



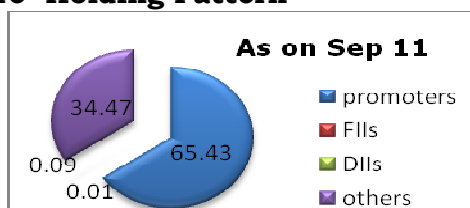
C.M.P: Rs. 409.80
Target Price: Rs. 463.00
Date: Jan 16th, 2012

BUY

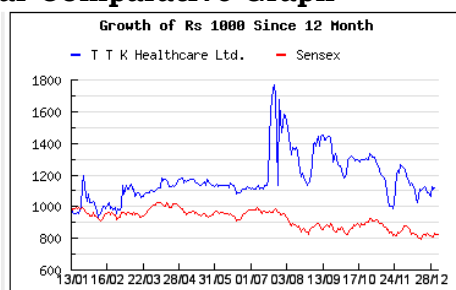
Stock Data:

| | |
|------------------------------|---------------|
| Sector: | Pharma |
| Face Value Rs. | 10.00 |
| 52 wk. High/Low (Rs.) | 680.70/330.00 |
| Volume (2 wk. Avg.) | 32000 |
| BSE Code | 507747 |
| Market Cap (Rs.In mn) | 3182.50 |

Share Holding Pattern



1 Year Comparative Graph



BSE SENSEX

TTK Healthcare

SYNOPSIS

- TTK Healthcare Limited engages in pharmaceutical, consumer products, and medical devices businesses. The company exports its products to the Middle East, Africa, and Asia.
- During the quarter ended, the robust growth of revenue is increased by 13.92% Rs.864.99 million.
- TTK Healthcare Limited exports its products to the Middle East, Africa, and Asia.
- TK Healthcare is looking for acquisition opportunities in orthopedic implants business and fast moving consumer goods.
- Net Sales and PAT of the company are expected to grow at a CAGR of 17% and 27% over 2010 to 2013E respectively.

| Years | Net sales | EBITDA | Net Profit | EPS | P/E |
|---------------|-----------|--------|------------|-------|-------|
| FY 11 | 3109.88 | 258.38 | 147.22 | 18.96 | 21.62 |
| FY 12E | 3607.46 | 295.27 | 163.91 | 21.11 | 19.42 |
| FY 13E | 4076.43 | 337.24 | 188.29 | 24.25 | 16.90 |



Peer Group Comparison

| Name of the company | CMP(Rs.) | Market Cap.(Rs.Mn.) | EPS(Rs.) | P/E(x) | P/Bv(x) | Dividend (%) |
|---------------------|----------|---------------------|----------|--------|---------|--------------|
| TTK Healthcare | 409.80 | 3182.50 | 19.45 | 21.07 | 4.48 | 40.00 |
| Dr.Reddy's Labs | 1657.00 | 280973.20 | 60.24 | 27.51 | 4.67 | 225.00 |
| Venus Remedies | 161.00 | 1471.90 | 63.39 | 2.54 | 0.61 | 30.00 |
| JB Chemicals | 72.55 | 6179.40 | 81.68 | 0.89 | 0.86 | 100.00 |

