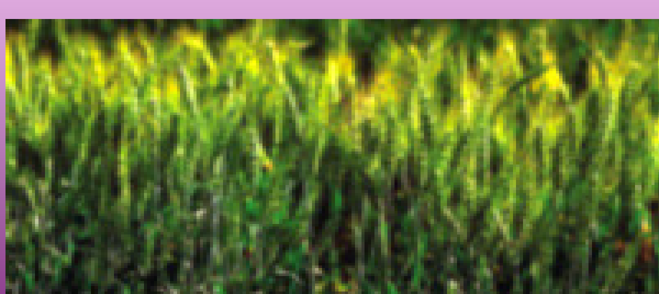
15 July 2008 **Hikal Ltd.**



Company Profile

It is a Baba Kalyani group company which is a leading service provider in CRAMS (Contract Research & Manufacturing Services). The company is engaged in the manufacturing of APIs (Active Pharmaceutical Ingredient) and intermediaries. It operates in the following Business Segments:

a) Crop Protection;
b) Pharmaceuticals

Hikal has four subsidiaries:
Hikal Technologies (Contract Research) – Pune
Hikal Pharmaceuticals Ltd
JV with Spinaches Corporation, China
Hikal International BV – *(Marsing & Co. A.S. Denmark)*

About the Business

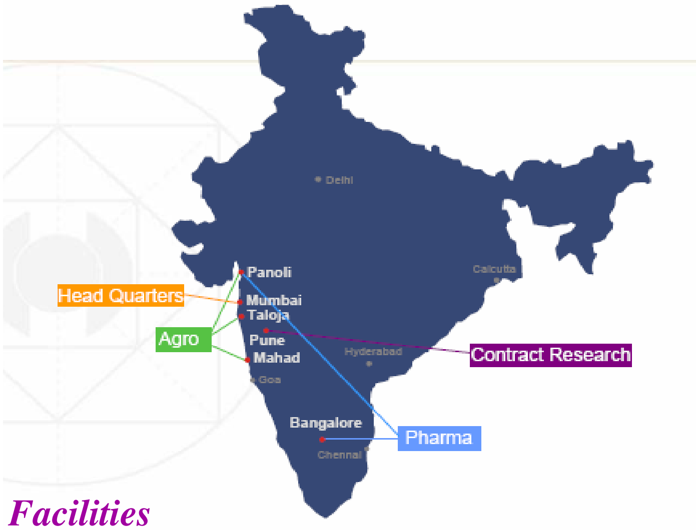
Hikal is involved in R&D, manufacturing and marketing of fine chemicals for the pharmaceutical and agrochemical industries. It has expertise in custom synthesis and contract research, with capabilities scaling up from gram to kilo to ton scale at their existing factory.

The company has its manufacturing facilities in:
Mahad – (Raigad, Maharashtra)
Taloja – (Raigad, Maharashtra)
Panoli – (Bharuch, Gujarat)
Jigani – (Bangalore, Karnataka)

Stock Details	
BSE Code	524735
NSE Code	HIKAL
CMP	450.05
Face Value (Rs)	10
52 Wk High (BSE)	588
52 Wk Low (BSE)	343
Shareholding Pattern	
Promoter	74.96
Institutions	6.76
Non-Institutions	18.28

Particulars (Rs. in Mn.)	FY 08	FY 09 E	FY 10 E
Sales	4790.60	4886.41	5130.73
% Growth	9.93%	2.00%	5.00%
EBIDTA	639.90	903.99	1000.49
PAT	459.60	702.87	800.26
PBT MARGIN	10.42%	15.63%	16.77%
NPM %	9.59%	14.38%	15.60%
EPS	30.48	42.75	48.68
Book Value	110.69	171.16	206.43

About the Business …



Manufacturing *Facilities*

Mahad:
It was the initial facility set up for the manufacturing of intermediaries for dyes, pharmaceuticals & agrochemicals. It has the capability to handle complex chemistries and has the capability to meet the customized requirements for overseas customers.

Taloja:
It is a world class facility and is a fully integrated plant which produces active ingredient – *Thiabendazole* and meets almost the entire requirement of *Syngenta.*

Panoli:
It has the capability to manufacture agrochemicals, technicals and formulations. An exclusive new multi product intermediates has been commissioned to manufacture intermediaries for Pharmaceutical industry.

Jigani:
It has a USFDA approved facility for manufacturing of API with fully developed onsite infrastructure facilities.
The cGMP Kilo Lab set up at the cost of Rs. 500 millions will offer full range of outsourcing facility at different stages of product development cycle to global lifecycle companies.

Source : Company

About the Business …

R & D Centres

Hikal's ultimate strategy is to move from Contract Manufacturing to Contract Research in both the businesses.

