

Dec. 23, 2009

BUY

TARGET: 330

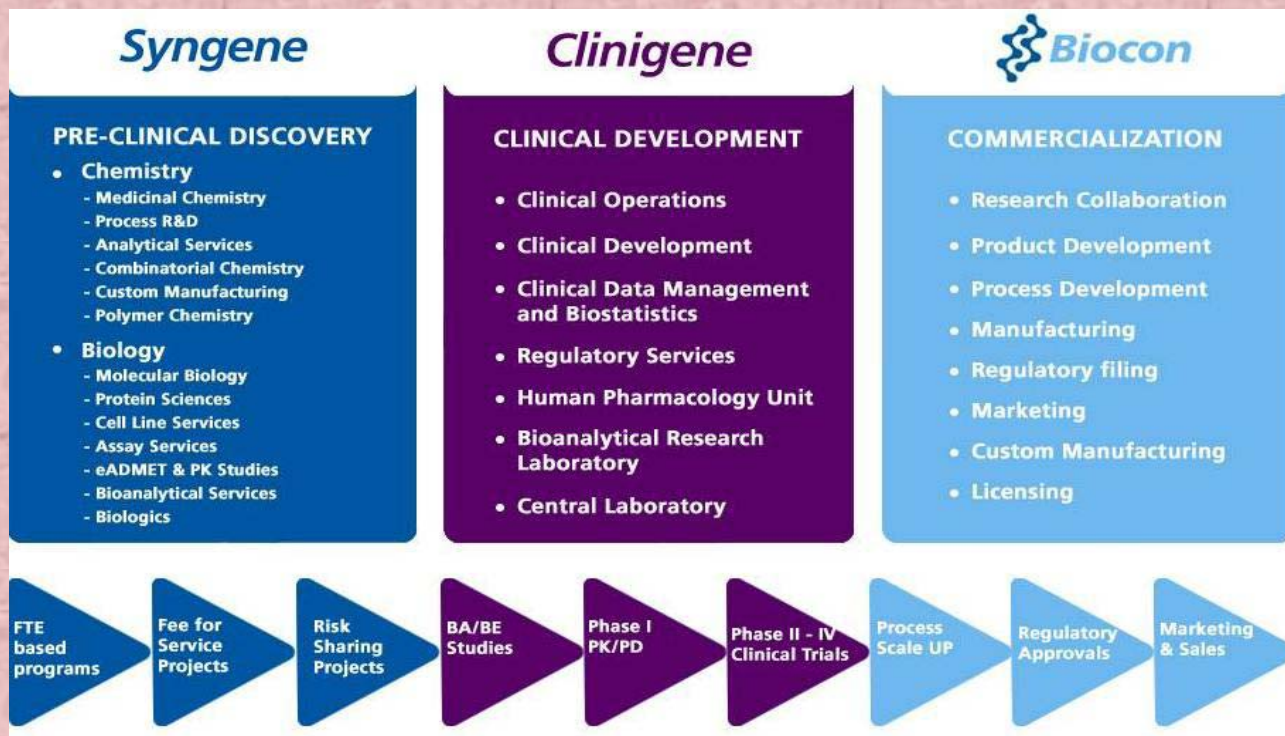
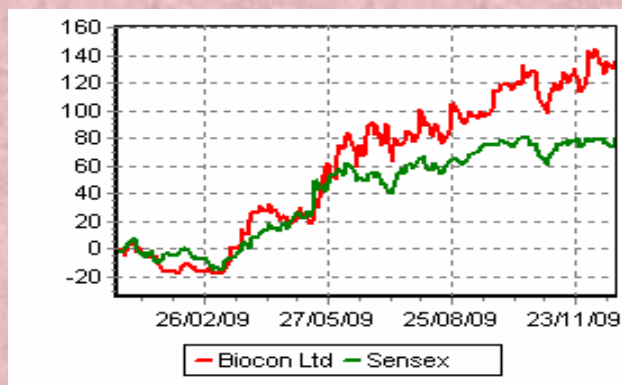
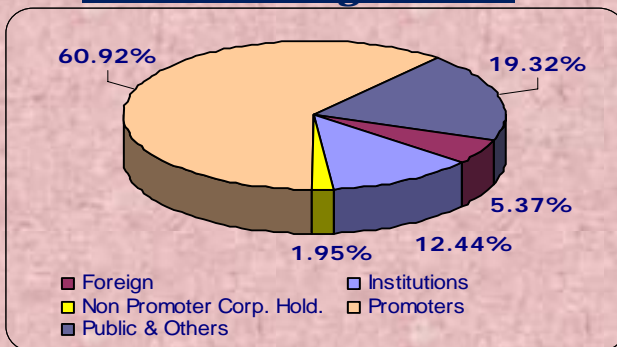
CMP (Rs)	282.00
52 WEEK H/L	298/90
MKT CAP (Cr)	5640
CURRENT P/E	25.80
CURRENT EPS (Rs)	10.93
EQUITY	100.00
BV(Rs)	74.19
Div.Yield (%)	1.06

