

C.M.P:
Rs.1211.00

Target Price:
Rs.1450.00

May 07, 2010

1 Year Comparative Graph

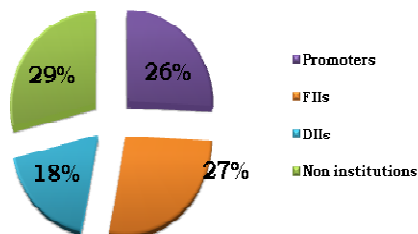


Stock Data

Sector	Pharmaceuticals
Face Value (Rs.)	5.00
52 wk. High/Low (Rs.)	1317.90/540.00
Volume (2 wk. Avg.)	172000
BSE Code	500124
Market Cap (Rs.mn.)	204465.24

Share Holding Pattern

As on Mar 10



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SYNOPSIS

- Dr. Reddy's Laboratories is a leading Indian pharmaceutical company, with presence across the pharmaceutical value chain.
- During the FY10, the company launched 103 new generic products, filed 121 new product registrations and filed 36 DMFs globally.
- The company is planning to acquire brands in Russia and launch new products in India as it plans to expand businesses in upcoming markets.
- Dr Reddy's -GSK expects to launch first product out of this alliance in Mexico in FY11. We believe that this alliance will enable DRL to tap the emerging market opportunity more effectively.
- DRL has forayed into aesthetics segment in India through the launch of Stera Professional. This is the first Bi-phasic superficial peel for specific imperfections available in the domestic markets.
- DRL has built up an interesting pipeline of 34 Para I products, of which, 18 products have FTF status. The company has fair visibility of monetizing these opportunities going forward.
- Net Sales and Net profit of the company are expected to grow at a CAGR of 11% & 53.42% over FY10 to FY12E.

Financials(Mn)	FY10	FY11E	FY12E
Net Sales	70922.90	78015.19	87377.01
EBIDTA	15209.20	16009.82	16698.02
Net Profit	3514.70	7947.82	8272.79
EPS	20.82	47.07	49.00
P/E	61.34	25.73	24.72

Peer Group Comparison

Name of the company	CMP (As on MAY 07, 2010)	Market Cap. (Rs. Mn.)	EPS (Rs.)	P/E (x)	P/BV (x)	Dividend (%)
DR.REDDY'S	1211.00	204465.24	20.82	58.17	5.41	125.00
AJANTA PHARMA	191.00	2253.03	23.75	8.04	1.47	25.00
SUN PHARMA	1546.00	319477.0	51.53	30.00	6.22	275.00
CIPLA	346.50	278172.1	13.19	26.27	6.40	100.00

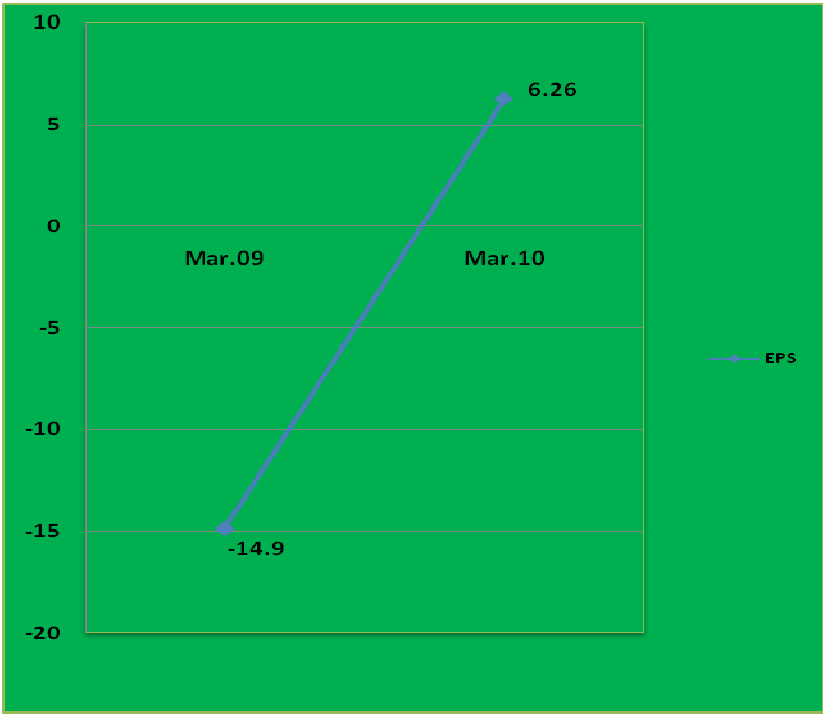
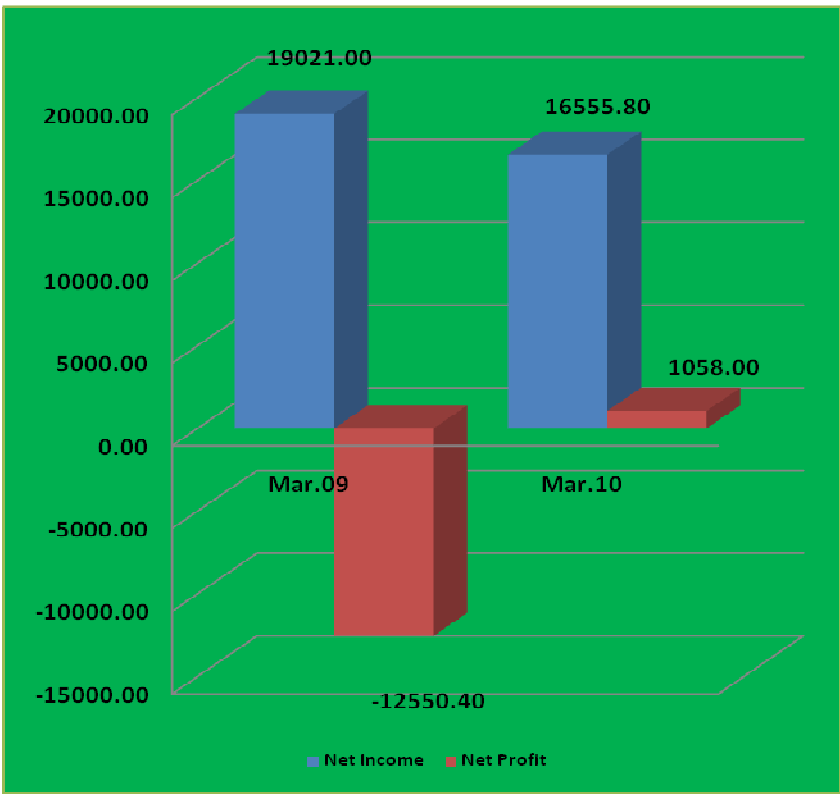
Investment Highlights

