Event Update

January 25, 2012

Strides Arcolab (STRARC)

₹ 478

Rating matrix

Rating	:	Hold
Target	:	₹ 521
Target Period	:	12 months
Potential Upside	:	9%

Key Financials

(₹ Crore)	CY09	CY10	CY11E	CY12E
Net Sales	1328	1761	2495	1940
EBITDA	210	392	522	502
Net Profit	110	122	214	284

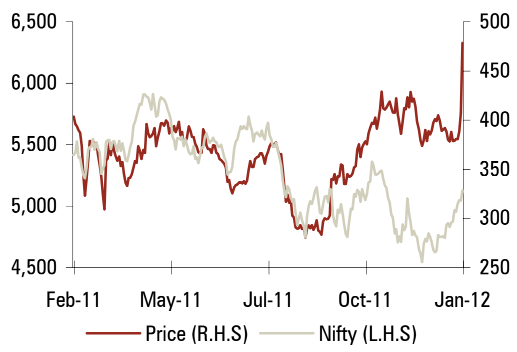
Valuation summary

	CY09	CY10	CY11E	CY12E
EPS (₹)	18.3	20.5	35.8	47.4
PE (x)	26.1	23.4	13.4	10.1
Target PE (x)	28.4	25.5	14.6	11.0
EV to EBITDA (x)	19.2	10.6	8.5	7.7
Price to book (x)	3.4	2.2	1.9	1.8
RoNW (%)	13.2	9.5	14.1	18.1
RoCE (%)	6.3	9.2	11.2	10.6

Stock data

Market Capitalisation	₹ 2790 crore
Debt (CY10),	₹ 2010 crore
Cash (CY10),	₹ 339 crore
EV	₹ 4461 crore
52 week H/L	489/276
Equity capital	₹ 58.4 crore
Face value	₹ 10
MF Holding (%)	18.7
FII Holding (%)	33.7

Price movement



Analyst's name

Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

Krishna Kiran Konduri
krishna.konduri@icicisecurities.com

WHAT'S CHANGED...

PRICE TARGET .... Changed from ₹ 439 to ₹ 521
EPS (CY11E) .... Unchanged
EPS (CY12E) .... Changed from ₹ 48.8 to ₹ 47.4
RATING .... Changed from Buy to Hold

Ascent exit, substantial value unlocking...

Strides has sold its subsidiary (94% holding) Ascent Pharmahealth to Watson Pharmaceuticals for AU$353 million (US$370 million) in cash. Ascent Pharmahealth was valued at AU$375 million. Ascent clocked US$128 million in CY10. The management has indicated sales of Ascent Pharma for CY11 are around US$154 million in CY11E and EBITDA is US$19 million. Hence, the deal works out to ~2.5x sales and ~20x EV/EBITDA, which we believe is a great bargain for the company. Strides raked in almost 3.2x in profits if we consider the total acquisition cost of ~US$113 million through 2008-10.

- **Singapore facility to be transferred along with300 employees**

  Strides has had a presence in the Australasia market through Ascent Pharmahealth. Ascent owns a manufacturing facility in Jurong, Singapore, which would be transferred to Watson. Ascent sells over 400 drugs encompassing generic, OTC and skincare products, products with well established consumer brands and organic skincare products in eight countries. The company has staff strength of approximately 300 employees in Australia and Southeast Asia.

- **Cleansing of balance sheet**

  We expect the company to receive cash of around US$310 million post taxation. Of this, US$250 million would be used to repay the debt including FCCBs of US$117 million (debt of US$80 million and US$37 million for YTM) due in June 2012. Post transaction cost and executive option, the remaining cash would be used to fund the fast growing Specialities business. We expect the gross debt to come down to ₹ 1100 crore from the current level of ~₹ 2625 crore, which could save around ~₹ 55 crore of interest for CY12.

Valuation

Exit from low margin Ascent Pharmahealth (with better bargain) is a move in the right direction as it will improve the focus on its core specialties business. The immediate cash inflow will ease pressure on the balance sheet substantially. We have upgraded the target price from ₹ 439 to ₹ 521 based on upward revision of the multiple from 9x to 11x and after applying the same on a revised CY12E EPS of ₹ 47.4.

