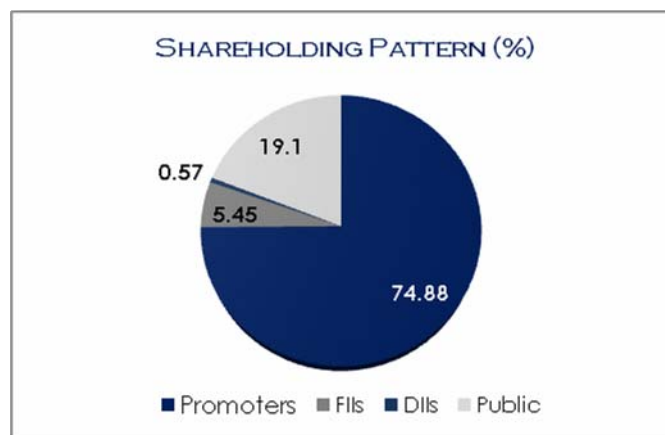


INVESTOR'S DELIGHT

21ST FEBRUARY, 2011

COMPANY	PANACEA BIOTECH LTD.
NSE Code	PANACEABIO
BSE Code	531349
FV	Re.1
Equity Capital (Rs in mn)	61
Market Capitalization (Rs in mn)	11,041
CMP	Rs. 181
Target Price	Rs. 220
Upside	22 %



ABOUT THE COMPANY

Background

It is one of India's leading research based health management companies with established research, manufacturing and marketing capabilities. The company is the second largest vaccine producer in India. It has over 300 scientists, 24 product patents in more than 60 countries.

Product mix

Its product portfolio includes highly innovative prescription products in important therapeutic areas such as pain management, diabetes management, renal disease management, anti- osteoporosis, anti - tubercular, gastro - intestinal care products and vaccines.

Collaborations and approvals

It has collaborations and tie ups with leading national and international research organizations and corporations. The company's state of the art manufacturing facilities for vaccines and pharmaceutical formulations comply with the US-FDA, UK MHRA, SA-MCC and WHO-cGMP standards.

INVESTMENT RATIONALE

Impressive Q3FY11 results

Q3FY11 revenues witnessed yoy growth of 26.5% and 14.3% on qoq basis. This was mainly attributed to a) strong growth of 28% in Pentavalent Vaccine – Easy Five, b) modest 13% growth in pharma business. However, there was some pressure on the domestic pharma business due to attrition in field force. 80% growth in formulations was on account of improved traction of organ transplant products.

UNICEF contract adding momentum - Under the new contract which was initiated in January 2010 and a long term contract of US\$ 222 mn for three years till 2012, it has started the supply of Easy Five to UNICEF. The company supplies 25 mn dosages per year of Easy Five to UNICEF with a total capacity of 30 mn dosages. 5 mn dosages are sold in the domestic market.

Strong operating performance

The company performed exceptionally well in terms of operating performance. EBITDA witnessed yoy growth of 103% to touch Rs. 823 mn in Q3FY11. This was mainly driven by higher contribution from high margin Easy Five vaccine (increased contribution in Q3FY11 to 35% as compared to 7% in Q3FY10). It was also supported by declining contribution of low margin TOPV vaccine. Good margin performance is expected to continue as it has three year contract with UNICEF for Easy – Five.

FCCB overhang eliminated, promoters buyback at Rs.198 per share

The company recently redeemed its FCCBs worth US\$36.8 mn. The company paid US\$52.5 mn (comprising of nominal value of US\$ 36.8 mn and redemption premium of US\$15.7 mn), entirely funded out of the internal accruals of the company. With the recently concluded buyback of 5.5 mn shares at Rs. 198 per share, the promoter shareholding has gone up to 74.8%.

Cancer drug launch to drive revenues in the future

After Biocon Ltd., the company is the only player to launch an anti-cancer drug Albumin – bound Paclitaxel formulation. The estimated market size for this drug in India is ~Rs. 1.8 bn, growing at an annual rate of 20%. We believe, over a period of time this segment would gain traction and add a meaningful contribution on the revenue front.

USFDA approval for Tacrolimus/Cyclosporine to act as a key trigger

The company is confident on tapping the US generic opportunity especially for Tacrolimus/ Cyclosporine. The estimated market size of Tacrolimus is US\$ 400-500 mn. The company is confident of getting the approval to market Tacrolimus in US within the next six months. Post FDA approval, the company would be 6th generic player to market the product in the US. The approval of both the products would re-rate the company's business and also act as a key trigger to the stock price.



FINANCIAL SUMMARY

INCOME STATEMENT (Rs. in mn.)

Particulars	FY09	FY10	FY11E	FY12E
Net sales	7,954	9,256	11,014	12,887
Growth (%)	-	16.4	19	17
Operating Profit	1,964	1,505	2,588	3,093
OPM (%)	24.7	16.3	23.5	24
Other Income	240	47	51	57
Depreciation	(725)	(676)	(757)	(839)
Interest	(322)	(385)	(438)	(447)
PBT and exceptional item	1,157	492	1,444	1,864
Exceptional item	(2035)	634	-	-
PBT and after exceptional	(878)	1,126	1,444	1,864
Tax	207	(404)	(518)	(634)
PAT	(671)	722	926	1,230
PAT (%)	(8.4)	7.8	8.4	9.5
Outstanding shares (mn)	67	67	61	61
EPS	(10.0)	10.8	15.1	20.2
P/E(x)	-	15.4	12	9
ROE(%)	(10.1)	10.3	12.4	14.4
ROCE(%)	12.2	6.2	12.1	13.8

Source: Company, Ajcon Research

OUTLOOK AND VALUATION

At the CMP, the stock is valued at 9x at estimated FY12 EPS. We expect the company to witness revenue CAGR of 18% and earnings CAGR of 30% over the period FY10-12E. OPM are expected to improve and touch 24% by FY12E. PAT margin is expected to improve marginally and touch 9.5% by FY12E.

With due consideration to factors like a) impressive Q3FY11 results, b) buyback of Rs. 198 per share, c) overhang of FCCBs eliminated, d) possibility of upsides from expected launches of Tacrolimus/Cyclosporine in US market, we recommend **'BUY'** with a target price of Rs. 220 (11x estimated FY12EPS) for investors with a horizon of 12 months.



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