*	*36.9*	*19.3*	*12.1*

Balance sheet

As on 31 Mar (Rs m)	FY12	FY13	FY14E	FY15E	FY16E
Paid-up capital	893	895	896	896	896
Reserves & surplus	39,238	51,149	66,582	84,975	105,444
Total shareholders' equity	40,854	52,638	68,373	87,116	107,985
Total current liabilities	16,809	17,912	21,344	25,164	28,161
Total debt	16,313	11,570	11,570	11,570	11,570
Deferred tax liabilities	1,442	1,632	1,632	1,632	1,632
Other non-current liabilities	3,937	4,682	4,682	4,682	4,682
Total liabilities	38,501	35,796	39,228	43,048	46,046
Total equity & liabilities	**79,354**	**88,434**	**107,601**	**130,164**	**154,030**
Net fixed assets	26,894	28,036	30,506	33,172	35,998
Investments	28	21	21	21	21
Total current assets	47,393	55,305	72,001	91,898	112,938
Other non-current assets	5,040	5,073	5,073	5,073	5,073
Working capital	30,584	37,393	50,658	66,734	84,776
Total assets	**79,354**	**88,434**	**107,601**	**130,163**	**154,030**

Cash flow statement

Year to 31 Mar (Rs m)	FY12	FY13	FY14E	FY15E	FY16E
Pre-tax profit	11,961	19,247	28,061	31,606	35,428
Depreciation	2,275	3,322	2,530	2,834	3,174
Chg in Working capital	(7,593)	(6,485)	(7,330)	(6,851)	(4,645)
Total tax paid	(2,756)	(5,829)	(9,773)	(9,798)	(10,983)
Ext ord. Items & others	1,221	745	-	-	-
Operating cash Inflow	5,107	11,000	13,488	17,792	22,974
Capital expenditure	(8,329)	(4,497)	(5,000)	(5,500)	(6,000)
Free cash flow (a+b)	(3,221)	6,503	8,488	12,292	16,974
Chg in investments	4	7	-	-	-
Debt raised/(repaid)	4,689	(4,743)	-	-	-
Capital raised/(repaid)	1	2	1	-	-
Dividend (incl. tax)	(1,629)	(2,041)	(2,555)	(3,066)	(3,577)
Misc	(20)	596	-	-	-
Net chg in cash	(177)	324	5,934	9,226	13,397

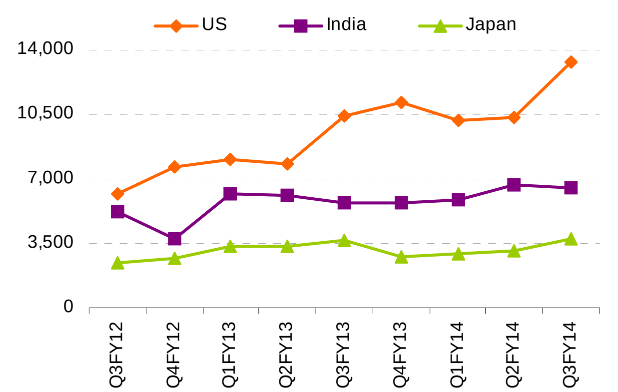
Key ratios

Year to 31 Mar	FY12	FY13	FY14E	FY15E	FY16E
EBITDA margin (%)	20.4	23.5	25.0	25.3	25.3
EBIT margin (%)	17.2	20.1	22.8	23.2	23.2
PAT margin (%)	12.2	13.6	15.7	15.8	15.8
RoE (%)	23.4	28.1	29.7	27.6	24.6
RoCE (%)	21.8	29.1	33.2	32.9	30.6
Gearing (x)	0.3	0.1	0.0	(0.1)	(0.2)