**Company Background**

A research driven multinational healthcare company involved in pre clinical discovery to clinical development. The company is well diversified into custom research, clinical development and lastly biopharmaceuticals thereby providing multiple revenue streams.

**Integrated Drug Development Capabilities**

**Share Holding Pattern**



Source: - Company website



### **Rationale for Investment**

#### **Strong and top graded professional management team**

The management team led by Mrs Kiran Mazumdar Shaw as the head of the Indian operations has already moved the company to significant highs through their innovative methods in the field of drug research and development. The investors stand to benefit in the long term by investing in such a stock which is bound to create shareholder's value in the times to come.

#### **Rated among the top 20 Indian Companies in Forbes "Best under a Billion List"**

The company has been fortunate to be included in this prestigious list in Sep 2009 due to its ability to withstand challenges in the face of adversities and still post decent numbers in its financial statements.

#### **Superior research facilities to bring out quality medicines**

The company has got different subsidiaries in India and abroad catering to different areas of research and development of the latest medicines. The development of Oral Insulin(IN- 105) in the treatment of diabetes has become a huge success. The company is also in the process of developing quality cancer treatment medicines. HCG Group, South Asia's Largest Cancer Center Network recently entered into a 6 year study to test the efficacy of Biocon's cancer drug BIOMAb EGFR on cervical cancer patients after the drug was found to have positive effects on some patients.

#### **Gain through joint ventures with foreign companies**

The company has entered into an agreement with US based biopharmaceutical company Amylin Pharmaceuticals to jointly develop, commercialize and manufacture a novel peptide for the treatment of diabetes. As mentioned earlier the company has brought out new medicines used in the treatment of diabetes, it shall stand to benefit immensely in the times to come.



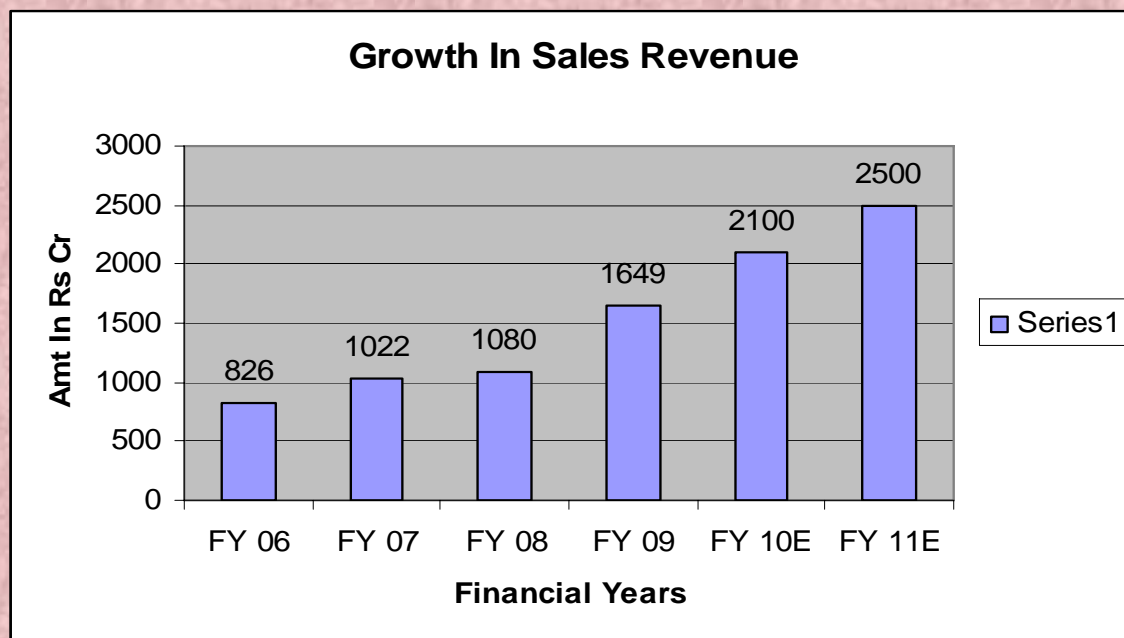
### **Domestic consolidation of its business**