Investment Highlights

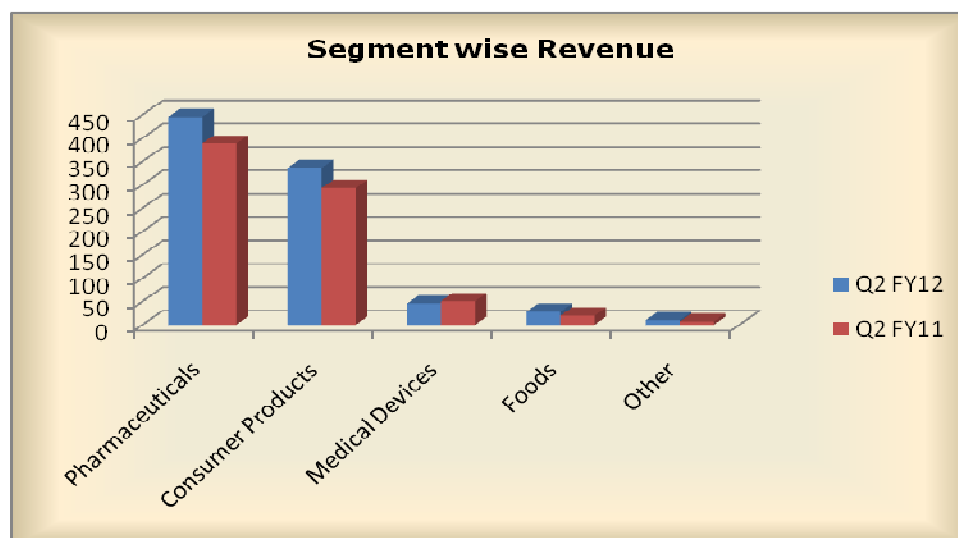
🚩 Q2 FY12 Results Update

Kajaria ceramics Ltd disclosed a phenomenon rise in standalone net sales for the quarter ended Sep 2011. During the quarter, the profit of the company declined 8.25% to Rs 34.15 million from Rs 37.22 million in the same quarter previous year. Net sales for the quarter for the quarter rose 13.92% to Rs 864.99 million from Rs 759.28 million, when compared with the prior year period. It reported earnings of Rs 4.40 a share during the quarter, registering 8.25% declined over previous year period.

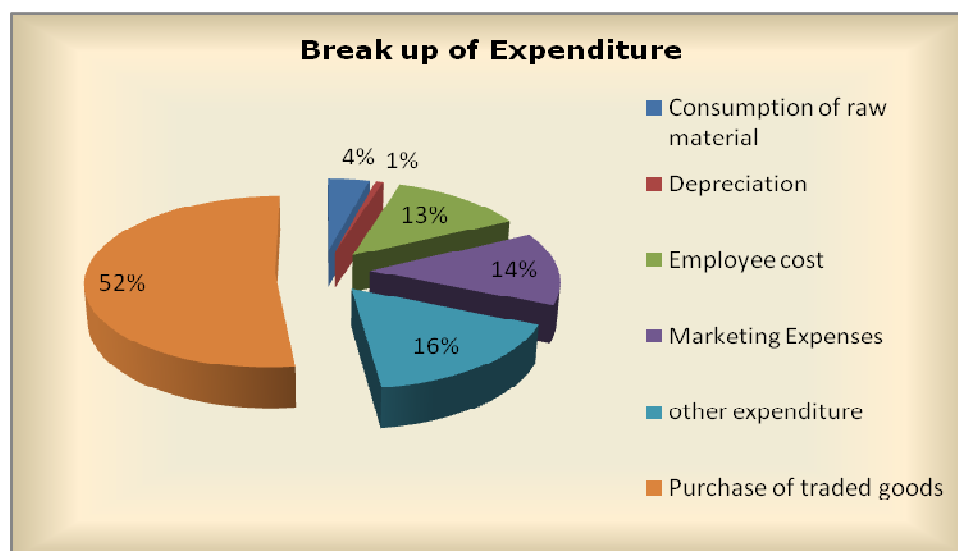
| Quarterly Results - Standalone (Rs in mn) | | | |
|---|--------|---------|---------|
| As At | Sep-11 | Sep -10 | %change |
| Net sales | 864.99 | 759.28 | 13.92 |
| PAT | 34.15 | 37.22 | (8.25) |
| Basic EPS | 4.40 | 4.79 | (8.25) |

➤ **Segment wise Revenue**

| Segment wise | Q2 FY12 | Q2 FY11 |
|-------------------|---------------|---------------|
| Pharmaceuticals | 445.09 | 388.29 |
| Consumer Products | 336.06 | 292.91 |
| Medical Devices | 45.14 | 50.38 |
| Foods | 27.83 | 19.64 |
| Other | 9.86 | 6.87 |
| Total | 863.98 | 758.09 |



➤ **Break up of Expenditure**



Company Profile

TTK Healthcare Ltd., a part of the TTK Group was incorporated in 1958 and went public in 1985. TTK is a totally integrated manufacturing and marketing Group. While maintaining leadership in specific product categories in India, the TTK Group reaches out to the world with its core products - kitchenware, pharmaceuticals, condoms, medical devices, food products etc.

The Company's brand wagon consists of products that are sought after by a wide range of customers.

TTK Healthcare has an All India Sales and Distribution network for marketing not only their own products, but also the KIWI Brand (Shoecare), Brylcreem (Haircare) and Kohinoor and Durex brands (Contraceptives). The Company also specializes in sales and distribution in India as a joint venture partner. It has a successful tie up with Sara Lee Household and Bodycare Pvt. Ltd. and TTK-LIG Ltd. The Company's distribution network comprises of 2800 redistribution stockists who cover both the urban and rural consumers.