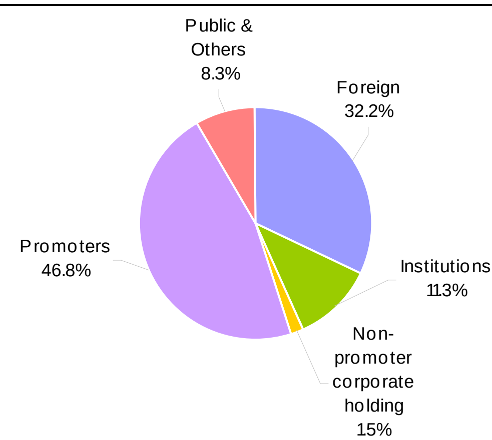
Valuations

Year to 31 Mar	FY12	FY13	FY14E	FY15E	FY16E
Reported EPS (Rs)	19.4	29.5	40.1	47.9	53.6
Adj. EPS (Rs)	19.4	29.5	40.1	47.9	53.6
PE (x)	48.9	32.3	23.7	19.9	17.7
Price/ Book (x)	10.4	8.1	6.2	4.9	3.9
EV/ Net sales (x)	6.2	4.5	3.8	3.1	2.7
EV/ EBITDA (x)	30.3	19.0	15.0	12.2	10.6
EV/ CE (x)	7.0	6.1	5.0	4.0	3.2

Revenue trend across key markets (Rs m)



Shareholding pattern



As of December 2013

Ranbaxy Labs

Neutral (Rs: 349; Mkt cap: Rs148bn; US$2.4bn)

Income statement

Year to 31 Mar (Rs m)	CY11	CY12	FY14E	FY15E	FY16E
Net sales	**103,290**	**124,437**	**136,334**	**165,085**	**135,399**
% growth	*15.3*	*20.5*	*9.6*	*21.1*	*(18.0)*
Operating expenses	85,293	105,218	125,297	119,122	119,995
EBITDA	**17,997**	**19,218**	**11,037**	**45,962**	**15,404**
% change	*(3.5)*	*6.8*	*(42.6)*	*316.4*	*(66.5)*
Other income	1,444	2,732	1,891	1,400	1,400
Net interest	(795)	(1,796)	(2,622)	(2,300)	(2,300)
Depreciation	3,940	3,202	4,729	3,800	3,900
Pre-tax profit	10,480	14,560	(2,457)	41,262	10,604
Current tax	1,969	2,939	2,516	7,015	2,121
Profit after tax	**8,511**	**11,621**	**(4,973)**	**34,248**	**8,483**
Minorities	(163)	(282)	(236)	(250)	(250)
Non-recurring items	(37,345)	(2,272)	(4,461)	-	-
Net profit after Non-recurring items	(28,997)	9,067	(9,670)	33,998	8,233
% change	*(293.7)*	*n/a*	*(206.6)*	*n/a*	*(75.8)*

Key ratios

Year to 31 Mar	CY11	CY12	FY14E	FY15E	FY16E
EBITDA margin (%)	17.4	15.4	8.1	27.8	11.4
EBIT margin (%)	13.6	12.9	4.6	25.5	8.5
PAT margin (%)	8.1	9.1	(3.8)	20.6	6.1
RoE (%)	19.4	31.8	(14.3)	71.8	12.2
RoCE (%)	13.1	14.1	6.2	45.7	11.3
Gearing (x)	0.5	0.1	1.1	0.1	(0.1)

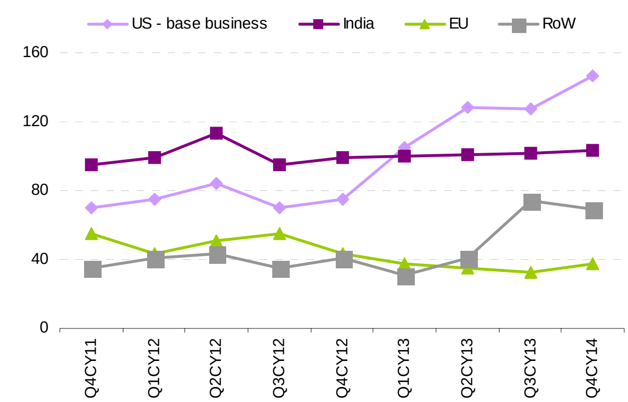
Valuations

Year to 31 Mar	CY11	CY12	FY14E	FY15E	FY16E
Reported EPS (Rs)	(68.9)	21.5	(23.0)	80.7	19.6
Adj. EPS (Rs)	19.8	26.9	(12.4)	80.7	19.6
PE (x)	17.6	13.0	n/a	4.3	17.8
Price/ Book (x)	5.0	3.5	4.8	2.3	2.1
EV/ Net sales (x)	1.6	1.2	1.3	0.9	1.1
EV/ EBITDA (x)	8.9	7.8	16.5	3.4	9.4
EV/ CE (x)	1.5	1.2	2.2	1.5	1.4