Q4 FY10 Results Update

For the quarter ended on March 31, 2010 (Consolidated) the company has registered a 12.96 % (YOY) degrowth in the net sales and stood at Rs.16555.80 mn from Rs.19021.00 mn of the corresponding period of the previous year. The operating profit for the quarter stood at Rs.2873.70 mn from Rs.5280.00 mn, for the same quarter of last year. EBITDA margins for the quarter stood at 17.36 %. The company has reported a net profit of Rs.1058 mn for the quarter ended March 31, 2010 as compared to the net loss of Rs.12550.40 mn for the quarter ended March 31, 2009. EPS for the quarter stood at Rs.6.26 per equity share of Rs.5.00.

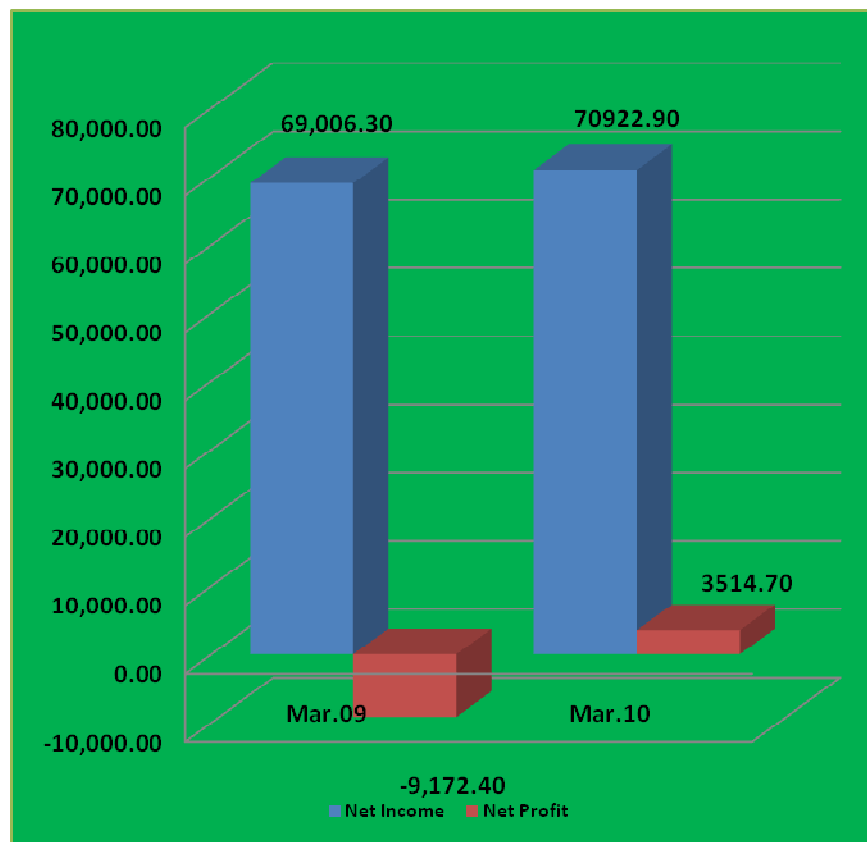
Quarterly Results - Consolidated (Rs in mn)			
As at	Mar - 09*	Mar - 10*	%Change
Net Sales	19021.00	16555.80	(12.96)
Net Profit	-12550.40	1058.00	108.43
Basic EPS*	-14.90	6.26	142.01