TTK Healthcare has three Strategic Business Units...

- Pharmaceuticals Division
- Consumer Products Division
- Biomedical Devices Division

- **Pharmaceuticals**

TTK Healthcare's Pharmaceuticals Division has many breakthrough herbal and allopathic formulations, across various therapeutic segments. The range includes calcium supplements, haematinics, cervical dilators, thrombolytic agents, rejuvenators, multimineral supplements, liver correctives and pain management products.

➤ **Consumer Products**

The company's Consumer Products division involves in the distribution of products marketed under its own brands, including Woodward's Gripe Water and baby bath soaps; EVA deodorants, talc, and lip care products; Good Home air fresheners and scrubbers; Durex and Kohinoor brand of condoms; and the Scholl range of foot care products.

➤ **Biomedical Devices**

Its Medical Devices division manufactures and distributes bio-prosthetic valves, heart valves, vascular grafts, coronary stents, and stents for aneurysm repair; and orthopedic implants, including total knee replacement systems.

Apart from the SBUs, their Satellite Divisions are

- Foods
- Maps

Exports

Spreading roots worldwide, TTK Healthcare's products are now sought after in the overseas market too. There is an increasing demand for the company's products in the Middle East, Africa, Asia, etc.

Financial Results

12 Months Ended Profit & Loss Account (Standalone)

| Value(Rs.in.mn) | FY10 | FY11 | FY12E | FY13E |
|-------------------------|----------------|----------------|----------------|----------------|
| Description | 12m | 12m | 12m | 12m |
| Net Sales | 2525.64 | 3109.88 | 3607.46 | 4076.43 |
| Other Income | 34.04 | 43.45 | 49.97 | 55.96 |
| Total Income | 2559.68 | 3153.33 | 3657.43 | 4132.39 |
| Expenditure | -2369.04 | -2894.95 | -3362.15 | -3795.16 |
| Operating Profit | 190.64 | 258.38 | 295.27 | 337.24 |
| Interest | -17.44 | -17.22 | -22.36 | -25.04 |
| Gross profit | 173.20 | 241.16 | 272.91 | 312.19 |
| Depreciation | -18.18 | -19.71 | -22.67 | -25.16 |
| Profit Before Tax | 155.02 | 221.45 | 250.25 | 287.03 |
| Tax | -63.75 | -74.23 | -86.34 | -98.74 |
| Profit After Tax | 91.27 | 147.22 | 163.91 | 188.29 |
| Equity capital | 77.66 | 77.66 | 77.66 | 77.66 |
| Reserves | 521.92 | 633.03 | 796.94 | 985.24 |
| Face value | 10.00 | 10.00 | 10.00 | 10.00 |
| EPS | 11.75 | 18.96 | 21.11 | 24.25 |

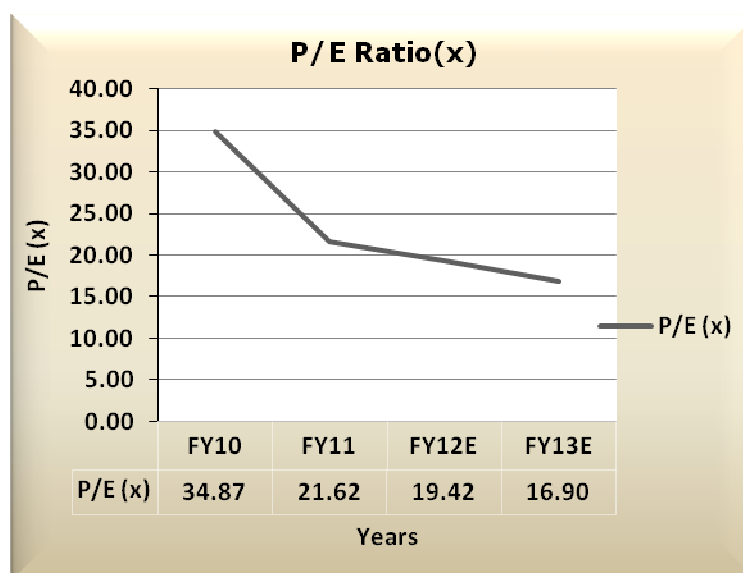
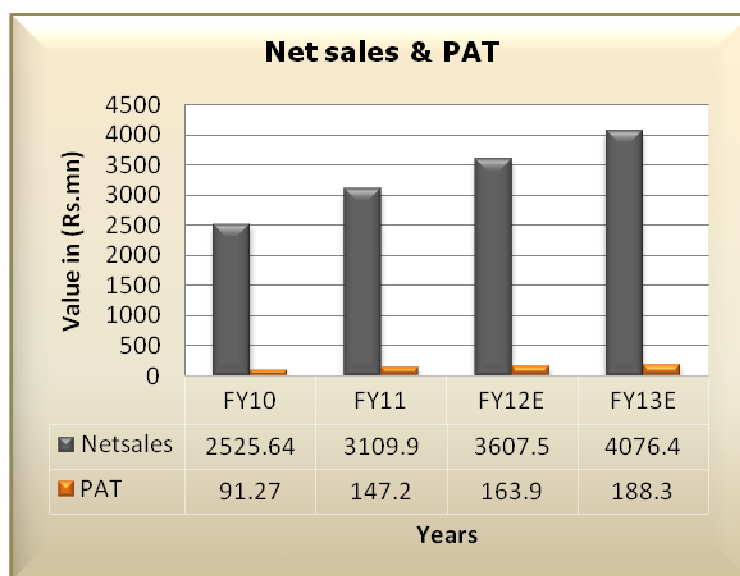
Quarterly Ended Profit & Loss Account (Standalone)