Balance sheet

As on 31 Mar (Rs m)	CY11	CY12	FY14E	FY15E	FY16E
Paid-up capital	2,110	2,115	2,115	2,115	2,115
Reserves & surplus	26,584	38,729	27,670	60,278	67,121
Total shareholders' equity	29,503	41,733	30,924	63,782	70,875
Total current liabilities	51,945	41,045	57,642	65,525	59,086
Total debt	44,907	49,013	44,013	34,013	24,013
Deferred tax liabilities	(375)	(357)	(357)	(357)	(357)
Other non-current liabilities	30,769	32,729	6,229	6,229	6,229
Total liabilities	127,246	122,431	107,528	105,411	88,971
Total equity & liabilities	**156,749**	**164,163**	**138,451**	**169,193**	**159,847**
Net fixed assets	50,573	52,156	51,927	52,627	53,227
Total current assets	106,177	112,008	86,525	116,566	106,620
Working capital	54,232	70,963	28,883	51,041	47,534
Total assets	**156,749**	**164,163**	**138,451**	**169,193**	**159,847**

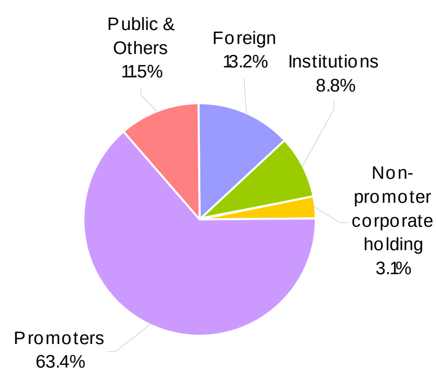
Revenue trend across key markets



Cash flow statement

Year to 31 Mar (Rs m)	CY11	CY12	FY14E	FY15E	FY16E
Pre-tax profit	10,480	14,560	(2,457)	41,262	10,604
Depreciation	3,940	3,202	4,729	3,800	3,900
Chg in Working capital	(190)	(1,555)	5,614	(6,243)	5,077
Total tax paid	(1,969)	(2,939)	(2,516)	(7,015)	(2,121)
Ext ord. Items & others	(16,110)	(311)	(30,961)	-	-
Operating cash Inflow	(3,849)	12,958	(25,590)	31,805	17,460
Capital expenditure	(5,216)	(4,786)	(4,500)	(4,500)	(4,500)
Free cash flow (a+b)	(9,065)	8,172	(30,090)	27,305	12,960
Chg in investments	4,002	192	-	-	-
Debt raised/(repaid)	1,559	4,106	(5,000)	(10,000)	(10,000)
Capital raised/(repaid)	5	5	-	-	-
Dividend (incl. tax)	(926)	(1,389)	(1,389)	(1,389)	(1,389)
Misc	2,417	4,283	14	-	-
Net chg in cash	(2,008)	15,368	(36,466)	15,915	1,571

Shareholding pattern



As of December 2013

Sanofi India

Outperformer (Rs: 2,768; Mkt cap: Rs63.7bn; US$1.0bn)

Income statement

Year to 31 Mar (Rs m)	CY11	CY12	CY13	CY14E	CY15E
Net sales	**13,153**	**15,730**	**18,089**	**20,419**	**23,115**
% growth	*14.8*	*19.6*	*15.0*	*12.9*	*13.2*
Operating expenses	10,537	12,612	14,110	15,929	18,032
EBITDA	**2,616**	**3,118**	**3,979**	**4,490**	**5,083**
% change	*28.3*	*19.2*	*27.6*	*12.8*	*13.2*
Net interest	534	398	575	646	746
Depreciation	311	899	923	969	1,018
Pre-tax profit	2,839	2,617	3,631	4,167	4,811
Deferred tax	185	128	-	-	-
Current tax	743	722	1,233	1,396	1,612
Profit after tax	**1,911**	**1,766**	**2,398**	**2,771**	**3,199**
Net profit after non-recurring items	1,911	1,766	2,398	2,771	3,199
% change	*141.1*	*(7.6)*	*35.8*	*15.6*	*15.5*