Note: *Q4FY10=FY10-9MFY



- **FY10 Performance**

For the year, the Dr.Reddy's has posted a rise of 2.78% in consolidated net sales to Rs 70922.90 million for the year ended Mar. 31, 2010 as compared to Rs 69006.30 million for the year ended Mar. 31, 2009. Net Profit has increased by 309.77% to Rs 3514.70 million for the year ended Mar. 31, 2010 from the net loss of Rs 9172.40 million for the year ended Mar. 31, 2009. EPS for the year stood at Rs.20.82 per equity share of Rs.5.00. During the FY10, the company launched 103 new generic products, filed 121 new products registrations and filed 36 DMFs globally. The Board of Directors of the Company at its meeting held on May 06, 2010, inter alia, have recommended a final dividend of Rs. 11.25 (225%) per equity share of Rs. 5/- face value, subject to the approval of shareholders at the ensuing Annual General Meeting.



- **Launched Amlodipine Benazepril in US**

Dr Reddy's Laboratories has launched amlodipine benazepril capsules (2.5mg/10mg, 5mg/20mg, 10mg/20mg), a bioequivalent generic version of Lotrel Capsules, in the United States (US) market on April 23, 2010. In September 2009, Dr Reddy's had entered into a patent settlement with Novartis on amlodipine benazepril stipulating the dismissal of lawsuit in the US. The United States Food and Drug Administration (USFDA) granted an approval of Dr Reddy's ANDA for amlodipine benazepril on April 15, 2010. Amlodipine benazepril is indicated for the treatment of hypertension in patients not adequately controlled with either agent and is taken once daily.]

- **Launches Dose Counter Inhalers in India.**

The company has launched 'Dose Counter Inhalers' (DCI) for the first time in India. This Metered Dose Inhaler gives patients an advance indication of when the Inhaler is going to be empty. The DCI also includes a retractable mouth piece and a child lock facility and comes with a 'Universal Adapter' that can be fitted with available spacers. Further, a single device comes with 120 metered doses.

- **GSK Alliance**

Dr Reddy's -GSK expects to launch first product out of this alliance in Mexico in FY11. In the initial phase, they have identified 5 key markets including Turkey and Brazil apart from Mexico. We believe that this alliance will enable DRL to tap the emerging market opportunity more effectively.

- **Planning to buy brands in Russian Market**

The company is planning to acquire brands in Russia and launch new products in India as it plans to expand businesses in upcoming markets. At present, about 80% of it's about \$1.5-billion annual sales comes from international markets.

- **Dr Reddy's diabetes drug clears phase III**

Dr Reddy's Laboratories and its partner - Denmark-based Rheoscience, a subsidiary of Nordic Bioscience A/S, have announced the headline results from the first phase III study for their investigational agent, Balaglitazone. The study explored the impact of adding placebo, Balaglitazone 10mg, Balaglitazone 20mg or Pioglitazone 45mg to a background treatment regimen of stable insulin therapy for a period of 26 weeks. The primary endpoint was HbA1c reduction, while several secondary endpoints including fasting plasma glucose, oedema, weight gain, and body composition were considered. It further added that in all, 409 patients were randomized in roughly equal proportions across the four arms of the study. All three active arms (Balaglitazone 10mg, 20mg and Pioglitazone 45mg) showed similar levels of efficacy with respect to both HbA1c and fasting plasma glucose. All three active arms showed good tolerability and adverse event profile, with Balaglitazone 10mg demonstrating less water retention, less fat accumulation, lower weight / BMI gain and less bone loss when compared to the Pioglitazone arm.

Adverse events were numerically similar across the three active arms, with adverse events of special interest (bone fracture, hematuria, heart failure, cardiac ischemia, oedema, weight gain) being numerically under-represented in the Balaglitazone 10mg group compared to Pioglitazone 45mg.

- **Files ANDA for marketing generic version of Pfizer Lipitor**

Dr Reddy's has filed an abbreviated new drug application (ANDA) to US Food and Drug Administration for marketing a generic version of Pfizer's cholesterol-lowering drug Lipitor in the US. Lipitor is the world's largest selling drug, with global sales of \$8.3 billion in the last nine months. Until now, Ranbaxy is the only other Indian drug maker to develop a generic for the drug, whose US patent expires in next year.

- **Introduces Strea C10, Strea A15 in India**

The company has launched Strea C10 (pure topical vitamin C 10%) and Strea A15 (pure topical retinol 0.15%) in India. Both products use microsphere technology and are available in vegicap soft gel capsules form. These products, in-licensed from Vermont Italia, Italy, are used in the treatment of wrinkles, age spots, melasma, hyperpigmentation, photoageing, post procedure inflammation and as an adjuvant to sun screens. These products are available through dermatologists, cosmetologist and plastic surgeons across the country.