Exhibit 1: First Hand Estimates (Core Business)

(₹ Crore)	CY12E Earilier	CY12E Revised
Net sales	2700	1940
EBIDTA	607	502
PAT	292	284
EPS (₹)	48.8	47.4

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Pharma)

Aurobindo Pharma					Sales (₹ Cr)	EPS (₹)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	AURPHA	CMP	100	FY10	3575.4	19.4	5.2	6.1	30.8	16.9
		Target	141	FY11	4381.5	19.4	5.2	5.3	23.0	16.2
Mcap (₹crore)	2909.8	Upside (%)	41	FY12E	4541.9	-5.0	NA	8.6	NA	8.7
				FY13E	5088.3	17.7	5.6	5.8	19.4	13.6
Biocon										
Idirect Code	BIOCON	CMP	267	FY10	2367.8	14.7	18.2	12.3	16.7	15.6
		Target	432	FY11	2770.5	18.4	14.5	9.0	18.1	19.3
Mcap (₹crore)	5414.0	Upside (%)	62	FY12E	2133.9	17.4	15.3	9.0	16.5	18.7
				FY13E	2678.9	23.6	11.3	6.8	17.6	20.9
Cadila Healthcare										
Idirect Code	CADHEA	CMP	636	FY10	3686.8	24.7	25.8	17.5	37.0	25.8
		Target	839	FY11	4582.8	34.7	18.3	14.4	38.7	28.5
Mcap (₹crore)	13297.4	Upside (%)	32	FY12E	5131.6	35.9	17.7	12.9	30.9	26.7
				FY13E	6054.1	46.6	13.6	9.9	31.8	30.5
Divi's Laboratories										
Idirect Code	DIVLAB	CMP	789	FY10	946.7	25.9	30.4	23.0	22.3	24.0
		Target	756	FY11	1318.5	32.8	24.0	19.2	23.8	24.6
Mcap (₹crore)	10315.7	Upside (%)	-4	FY12E	1654.4	36.0	21.9	15.8	22.5	25.5
				FY13E	1938.8	42.4	18.6	13.1	22.5	25.2
Elder Pharma										
Idirect Code	ELDPHA	CMP	344	FY10	721.6	26.2	13.2	9.9	10.3	9.9
		Target	428	FY11	959.5	33.5	10.3	7.9	10.5	9.4
Mcap (₹crore)	713.7	Upside (%)	24	FY12E	1303.7	43.8	7.9	5.8	12.7	12.8
				FY13E	1491.2	61.1	5.6	5.2	15.6	14.7
Glenmark Pharma										
Idirect Code	GLEPHA	CMP	312	FY10	2500.7	12.2	25.5	16.7	14.1	14.8
		Target	396	FY11	2953.6	16.9	18.4	17.6	22.5	16.7
Mcap (₹crore)	8599.4	Upside (%)	27	FY12E	3708.2	19.0	16.4	11.2	21.0	18.9
				FY13E	4026.5	23.3	13.4	10.6	21.5	22.1
Indoco Remedies										
Idirect Code	INDREM	CMP	424	FY10	398.3	34.2	12.4	10.2	13.6	11.5
		Target	429	FY11	478.5	41.6	10.2	8.1	14.6	12.4
Mcap (₹crore)	517.2	Upside (%)	1	FY12E	540.2	41.1	10.3	7.1	13.0	12.6
				FY13E	671.1	53.6	7.9	5.8	15.0	15.2
Ipca Laboratories										
Idirect Code	IPCLAB	CMP	283	FY10	1552.7	21.0	13.5	11.7	23.9	21.4
		Target	358	FY11	1881.1	19.5	14.5	10.6	24.2	19.9
Mcap (₹crore)	3488.6	Upside (%)	26	FY12E	2216.2	21.4	13.2	8.1	21.9	24.1
				FY13E	2526.1	22.7	12.5	6.6	23.4	25.4
Lupin										
Idirect Code	LUPIN	CMP	438	FY10	4870.8	15.3	28.7	21.0	27.2	22.5
		Target	530	FY11	5832.0	19.3	22.7	17.2	26.8	22.2
Mcap (₹crore)	19688.3	Upside (%)	21	FY12E	6992.3	23.0	19.0	14.0	25.3	23.9
				FY13E	8238.5	27.4	16.0	11.3	24.3	25.5
Opto Circuits										
Idirect Code	OPTCIR	CMP	230	FY10	1077.6	14.0	16.5	12.2	24.9	26.3
		Target	309	FY11	1585.6	19.8	11.6	11.3	27.0	17.3
Mcap (₹crore)	4369.2	Upside (%)	34	FY12E	2275.5	24.6	9.3	8.1	26.5	20.7
				FY13E	2567.8	28.1	8.2	6.7	24.6	21.2
Strides Arcolab										
Idirect Code	STRARC	CMP	478	CY09	1328.3	18.3	26.1	19.2	13.2	6.3
		Target	521	CY10	1761.1	20.5	23.4	10.6	9.5	9.2
Mcap (₹crore)	2790.0	% Upside	9%	CY11E	2494.6	35.8	13.4	8.5	14.1	11.2
				CY12E	1940.0	47.4	10.1	7.7	18.1	10.6