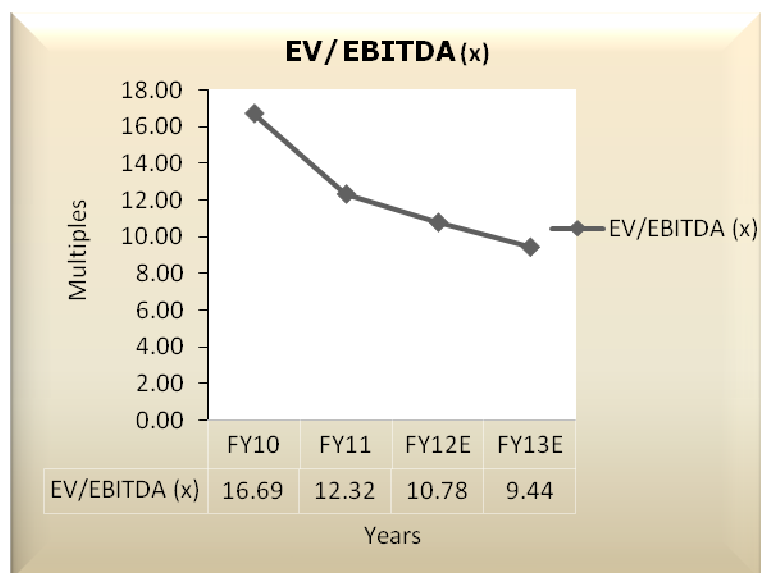
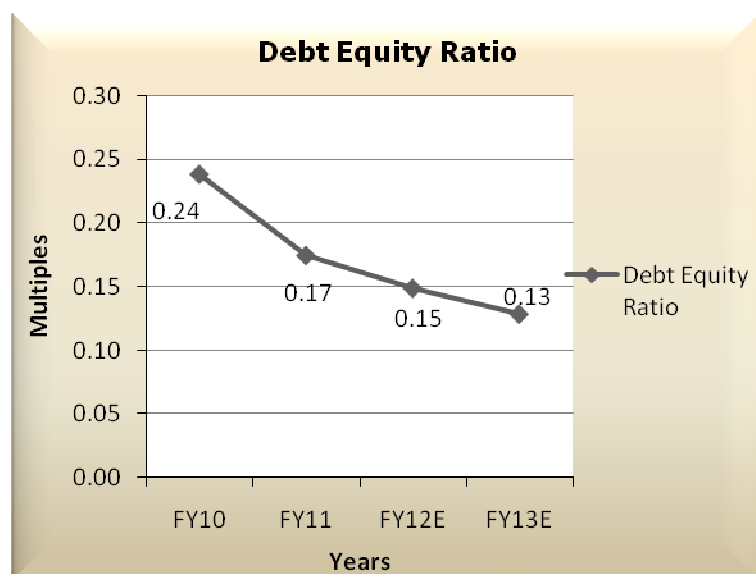
| Value(Rs.in.mn) | 31-Mar-11 | 30-Jun-11 | 30-Sep-11 | 31-Dec-11E |
|-------------------------|---------------|---------------|---------------|---------------|
| Description | 3m | 3m | 3m | 3m |
| Net sales | 764.75 | 924.88 | 864.99 | 899.59 |
| Other income | 12.04 | 9.27 | 11.50 | 12.65 |
| Total Income | 776.79 | 934.15 | 876.49 | 912.24 |
| Expenditure | -714.05 | -856.11 | -812.49 | -838.42 |
| Operating profit | 62.74 | 78.04 | 64.00 | 73.82 |
| Interest | -4.40 | -4.97 | -5.92 | -6.57 |
| Gross profit | 58.34 | 73.07 | 58.08 | 67.25 |
| Depreciation | -5.53 | -5.60 | -6.04 | -6.34 |
| Profit Before Tax | 52.81 | 67.47 | 52.04 | 60.91 |
| Tax | -18.80 | -23.68 | -17.89 | -20.71 |
| Profit After Tax | 34.01 | 43.79 | 34.15 | 40.20 |
| Equity capital | 77.66 | 77.66 | 77.66 | 77.66 |
| Face value | 10.00 | 10.00 | 10.00 | 10.00 |
| EPS | 4.38 | 5.64 | 4.40 | 5.18 |