Balance sheet

As on 31 Mar (Rs m)	CY11	CY12	CY13	CY14E	CY15E
Paid-up capital	230	230	230	230	230
Reserves & surplus	10,936	11,811	13,237	14,609	16,192
Total shareholders' equity	11,166	12,041	13,467	14,839	16,423
Total current liabilities	2,195	2,392	2,770	2,944	3,208
Deferred tax liabilities	85	213	367	367	367
Other non-current liabilities	1,579	1,668	1,837	1,998	2,183
Total liabilities	3,859	4,272	4,974	5,309	5,758
Total equity & liabilities	**15,025**	**16,313**	**18,441**	**20,148**	**22,181**
Net fixed assets	7,598	7,428	8,348	7,879	7,362
Total current assets	7,427	8,885	10,093	12,269	14,819
Working capital	5,232	6,493	7,323	9,325	11,611
Total assets	**15,025**	**16,313**	**18,441**	**20,148**	**22,181**

Cash flow statement

Year to 31 Mar (Rs m)	CY11	CY12	CY13	CY14E	CY15E
Pre-tax profit	2,839	2,617	3,631	4,167	4,811
Depreciation	311	899	923	969	1,018
Chg in Working capital	962	685	(2,483)	(106)	(367)
Total tax paid	(743)	(722)	(1,233)	(1,396)	(1,612)
Ext ord. Items & others	(626)	88	170	161	185
Operating cash Inflow	2,743	3,566	1,008	3,795	4,035
Capital expenditure	(6,066)	(729)	(1,843)	(500)	(500)
Free cash flow (a+b)	(3,323)	2,838	(835)	3,295	3,535
Chg in investments	-	-	2	-	-
Dividend (incl. tax)	(888)	(888)	(1,211)	(1,399)	(1,616)
Misc	(1)	(3)	393	-	-
Net chg in cash	(4,211)	1,947	(1,652)	1,895	1,919

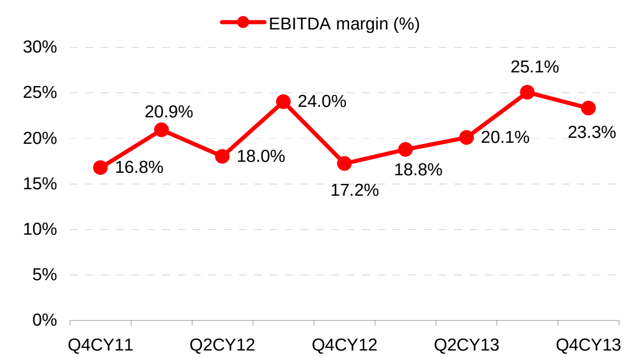
Key ratios

Year to 31 Mar	CY11	CY12	CY13	CY14E	CY15E
EBITDA margin (%)	19.9	19.8	22.0	22.0	22.0
EBIT margin (%)	17.5	14.1	16.9	17.2	17.6
PAT margin (%)	14.5	11.2	13.3	13.6	13.8
RoE (%)	17.9	15.2	18.8	19.6	20.5
RoCE (%)	18.4	16.6	20.7	21.4	22.5
Gearing (x)	(0.2)	(0.4)	(0.2)	(0.3)	(0.4)

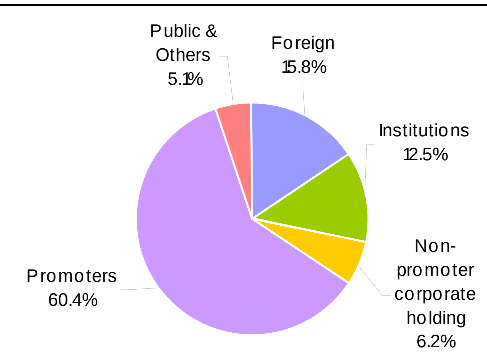
Valuations

Year to 31 Mar	CY11	CY12	CY13	CY14E	CY15E
Reported EPS (Rs)	83.1	76.8	104.3	120.5	139.1
Adj. EPS (Rs)	83.1	76.8	104.3	120.5	139.1
PE (x)	33.3	36.0	26.5	23.0	19.9
Price/ Book (x)	5.7	5.3	4.7	4.3	3.9
EV/ Net sales (x)	4.7	3.8	3.4	2.9	2.5
EV/ EBITDA (x)	23.4	19.0	15.3	13.2	11.3
EV/ CE (x)	4.8	4.3	3.9	3.4	3.0