- **Launches Stera Professional in the domestic market**

The company has forayed into aesthetics segment in India through the launch of Stera Professional. This is the first Bi-phasic superficial peel for specific imperfections available in the domestic markets. Stera Professional helps remove blemishes, lightens pigmented spots, effaces wrinkles as well as helps improve the luminosity of the skin. It can be used by people who are prone to developing acne. It comes in three variants viz, Stera Professional Acne, Stera Professional Dyschromia and Stera Professional Forte.

- **Introduces Finrid in the domestic market**

The company has made an entry into transversal patch segment through the introduction of Finrid in the domestic market. Finrid is used in the management of severe to moderate pain and provides continuous systemic delivery of fentanyl, a potent opioid analgesic for upto 72 hours. It delivers dosages of 25 mcg/hr and 50 mcg/hr depending on the patch used. This is the first opioid transdermal patch to be delivered in India.

- **Launches Execare in India**

The company has launched Execare (Halometasone Cream 0.05%) in India. Used in the treatment of acute/chronic steroid responsive dermatoses and vitiligo, Execare is a potent steroid and is recommended as an alternative to Betamethasone Dipropionate and Mometasone Furoate. With this launch, Dr. Reddy's becomes the first company to introduce this molecule in India.

- **Launches Bispec for management of OAB**

The company has launched Bispec (Solifencin Succinate) in India. The drug is used in the management of Over Active Bladder (OAB) and is the best-in-class for OAB and has lesser incidence of dry mouth and constipation.

- **GSK likely to pick up 5% stake**

GlaxoSmithKline (GSK) is in talks to pick up a 5% stake in Dr Reddy's Laboratories (DRL) in order to strengthen its association with the Dr Reddy's with whom it had signed a marketing alliance six months ago.

It is believed that the deal may be priced around USD 150 million and could be clinched in two months, if talks stay on track. The lines of the discussion suggest that the foreign company (GSK) may acquire fresh shares of DRL, which will impact the promoters shareholding marginally, and it may reserve the right of first refusal should the promoters decide to sell their stake in future. The Reddy family, the promoters, holds a 26% stake.

Company Profile

Headquartered in India, DR.Reddy's is a global pharmaceutical company with a presence in more than 100 countries. They have wholly-owned subsidiaries in the US, UK, Russia, Germany and Brazil; joint ventures in China, South Africa and Australia; representative offices in 16 countries; and third-party distribution set ups in 21 countries. Dr. Reddy's is the first pharmaceutical company in Asia outside of Japan to be listed on the NYSE. Dr Reddy's is a global, vertically integrated pharmaceutical company with a presence across the value chain, producing and delivering safe, innovative, and high quality finished dosage forms, active pharmaceutical ingredients and biological products. Their products are marketed across the globe, with an emphasis on North America, Europe, India, Russia and other emerging markets. They conduct NCE drug discovery research in the areas of metabolic disorders and cardiovascular indications at research facilities in Atlanta (USA) and Hyderabad (India). Through Custom Pharmaceutical Services business unit, they provide drug substance and drug product development and manufacturing services on a proprietary basis.

Company Products

PHARMACEUTICAL CHEMICALS:

Active Pharmaceutical Ingredients (API'S)

Company's capabilities span 24 major chemistries including stereo-selective synthesis, cryogenics, hydrogenations and cyanations. strong IP, Regulatory and Analytical skills are evident in the 84 US DMFs They have filed, the highest in India and second highest in the world. Their manufacturing facilities are capable of supporting the product development effort through the concurrent scale-up and piloting of feasible routes as they are developed by the R&D teams. State-of-the-art equipment and instruments give the edge to compete globally. Their operations are fully integrated through supply-chain and ERP systems (SAP R/3), which enable seamless response to customers, all the while keeping the environment around our plants clean, green and safe.

Custom Pharmaceutical Services

In an industry cluttered with chemical manufacturers, CPS stands out because of understanding of the pharmaceutical business and the associated expertise needed. Rather than just being a chemical provider, CPS offers a service mix covering the entire pharmaceutical value chain.

They execute cost-effective and time-bound projects for customers, and provide them with cGMP-compliant products manufactured in FDA-inspected, ISO-certified facilities. A team of experienced project managers ensures smooth progress of projects from initiation to closure in order to avoid any cost and time overruns.

GENERICIS:

Generic Formulations

Geographic diversification, cost containment, strengthening the product portfolio and building scale – at Dr. Reddy's are strong in all these aspects in the generics space. they are now the fourth largest player in Germany after the acquisition of betapharm, and are constantly looking for opportunities to maximize the potential of current and future portfolio in different territories across the US and EU. They have the necessary expertise for customer-specific packaging, compliance packaging, and anti-counterfeit packaging. In fact, Dr. Reddy's has won several awards globally for packaging efforts, including the Asia Star, AmeriStar and WorldStar awards.

Branded Formulations

Dr. Reddy's brands are today recognized and trusted across several continents. Brands like Omez (Omeprazole), Nise (Nimesulide), Stamlo (Amlodipine), Ciprolet (Ciprofloxacin), Enam (Enalapril) and Ketorol (Ketorolac) are leaders in their category in several countries, with many of them being used by more patients than use the innovator's product.