Key Ratios

| Particulars | FY10 | FY11 | FY12E | FY13E |
|---------------------------|--------|--------|--------|--------|
| No. of Shares(In Million) | 7.77 | 7.77 | 7.77 | 7.77 |
| EBITDA Margin (%) | 7.55% | 8.31% | 8.19% | 8.27% |
| PBT Margin (%) | 6.14% | 7.12% | 6.94% | 7.04% |
| PAT Margin (%) | 3.61% | 4.73% | 4.54% | 4.62% |
| P/E Ratio (x) | 34.87 | 21.62 | 19.42 | 16.90 |
| ROE (%) | 15.22% | 20.72% | 18.74% | 17.72% |
| ROCE (%) | 28.13% | 33.31% | 31.64% | 30.21% |
| Debt Equity Ratio | 0.24 | 0.17 | 0.15 | 0.13 |
| EV/EBITDA (x) | 16.69 | 12.32 | 10.78 | 9.44 |
| Book Value (Rs.) | 77.21 | 91.51 | 112.62 | 136.87 |
| P/BV | 5.31 | 4.48 | 3.64 | 2.99 |

Charts:





Outlook and Conclusion

- At the current market price of Rs.409.80, the stock is trading at 19.42 x FY12E and 16.90 x FY13E respectively.
- Earning per share (EPS) of the company for the earnings for FY12E and FY13E is seen at Rs.21.11 and Rs.24.25 respectively.
- Net Sales and PAT of the company are expected to grow at a CAGR of 17% and 27% over 2010 to 2013E respectively.
- On the basis of EV/EBITDA, the stock trades at 10.78 x for FY12E and 9.44 x for FY13E.
- Price to Book Value of the stock is expected to be at 3.64 x and 2.99 x respectively for FY12E and FY13E.
- We expect that the company will keep its growth story in the coming quarters also. We recommend 'BUY' in this particular scrip with a target price of Rs.463.00 for Medium to Long term investment.

Industry Overview

The Indian pharmaceutical market is expected to grow to US\$ 55 billion by 2020 from the 2009 levels of US\$ 12.6 billion, as per a McKinsey & Company report titled “India Pharma 2020: Propelling access and acceptance realising true potential”. The industry further holds potential to reach US\$ 70 billion, at a CAGR of 17 per cent.

India's pharmaceutical industry constitutes of about 8 per cent of the world's pharmaceutical production. Over the last couple of years, Indian pharma companies have been increasingly targeted by multinationals for both collaborative agreements and acquisition, as per a Espicom report titled, “The Pharmaceutical Market: India Opportunities and Challenges”.

Sector Structure/ Market Size

The US\$ 12 billion valued pharmaceutical industry in India is expected to grow at an annual compound annual growth rate (CAGR) of 10-11 per cent. The industry spends around 18 per cent of its revenue on research and development (R&D).

India is one of the most significant emerging markets for the global pharmaceutical industry. Moreover, India is expected to join the league of top 10 global pharmaceuticals markets in terms of sales by 2020 with the total value reaching US\$ 50 billion, according to a report by PricewaterhouseCoopers (PwC).