EBITDA margin trend



Shareholding pattern



As of December 2013

Sun Pharma

Outperformer (Rs: 581; Mkt cap: Rs1,200bn; US$19.7bn)

Income statement

Year to 31 Mar (Rs m)	FY12	FY13	FY14E	FY15E	FY16E
Net sales	**80,195**	**112,999**	**162,821**	**179,985**	**200,977**
% growth	*40.0*	*40.9*	*44.1*	*10.5*	*11.7*
Operating expenses	48,152	64,036	89,826	102,544	116,395
EBITDA	**32,043**	**48,962**	**72,996**	**77,440**	**84,581**
% change	*63.6*	*52.8*	*49.1*	*6.1*	*9.2*
Other income	2,738	1,512	2,500	2,500	2,500
Net interest	1,696	1,937	1,155	930	1,646
Depreciation	2,912	3,362	4,099	4,581	5,072
Pre-tax profit	33,565	49,050	72,552	76,290	83,655
Current tax	3,132	8,456	10,064	12,734	14,441
Profit after tax	**30,433**	**40,594**	**62,488**	**63,556**	**69,214**
Minorities	(3,855)	(4,863)	(7,511)	(6,206)	(6,341)
Non-recurring items	(11)	(5,836)	(27,164)	-	-
Net profit after non-recurring items	26,567	29,896	27,813	57,350	62,873
% change	*46.2*	*12.5*	*(7.0)*	*106.2*	*9.6*

Key ratios

Year to 31 Mar	FY12	FY13	FY14E	FY15E	FY16E
EBITDA margin (%)	40.0	43.3	44.8	43.0	42.1
EBIT margin (%)	36.3	40.4	42.3	40.5	39.6
PAT margin (%)	33.1	31.6	33.8	31.9	31.3
RoE (%)	22.4	23.8	30.5	25.8	22.5
RoCE (%)	23.0	27.7	35.3	31.1	27.2
Gearing (x)	(0.4)	(0.4)	(0.3)	(0.4)	(0.5)

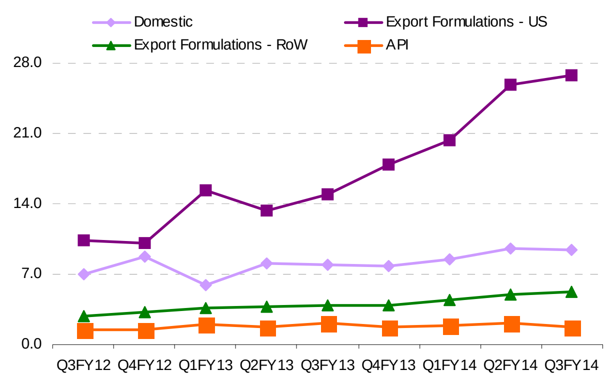
Valuations

Year to 31 Mar	FY12	FY13	FY14E	FY15E	FY16E
Reported EPS (Rs)	12.8	14.4	13.4	27.7	30.4
Adj. EPS (Rs)	12.8	17.3	26.5	27.7	30.4
PE (x)	45.3	33.7	21.9	21.0	19.1
Price/ Book (x)	9.0	7.2	6.2	4.8	3.9
EV/ Net sales (x)	14.5	10.2	7.2	6.3	5.4
EV/ EBITDA (x)	36.3	23.6	16.0	14.6	12.9
EV/ CE (x)	8.0	6.3	5.7	4.3	3.4