With the acquisition of the bulk manufacturing unit from IDL Specialty chemicals, the company now stands to expand its chemical synthesis capabilities and manufacture advanced intermediates in this new facility. The results shall start to accrue from FY 10-11.

### **Good defensive stock in the face of any adversity in the indices**

We have witnessed in the past, that in case of any adverse market trends investors flock to defensive stocks as pharma and FMCG to protect their portfolio. Given the prevailing uncertainty in the indices at present, it would be wise to park your money in a renowned and safe stock like this which shall give decent returns.

With a presence of a wide and extensive customer base spread across USA, Europe and Japan and collaboration with top ten pharma companies in the world, the revenues of the company is bound to increase significantly in the coming years as what has been witnessed in the past.



**19% CAGR**



Rs In Cr

Particulars	Q2 09-10	Q2 08-09	Y-o-Y Change
Income from Operations	581.09	442.29	31.38
Expenditure	501.97	397.80	26.19
Operating Income	79.12	44.49	77.84
Other Income	11.26	15.44	-27.07
Profit Before Interest	90.38	59.93	50.81
Interest	5.23	4.22	23.93
Profit Before Tax	85.15	55.71	52.85
Tax	9.39	5.87	59.97
Net Profit Before Extraordinary Items	75.76	49.84	52.01
Extraordinary items	0.00	25.45	-100.00
Minority Interest	1.57	0.63	149.21
Net Income to Consolidated Group	74.19	25.02	196.52

**Q 2009-10 Performance Snapshot(Consolidated):**

- Significant growth in the Pharma Segment(30%) and the Research Segment(39%) led to an increase in sales volume by 31%.
- Operating profit margins expanded by 200 bps on the back of a fall in power cost and other expenditure. The margins of the pharma segment increased by 260 bps and that of the research wing by 780 bps.
- As in the 08-09 quarter where the company had to incur a substantial M2M Loss, it was not to be in this period as a result of which the Net Income after accounting for minority interest grew by a whopping 196%.
- The company expects to keep the momentum going for the next half as well through their innovative methods of operations and rich expertise.



**Earnings Estimate (Consolidated)**

Particulars	Rs In Cr		
	FY 08-09	FY 09-10E	FY 10-11E
Sales Turnover	1649	2100	2500
Operating profit	233	400	470
Net Profit	101	250	300
EPS	4	12	15

We have arrived at the above estimates by looking at the current state of operations of the company. For the current Financial Year 2009-10 we have estimated a growth in sales revenue by 27% and 19% for Financial Year 2010-11. Operating margins shall be under a bit of pressure due a substantial increase in R&D Expenditure. Adverse rupee dollar movements could upset things. Moreover, concerns remain about the pharma industry as a whole facing threats of patent litigations and delay in receipt of regulatory approvals.

**Valuations**

At the current market price of Rs 282, the stock trades at a PE multiple of 23.50x FY 10E and 18.80x FY 11E earnings going forward. Based on the average realized yield of the last 4 years and the current price movements we would place a price target of **Rs 330**. Fundamentally we find the company to be strong in terms of growth and market share given its strategic presence across the globe. We would recommend a **BUY**.

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