Over 1.5 million patients across the world take ‘Omez’ for their acid peptic disorders every single day! Entrepreneurship, coupled with the will to make a difference drives 2,000-strong field force to reach out to over 210,000 doctors and 115,000 pharmacies in more than 40 countries across the world.

INNOVATION:

Discovery Research

They have put in place a state-of-the-art, fully-integrated discovery infrastructure to strengthen their effort to discover and develop therapeutically useful New Chemical Entities (NCEs) and market them globally. Their two Discovery Research centers – one in Atlanta, USA, and the other in Hyderabad, India, have more than 300 scientists actively involved in a number of drug-discovery and clinical development programs.

Specialty Pharmaceuticals

Dr.Reddy’s Specialty Pharmaceuticals business deals with assets like acquired proprietary technologies, internally developed proprietary drug-delivery platforms, and current internal compounds under pre-clinical and clinical development. Their initial global therapeutic area focus is on dermatology and oncology, two therapeutic areas that best leverage their internal assets. A key component of the strategy in this area is a strong, targeted business development effort to accelerate market entry.

Biopharmaceuticals

Dr.Reddy's Biologics Development Center spans an area of 36,000 sq. ft., with development and manufacturing suites for both E. coli and mammalian cell culture. It caters to the highest development standards of cGMP, GLP and applicable levels of bio-safety. Grafeel (Filgrastim), their first biologics product to enter the market, enjoys a market share of almost 50% in India and has been able to reach many more patients than the innovator's product due to its affordability. Their second product Reditux (Rituximab) is the first biosimilar monoclonal antibody to be developed and launched anywhere in the world.

SWOT Analysis:

Strengths

- In India DR.Reddy's is amongst the top ten players.
- This year they have commissioned an integrated R&D facility, the "Innovation Plaza" and scaled up their generics infrastructure to become one of the largest such manufacturing facilities in Asia.
- Dr. Reddy's is the first pharmaceutical company in Asia outside of Japan to be listed on the NYSE.

Weaknesses

- Falling margins.

Opportunities

- Dr. Reddy's had three molecules or New Chemical Entities (NCEs), of which two are in clinical development and one is in the pre-clinical stage.
- In Branded Formulations, a total of 307 dossiers have been filed for product registrations in various countries.
- The Company has made cumulative filings of 281 DMFs, with 127 in US.
- In the third quarter of 2008-09, Company will exclusively distribute in US 25 mg, 50 mg and 100 mg strengths of Samaritan succinate, an authorized generic of GlaxoSmithKline's Imitrex® tablets. Sumatriptan is used for the treatment of acute migraine, and enjoys widespread market acceptability.

Threats

- The Company is facing temporary problems with thirdparty suppliers to both its German subsidiary.
- The company should address worst performance in Germany, probably over in terms of further margin pressures by migrating production of an increasing number of formulations to facility in India.

Financial Results

12 months ended Profit & Loss A/C (Consolidated)

Value(Rs. in million)	FY09A	FY10A	FY11E	FY12E
Net sales	69006.30	70922.90	78015.19	87377.01
Other income	994.10	404.00	484.80	533.28
Total income	70000.40	71326.90	78499.99	87910.29
Expenditure	-55987.00	-56117.70	-62490.17	-71212.27
Operating profit	14013.40	15209.20	16009.82	16698.03
Interest	-971.50	-312.20	-359.13	-411.23
Gross profit	13041.90	14897.00	15650.69	16286.80
Depreciation	-4977.60	-4131.40	-4296.66	-4468.52
PBTE	8064.30	10765.60	11354.04	11818.28
Exceptional Items	-14628.40	-4582.80	-	-
PBT	-6564.10	6182.80	11354.04	11818.28
Tax	-2608.30	-2668.10	-3406.21	-3545.48
PAT	-9172.40	3514.70	7947.83	8272.79
Net profit	-9172.40	3514.70	7947.83	8272.79
Equity capital	842.30	844.20	844.20	844.20
Reserves	34419.00	36922.70	44870.53	53143.32
EPS(Rs)	-54.40	20.82	47.07	49.00
Total No. of Shares(mn)	168.46	168.84	168.84	168.84
Face Value(Rs)	5.00	5.00	5.00	5.00

Quarterly ended Profit & Loss A/C (Consolidated)

Value(Rs. in million)	30-Sep-09	31-Dec-09	31-Mar-10*	30-Jun-10E
Net sales	18580.40	17578.70	16555.80	17383.59
Other income	292.10	91.30	-164.90	121.26
Total income	18872.50	17670.00	16390.90	17504.85
Expenditure	-14983.70	-13749.30	-13517.20	-14193.70
Operating profit	3888.80	3920.70	2873.70	3311.15
Interest	-68.60	-82.30	-39.00	-45.23
Gross profit	3820.20	3838.40	2834.70	3265.92
Depreciation	-993.90	-1117.80	-988.30	-1087.13
PBTE	2826.30	2720.60	1846.40	2178.79
Exceptional Items	-	-4582.80	-	-
PBT	2826.30	-1862.20	1846.40	2178.79
Tax	-427.80	-468.50	-788.40	-653.64
PAT	2398.50	-2330.70	1058.00	1525.15
Net profit	2398.50	-2330.70	1058.00	1525.15
EPS(Rs)	14.21	-13.81	6.27	9.03
Face value(Rs)	5.00	5.00	5.00	5.00
Equity capital	842.30	844.10	844.20	844.20
Total No. of Shares(mn)	168.46	168.82	168.84	168.84