Balance sheet

As on 31 Mar (Rs m)	FY12	FY13	FY14E	FY15E	FY16E
Paid-up capital	1,036	1,036	2,071	2,071	2,071
Reserves & surplus	121,322	148,862	167,882	217,960	271,137
Total shareholders' equity	133,972	166,248	193,815	250,099	309,617
Total current liabilities	13,096	15,226	20,962	23,974	27,153
Total debt	3,207	2,597	2,597	2,597	2,597
Deferred tax liabilities	(5,283)	(7,122)	(7,122)	(7,122)	(7,122)
Other non-current liabilities	12,913	22,687	16,851	16,851	16,851
Total liabilities	23,933	33,388	33,288	36,300	39,479
Total equity & liabilities	**157,905**	**199,636**	**227,103**	**286,399**	**349,096**
Net fixed assets	32,742	50,771	54,673	58,092	61,020
Total current assets	113,832	136,762	160,327	216,204	275,973
Other non-current assets	11,331	12,103	12,103	12,103	12,103
Working capital	100,736	121,535	139,365	192,230	248,820
Total assets	**157,905**	**199,636**	**227,103**	**286,399**	**349,096**

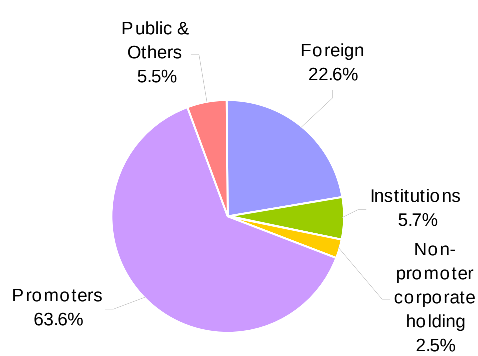
Revenue trend across key markets (Rs m)



Cash flow statement

Year to 31 Mar (Rs m)	FY12	FY13	FY14E	FY15E	FY16E
Pre-tax profit	33,565	49,050	72,552	76,290	83,655
Depreciation	2,912	3,362	4,099	4,581	5,072
Chg in Working capital	(17,016)	(11,558)	(20,168)	(10,798)	(11,489)
Total tax paid	(3,132)	(8,456)	(10,064)	(12,734)	(14,441)
Ext ord. Items & others	7,871	3,939	(33,000)	-	-
Operating cash Inflow	24,200	36,337	13,419	57,339	62,797
Capital expenditure	(10,212)	(22,503)	(8,000)	(8,000)	(8,000)
Free cash flow (a+b)	13,988	13,835	5,419	49,339	54,797
Chg in investments	181	(1,987)	-	-	-
Debt raised/(repaid)	(1,049)	(610)	-	-	-
Dividend (incl. tax)	(4,244)	(5,152)	(7,757)	(7,272)	(9,696)
Misc	2,859	830	-	-	-
Net chg in cash	11,736	6,915	(2,338)	42,067	45,102

Shareholding pattern



As of December 2013

Torrent Pharma

Outperformer (Rs: 552; Mkt cap: Rs93.2bn; US$1.5bn)

Income statement

Year to 31 Mar (Rs m)	FY12	FY13	FY14E	FY15E	FY16E
Net sales	**26,958**	**32,120**	**40,065**	**51,288**	**59,640**
% growth	*23.0*	*19.1*	*24.7*	*28.0*	*16.3*
Operating expenses	21,744	25,140	30,678	39,778	45,954
EBITDA	**5,215**	**6,980**	**9,387**	**11,510**	**13,685**
% change	*36.6*	*33.8*	*34.5*	*22.6*	*18.9*
Other income	445	430	480	150	150
Net interest	(395)	(340)	(450)	(2,200)	(2,000)
Depreciation	817	830	852	2,302	2,510
Pre-tax profit	4,239	6,191	7,675	7,158	9,325
Current tax	723	1,470	1,689	1,646	2,238
Profit after tax	**3,515**	**4,721**	**5,987**	**5,511**	**7,087**
Minorities	(23)	(20)	(25)	(25)	(25)
Non-recurring items	(654)	(370)	-	-	-
Net profit after non-recurring items	2,839	4,331	5,962	5,486	7,062
% change	*7.5*	*52.6*	*37.6*	*(8.0)*	*28.7*

Key ratios

Year to 31 Mar	FY12	FY13	FY14E	FY15E	FY16E
EBITDA margin (%)	19.3	21.7	23.4	22.4	22.9
EBIT margin (%)	16.3	19.1	21.3	18.0	18.7
PAT margin (%)	13.0	14.6	14.9	10.7	11.8
RoE (%)	31.4	35.9	36.9	27.5	28.9
RoCE (%)	27.7	31.9	36.6	26.2	23.5
Gearing (x)	(0.2)	0.0	0.1	0.9	0.6