ICICIdirect.com coverage universe (Pharma)

Sun Pharma					Sales (₹ cr)	EPS (₹)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	SUNPHA	CMP	521	FY10	4019.8	13.0	39.9	38.3	17.3	18.7
		Target	510	FY11	5721.4	17.5	29.7	26.6	19.2	21.4
Mcap (₹crore)	54694.3	% Upside	-2%	FY12E	7140.8	19.8	26.3	21.1	19.2	23.1
				FY13E	8363.4	23.2	22.5	18.5	19.0	21.9
Torrent Pharma										
Idirect Code	TORPHA	CMP	554	FY10	1904.0	27.3	20.3	11.9	31.2	29.1
		Target	678	FY11	2204.9	31.9	17.4	12.4	29.2	22.1
Mcap (₹crore)	4722.2	% Upside	22%	FY12E	2627.3	43.8	12.7	8.8	30.5	26.4
				FY13E	3127.9	52.1	10.6	6.0	27.8	27.3
Unichem Laboratories										
Idirect Code	UNILAB	CMP	141	FY10	747.4	13.6	20.3	11.9	21.9	24.7
		Target	134	FY11	824.0	10.5	17.4	12.4	15.4	18.1
Mcap (₹crore)	1343.9	% Upside	-5%	FY12E	902.1	8.3	12.7	8.8	11.5	13.1
				FY13E	1065.0	13.4	10.6	6.0	16.8	18.4

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: >15%/20% for large caps / midcaps, respectively, with high conviction;
Buy: >10%/15% for large caps / midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;

Pankaj Pandey **Head – Research** **pankaj.pandey@icicisecurities.com**

ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No. 7, MIDC,
Andheri (East)
Mumbai – 400 093

research@icicidirect.com

ANALYST CERTIFICATION

We /I, *Siddhant Khandekar CA INTER Krishna Kiran Konduri MBA FINANCE* research analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the ICICI Securities Inc.

Disclosures:

ICICI Securities Limited (ICICI Securities) and its affiliates are a full-service, integrated investment banking, investment management and brokerage and financing group. We along with affiliates are leading underwriter of securities and participate in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their dependent family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on reasonable basis, ICICI Securities, its subsidiaries and associated companies, their directors and employees ("ICICI Securities and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities is acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return of investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities and affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities and its affiliates might have managed or co-managed a public offering for the subject company in the preceding twelve months. ICICI Securities and affiliates might have received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. It is confirmed that *Siddhant Khandekar CA INTER Krishna Kiran Konduri MBA FINANCE* research analysts and the authors of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Our research professionals are paid in part based on the profitability of ICICI Securities, which include earnings from Investment Banking and other business.

ICICI Securities or its subsidiaries collectively do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that *Siddhant Khandekar CA INTER Krishna Kiran Konduri MBA FINANCE* research analysts and the authors of this report or any of their family members does not serve as an officer, director or advisory board member of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. ICICI Securities and affiliates may act upon or make use of information contained in the report prior to the publication thereof.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.