The domestic pharma market is expected to grow at a CAGR of 15 to 20 percent to reach a value anywhere between USD 50 and 74 billion by 2020, says a PwC report titled 'India Pharma Inc: Enhancing Value through Alliances & Partnerships'.

Exports

India's exports of drugs, pharmaceutical & fine chemicals stood at US\$ 9.26 billion during April 2010–Feb 2011, up 16.15 per cent as compared to US\$ 7.97 billion in the same period during the previous year. India's exports has recorded a growth rate of over 20.07 per cent, during the period of the two financial years in the study, the exports to rest of the world has grown by 9 per cent, according to DGCIS data from Pharmexcil Research.

India and Russia signed a memorandum of understanding (MoU) last year. Another will be signed in December 2011, as per Mr Devendra Chaudhry, Joint Secretary, Department of Pharmaceuticals. Indian pharma companies export drugs worth US\$ 600 million to Russia every year. Pharma sector accounts for the largest Indian export to Russia.

Growth

The drugs and pharmaceuticals sector attracted foreign direct investments (FDI) worth US\$ 4.89 billion between April 2000 and August 2011, according to the latest data published by Department of Industrial Policy and Promotion (DIPP).

Indian pharmaceutical market is predicted to grow to US\$ 55 billion by 2020 from US\$ 12.6 billion in 2009, according to a report by McKinsey.

On back of a high middle-class population base, improvements in medical infrastructure and the establishment of intellectual property rights, the Indian pharma industry is estimated to grow manifold.

Generics

Generics will continue to dominate the market while patent-protected products are likely to constitute 10 per cent of the pie till 2015, according to McKinsey report 'India Pharma 2015 - Unlocking the potential of Indian Pharmaceuticals market'. Moreover, as per a press release by research firm RNCOS, the report titled 'Booming Generics Drug Market in India'. The report further projects the Indian generic drug market to grow at a CAGR of around 17 per cent between 2010-11 and 2012-13.

India tops the world in exporting generic medicines worth US\$ 11 billion. Currently, the Indian pharmaceutical industry is one of the world's largest and most developed, according to Mr Srikant Kumar Jena, Union Minister of State for Chemicals and Fertilisers.

- Dr Reddy's Laboratories Ltd has entered into a MoU with Tokyo-based Fujifilm Corporation to form a joint venture (JV) in Japan. The venture would develop, manufacture and promote generic drugs in Japan
- Ranbaxy Laboratories announced that it is on track to launch the generic version of the world's largest-selling drug, Lipitor-the anti-cholesterol pill, on November 30, 2011 in the United States (US), as per Tsutomu Une, Chairman, Ranbaxy
- Natco Pharma has applied for India's first compulsory licence to sell a generic version of Bayer's patented medicine, stating in its application that the German company's drug was unaffordable for the average Indian

- Natco Pharma has also entered into an exclusive agreement with Mabxience, part of Chemo Sa Lugano of Switzerland. Natco will purchase four drug substances (biogenerics) from Chemo Sa Lugano and use them for manufacturing finished dosage pharma formulations
- British consumer goods major Reckitt Benckiser is converting its Baddi plant in Himachal Pradesh into a global hub for manufacturing over-the-counter (OTC) pharmaceutical products. The facility, will export Reckitt brands as well as domestic Paras brands

Diagnostics Outsourcing/ Clinical Trials

In India, the clinical research industry is estimated to be a US\$ 2.2 billion with a healthy CAGR of 23 per cent. India is ranked as the third largest emerging market and is growing fastest in conducting number of trials. The Indian diagnostic market is projected to grow at a CAGR of more than 22 per cent between 2010 and 2012, as per a RNCOS research report “Indian Diagnostic Market Analysis.”