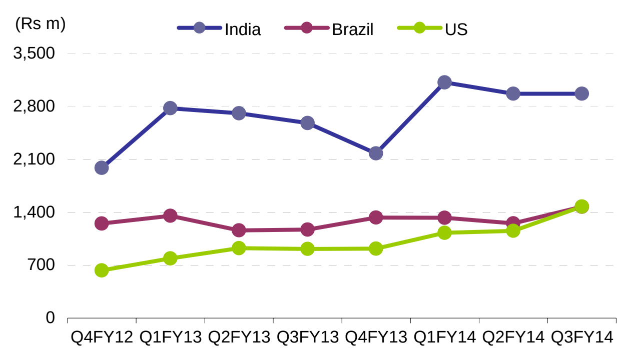
Valuations

Year to 31 Mar	FY12	FY13	FY14E	FY15E	FY16E
Reported EPS (Rs)	16.8	25.6	35.2	32.4	41.7
Adj. EPS (Rs)	20.6	27.8	35.2	32.4	41.7
PE (x)	26.7	19.9	15.7	17.0	13.2
Price/ Book (x)	7.8	6.6	5.2	4.3	3.5
EV/ Net sales (x)	3.4	2.9	2.4	2.2	1.8
EV/ EBITDA (x)	17.5	13.5	10.1	9.9	8.0
EV/ CE (x)	5.3	4.4	3.7	2.5	2.2

Balance sheet

As on 31 Mar (Rs m)	FY12	FY13	FY14E	FY15E	FY16E
Paid-up capital	423	423	846	846	846
Reserves & surplus	11,550	13,800	17,246	20,950	26,232
Total shareholders' equity	11,973	14,223	18,092	21,797	27,078
Total current liabilities	13,390	16,107	18,279	20,561	23,045
Total debt	4,602	6,930	6,930	22,930	22,930
Other non-current liabilities	514	258	258	258	258
Total liabilities	18,506	23,294	25,466	43,748	46,233
Total equity & liabilities	**30,479**	**37,517**	**43,558**	**65,545**	**73,310**
Net fixed assets	9,157	11,052	14,200	15,397	15,887
Investments	1,240	605	605	20,605	20,605
Total current assets	20,082	25,861	28,754	29,543	36,818
Working capital	6,692	9,754	10,475	8,982	13,773
Total assets	**30,479**	**37,517**	**43,558**	**65,545**	**73,310**

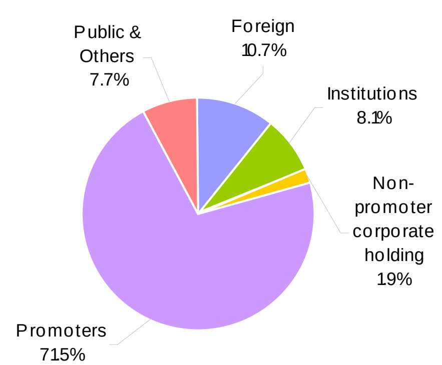
Revenue trend across key markets (Rs m)



Cash flow statement

Year to 31 Mar (Rs m)	FY12	FY13	FY14E	FY15E	FY16E
Pre-tax profit	4,239	6,191	7,675	7,158	9,325
Depreciation	817	830	852	2,302	2,510
Chg in Working capital	294	(3,535)	(1,357)	(1,386)	(1,235)
Total tax paid	(723)	(1,470)	(1,689)	(1,646)	(2,238)
Ext ord. Items & others	(619)	(627)	-	-	-
Operating cash Inflow	4,007	1,390	5,482	6,428	8,362
Capital expenditure	(1,819)	(2,725)	(4,000)	(3,500)	(3,000)
Free cash flow (a+b)	2,188	(1,335)	1,482	2,928	5,362
Chg in investments	220	636	-	(20,000)	-
Debt raised/(repaid)	676	2,328	-	16,000	-
Dividend (incl. tax)	(693)	(2,277)	(2,093)	(1,782)	(1,782)
Misc	(435)	176	(25)	(25)	(24)
Net chg in cash	1,955	(473)	(636)	(2,880)	3,556

Shareholding pattern



As of December 2013

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