Note: *Q4FY10=FY10-9MFY

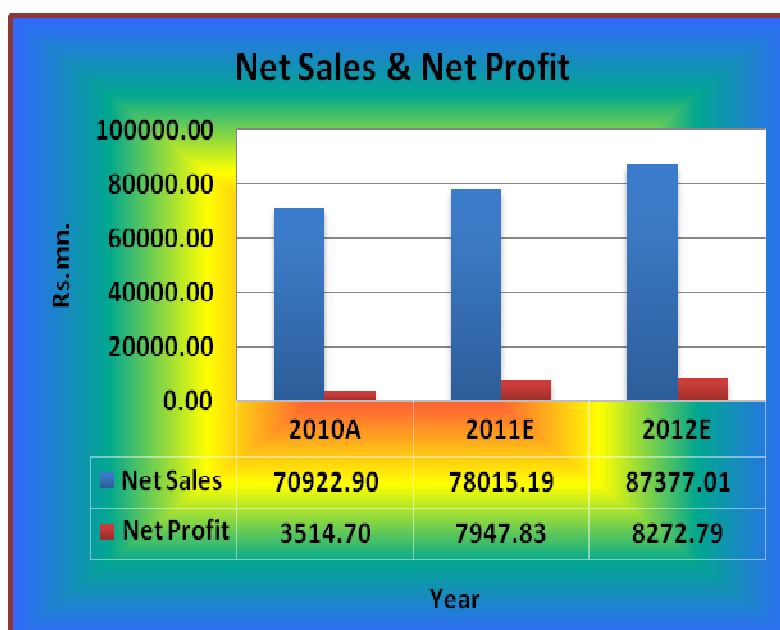
Key Ratios

Particulars	2009(A)	2010(A)	2011(E)	2021(E)
EBITDA Margin (%)	20.31%	21.44%	20.52%	19.11%
NP Margin (%)	-13.29%	4.96%	10.19%	9.47%
P/E (x)	-8.98	61.34	25.73	24.72
ROE (%)	-26.01%	9.31%	17.39%	15.32%
ROCE (%)	16.44%	21.12%	19.16%	17.42%
EV/EBITDA (x)	5.87	14.17	14.24	14.66
Debt Equity Ratio (x)	0.56	0.39	0.34	0.30
Book value (Rs)	209.32	223.68	270.76	319.76
P/BV (x)	2.33	5.71	4.47	3.79