Investments

- A six-member pre-trade mission from Maryland, US, visited the Tidel Biotechnology Park and the biotechnology infrastructure facility, to explore areas of collaboration in biotechnology and pharmaceuticals. The advance planning team met with industry representatives and officials to explore partnerships and investment opportunities
- Aurobindo Pharma Ltd has received final approval from the US Food & Drug Administration (USFDA) to manufacture and market Gabapentin tablets. Gabapentin tablets are the generic equivalent of Neurontin tablets of Pfizer Pharmaceuticals, indicated for the treatment of partial seizures and other nervous system disorders. Aurobindo now has a total of 139 abbreviated new drug application approvals including 110 final approvals and 29 tentative approvals from the US

- Strides Arcolab Ltd, maker of intellectual property led pharmaceutical products announced that it has received US FDA approval for clindamycin injection, USP, an antibiotic used to treat bacterial infections
- Sanofi-aventis Group is setting up its largest vaccine making facility in Hyderabad. "The new plant, our biggest facility in the world, is coming up here," according to Christopher A Viehbacher, Chief Executive Officer, Sanofi-aventis
- GlaxoSmithKline (GSK) has set aside US\$ 1-2 billion to support its expansion plans in India. "We can afford a deal worth US\$ 1- US\$ 2 billion in the Indian pharmaceutical space," as per Andrew Witty, global CEO, GSK
- Lupin is set to enter the US oral contraceptive market. The company has received final approval from the US Food and Drug Administration (USFDA) to market a generically similar version of Watson's oral contraceptive NOR-QD tablets
- Singapore-based pharmaceuticals company Invida has agreed to acquire New Delhi's Shalaks Pharmaceuticals for US\$ 25 million
- A three-day pharma business meet of India, Latin America and Caribbean (LAC) took place on September 28, 2011. "The objective of the meeting was to provide business opportunity to Indian pharma exporters, especially Small and Medium Enterprises," as per P V Appaji, Executive Director, Pharmaceutical Export Promotion Council
- Daiichi Sankyo Company Ltd and Ranbaxy Laboratories Ltd have announced expansion of their business in Mexico, to maximise their hybrid business model. As part of the plan, the two companies will launch Olmesartan Medoxomil, used to treat high blood pressure, in Mexico before the year-end
- Aventis Pharma Ltd, a unit of France's Sanofi, plans to acquire unlisted Universal Medicare's nutraceuticals business to boost its consumer healthcare and wellness segment in India. Aventis was close to buying the over-the-counter (OTC) business of Universal Medicare for about US\$ 109.5 million

Government Initiative

A high-level inter-ministerial group chaired by the Prime Minister Mr Manmohan Singh has decided to continue with the 100 per cent foreign direct investment (FDI)

regime in the pharmaceuticals sector. "There is going to be no cap. 100 per cent FDI would be allowed," as per Arun Maira, Member, Planning Commission.

Marking a new trend of investments from foreign players in the Indian pharma sector, the need for overseas investors to get a no-objection from their JV partner before venturing out on their own or roping in another local firm has been removed by the Pharmaceuticals Export Promotion Council. It is expected that this measure will promote the competitiveness of India as an investment destination and be instrumental in attracting higher levels of FDI and technology inflows into the country. The Union Minister of Commerce and Industry and Minister of Trade and Industry, Singapore, have signed a 'Special Scheme for Registration of Generic Medicinal Products from India', which seeks to fast-track the registration process for Indian Generic medicines in Singapore.

The Department of Pharmaceuticals has prepared a "Pharma Vision 2020" for making India one of the leading destinations for end-to-end drug discovery and innovation and for that purpose provides requisite support by way of world class infrastructure, internationally competitive scientific manpower for pharma research and development (R&D), venture fund for research in the public and private domain and such other measures.

Road Ahead

On back of aggressive marketing initiatives, the pharma companies witnessed rural market sales doubling. India's rural drug market grew by 18.8 per cent in the 12 months period ended April 2011 as compared with 10.9 per cent in the previous year. With the focus of companies shifting to smaller deals catering to niche segments and markets, partnerships seems to be the new norm in the pharmaceutical sector. Today, domestic pharmaceutical majors are talking less of patent litigation and more of patent settlements. The fight seems to be giving way to partnerships and experts consider this the new way forward. Companies such as Ranbaxy and Dr Reddy's were known for big acquisitions.

Interestingly, the international drug-makers have introduced generic or low-priced version of popular medicines and have also decreased prices of their existing products - in order to increase their share in the globally important market - in India. The Indian-makers business model is built around selling large volume of cheap generic medicines at lower margins in the country, to add to twin purpose of affordability and popularity.

"The industry posting healthy growth consecutively for the second year reflects the inherent strengths of the industry and improving healthcare standards in the country... demand for drugs and pharmaceuticals is on the rise, and is likely to continue next year as well. The nutraceutical segment will continue to have better-than-average growth with people getting more conscious of their general health and well-being," as per Ganesh Nayak, Executive Director, Zydus Cadila.

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