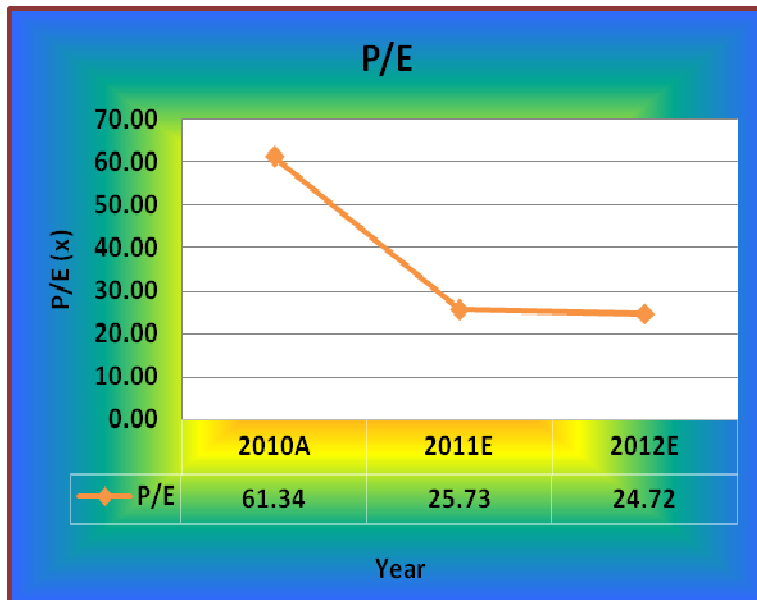
A-Actual E-Expected

Charts

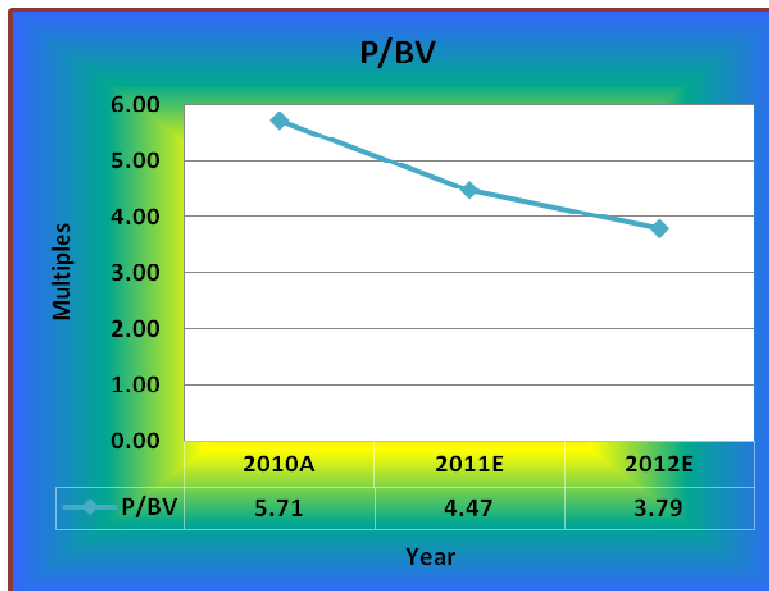
1. Net Sales & Net Profit



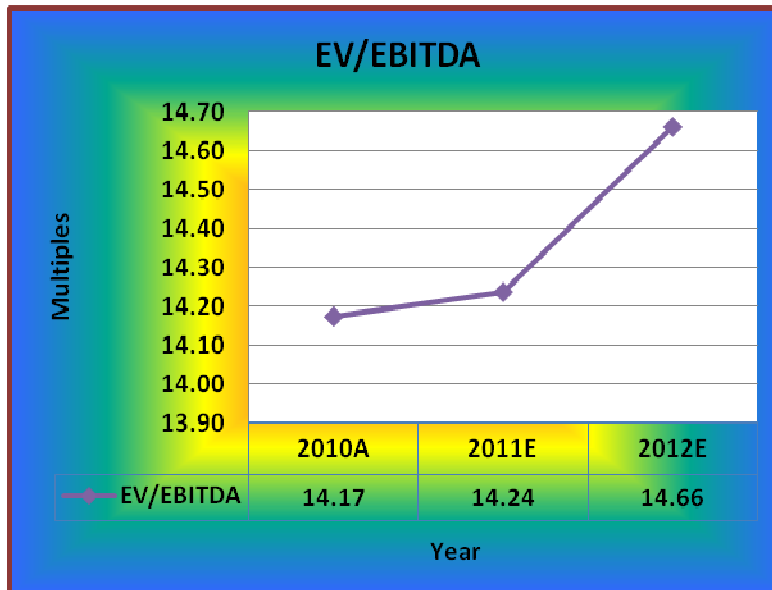
2. P/E Ratio



3. P/BV



4. EV/EBITDA



Valuation

- At the market price of Rs.1211.00, the stock trades at 25.73 x and 24.72x for the earnings of FY11E and FY12E respectively.
- Price to Book Value of the stock is expected to be at 4.47 x and 3.79 x respectively for FY11E and FY12E.
- Earning per share (EPS) of the company for the earnings of FY11E and FY12E is seen at Rs.47.07 and Rs.49.00 respectively for equity share of Rs.5.00 each.
- Net Sales and Net profit of the company are expected to grow at a CAGR of 11% & 53.42% over FY10 to FY12E.

- Dr Reddy's -GSK expects to launch first product out of this alliance in Mexico in FY11. We believe that this alliance will enable DRL to tap the emerging market opportunity more effectively.
- The company is planning to acquire brands in Russia and launch new products in India as it plans to expand businesses in upcoming markets. At present, about 80% of its about \$1.5-billion annual sales comes from international markets.
- GlaxoSmithKline (GSK) is in talks to pick up a 5% stake in Dr Reddy's Laboratories (DRL) in order to strengthen its association with the company.
- During the FY10, the company launched 103 new generic products, filed 121 new products registrations and filed 36 DMFs globally.
- DRL has built up an interesting pipeline of 34 Para I products, of which, 18 products have FTF status. The company has fair visibility of monetizing these opportunities going forward.
- We recommend 'BUY' in this particular scrip with a target price of **Rs.1450.00** for Medium to Long term investment.

Industry Overview

Sector structure/Market size

India's pharmaceutical industry is now the third largest in the world in terms of volume and accounts for 10 per cent of the world's production. According to the Mr Srikant Kumar Jena, Minister of State for Chemicals and Fertilisers, the Indian pharmaceutical industry is now over US\$ 20 billion.

India ranks fourteenth in terms of value. The country ranks fourth in terms of generic production and seventeenth in terms of export value of bulk actives and dosage forms, according to Mr Jena. By 2015, India is expected to rank among the top 10 global pharmaceutical markets. The industry is typically growing at around 1.5-1.6 times the country's gross domestic product (GDP) growth.

Moreover, according to a FICCI-Ernst & Young study, the increasing populations of the higher-income group in the country will, by 2015, open a potential US\$ 8 billion market for multinational companies selling costly drugs. Besides, the report said the domestic pharma market is likely to touch US\$ 20 billion by 2015, making India a lucrative destination for clinical trials for global giants. The Indian pharmaceutical offshoring industry is slated to become a US\$ 2.5 billion opportunity by 2012, thanks to lower R&D costs and a high-talent pool in India.

Exports

India's exports of drugs, pharmaceuticals and fine chemicals grew by 29 per cent in 2008-09 to US\$ 8.25 billion compared to 2007-08. According to Mr Anand Sharma, Union Minister of Commerce and Industry, the Indian pharmaceutical sector has emerged as one of the major contributors to Indian exports with export earnings rising from a negligible amount in the early 1990s to US\$ 6.08 billion by 2007-08.

A report by industry research firm, RNCOS, forecasts that pharmaceutical exports will grow at a compound annual growth rate (CAGR) of 18.5 per cent between 2007-08 and 2011-12. This growth will be fuelled by multi-billion dollar patent expirations and growth in the global generics market.

Growth

The domestic pharma market will outshine the global market, growing at a compounded annual rate of 12-15 per cent as against a global average of 4-7 per cent during 2008-2013, according to a study by market research firm IMS.

According to detailed research by Angel Broking, socio-economic factors such as rising income levels, increasing affordability, gradual penetration of health insurance and the rise in chronic diseases would see the Indian formulation market touch US\$ 13.7 billion by 2013, at a CAGR of 12.2 per cent over the period from fiscal year 2008 to 2013 (estimated).

Denmark-based world leader in diabetes care, Novo Nordisk, is looking at making India the hub for manufacturing insulin for the sub-continent. The company has set up a dedicated facility with a capacity of 26 million vials per annum in partnership with Ahmedabad-based Torrent Pharmaceuticals Ltd.

Rural Market

According to estimates, rural areas account for 21 per cent of the country's pharmaceuticals market. In 2006-07, the rural Indian pharmaceuticals market was estimated at around US\$ 1.4 billion, having grown at about 40 per cent in 2006-07 against 21 per cent in the previous year. French company Aventis Pharma has launched a rural market division with 10 products and a sales team of 300 people as it eyes a bigger share of the fast growing Indian rural market.

Pharmaceutical Retail

The Indian drug retail market grew by a 29.24 per cent in value terms in October 2009 over the same period a year ago. This is more than double the average monthly revenue growth rate of 13-14 per cent posted in the recent past, as per market research firm ORG IMS.

Generics

According to a report by IMS Health, the Indian generic manufacturers will grow to more than US\$ 70 billion as drugs worth approximately US\$ 20 billion in annual sales faced patent expiry in 2008. With nearly US\$ 80 billion worth of patent-protected drugs to go off patent by 2012, Indian generic manufacturers are positioning themselves to offer generic versions of these drugs. Indian generic drug makers received half a dozen more approvals from the US Food and Drug Administration (FDA) in 2009, over the previous year. Dr Reddy's Laboratories received the highest number of tentative and final approvals in 2009 at 32, followed by Aurobindo at 26 and Wockhardt at 23.

Diagnostics Outsourcing/Clinical Trials

The Indian diagnostics and pathology laboratory business is presently around US\$ 864 million and is growing at a rate of 20 per cent annually, according to industry experts. Moreover, the US\$ 200 million Indian clinical research outsourcing market is estimated to reach up to US\$ 600 million by 2010, according to a joint study done by KPMG and the Confederation of Indian Industry (CII).

Research & Development

The search for innovative drug molecules and better technologies by pharmaceutical MNCs is expected to offer a windfall for the smaller research-oriented Indian firms.

With their drug pipelines drying up and more blockbuster drugs going off-patent, MNCs are looking at alliances for drug co-development, buying or licensing out innovative molecules which can further be developed into finished drugs. Moreover, in a bid to boost R&D in the pharmaceutical sector, the government will provide US\$ 422.96 million for establishing six National Institutes of Pharmaceutical Education and Research over the next five years.

Government Initiative

The government has taken various policy initiatives for the pharmaceutical sector:

- The government has offered tax breaks to the pharmaceutical sector. Units are eligible for weighted tax deduction at 150 per cent for the research and development (R&D) expenditure incurred
- Steps have been taken to streamline procedures covering development of new drug molecules and clinical research
- The government has launched two new schemes—New Millennium Indian Technology Leadership Initiative and the Drugs and Pharmaceuticals Research Programme—especially targeted at drugs and pharmaceutical research.

According to Mr Ashok Kumar, Pharmaceuticals Secretary, the government is planning to set up a US\$ 439.94 million corpus fund for the pharma industry soon. The fund would be set up with the help of the government and the industry and will be used for helping the pharma industry in R&D.

Investment

- According to the Ministry of Commerce, domestic investment in the pharmaceutical sector is estimated at US\$ 6.31 billion.
- The drugs and pharmaceuticals sector has attracted foreign direct investment (FDI) worth US\$ 1.43 billion between April 2000 and December 2008.

Road Ahead

The Indian pharmaceutical industry will see tremendous growth in the coming years as consumer spending on healthcare increases in India. Consumer spending on healthcare is expected to increase to 13 per cent of GDP by 2015, up from 7 per cent in 2007.

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