Source : Company

Existing…

Baneghatta – Bangalore: It has finest 6 labs with state of art facilities managed by 50 scientists to find ways and means whereby the costs are reduced without any compromise on quality.

Source : Company

Proposed…

It is setting up R&D facility (1,40,000 sq. ft facility) in Biotech park, Pune - Maharashtra and ***more than 250 scientists*** will be employed for drug discovery research support services.

About Subsidiaries

Hikal International B.V. (Marsing & Co.)

Hikal had acquired a major stake in Marsing through Hikal B.V. Netherlands by investing Rs.406.60 mn in equity in Sept–2004. It earlier had, same very ambitious plans for Marsing – to grow each of its European, Latin American and African subsidiary.

Marsing has 3 main lines of business:

- ***APIs in Denmark***
- ***Veterinary formulation – Germany***
- ***Injectibles for hospitals – France***

However it has continued to incur losses till date and no clear vision is available from the management regarding its future. On analysing the consolidated financials it is quite evident that management has taken stringent steps to curtail the operations and working capital requirements this loss making European subsidiary.

In our opinion the company's ambitious growth plans have failed to materialize and they are trying to improve the profitability by reduction of manpower, restructuring product portfolio etc.

Sinochem

Sinochem (revenues of > US $ 20 billion) based in China is a fortune 500 company with interest in various industries such as Petroleum, Fertilisers and Chemicals.

Hikal has increased its minority stake in Chinese company Sinochem's JV Jiangu from (10% to 16%), from Rs.13.49 millions (FY06) to Rs. 26.97 million in FY07. By virtue of acquiring 16% minority stake in Sinochem JV, it has procured a seat on the Board and it can not only ensure continuous supply of raw materials at competitive prices but can also restrict supply of raw materials to its competitors.

Hikal will procure key raw materials and intermediates for manufacture of its API products from this Chinese unit.

Business Segments

Crop Protection Segment

It is in the midst of restructuring this segment by discarding older molecules and looking for growth in new generation compounds. It is continuously looking forward to enter into long term contracts with the top global companies for supply of new generation products.

It is working on rationalizing the product portfolio to ensure that the existing and enhanced production capacities are utilized to generate higher margins.

Agrochemicals - Products

Product – Active Ingredients
Diuron
Ethion
Isoproturon
Metoxuron
Quinalphos
Thiabendazole (veterinary grade)

Product – Agrochemicals Intermediates
3,5 Dichloro Aniline
4-Methyl Thiazole
Ammonium Dithio Carbamate
Di-isopropyl Azodicarboxylate
Meta Chloro Aniline
Mono Chloro Acetone

Crop Protection Industry -

•Global crop protection industry accounts for around US$ 30 billion.This industry is growing at less than 1% accounting for around US$750 million in Indian markets whereas the Generics market share account for around 65% (US$ 20 billion).

•Peak product introduction was in mid 1980s to mid 1990s.

•A number of them is getting off-patent in the coming years.

Business Segments

Pharmaceutical Segment

This segment is undergoing major transformation and is the engine of growth in revenues and profitability for the company and ***in the years ahead, it is likely to overtake the crop protection business.***

Today the company has shifted its focus on **CRAMS** ***(Contract Research and Manufacturing Services) where margins are substantially high as compared to the crop protection business.*** It has witnessed significant volume growth in the API segment due to cost competitiveness on account of their ability to enjoy better interface with customers in early stage of product life cycle.

It is well placed to evolve from providing support in drug discovery to commercial production of APIs and intermediaries and is firmly poised to negotiate long term contracts with MNCs (innovator companies) in contract research and has commenced APIs manufacturing.

In lieu of its quality work, it has bagged a long term contract of Rs.2000 millions, spread over 4 – 5 years with ALpharma Inc – US for manufacturing and supply of API for the Veterinary sector.

Pharmaceutical Products

Product – Generic APIs
Gabapentin
Bupropion Hydrochloride
Gemfibrozil
Pentoxifylline
Ondansetron Hydrochloride
Ondansetron Base
Triprolidine Hydrochloride
Acebutolol Hydrochloride
Cinnarizine
Flunarizine hydrochloride
Levetiracetam
Valproic acid
Chlorhexidine

Product - Intermediates
Gabapentin Lactam
Di-isopropyl Azodicarboxylate
3,4-(methylenedioxy)-6-methyl benzylchloride
Parabenzyloxy Aniline Hydrochloride
2 Cyclohexenone
4 Methyl Thiazole
Mono Chloro Acetone
3,5 Dichloro Aniline
Meta Chloro Aniline

- **The world market for Gabapantene is of $ 3 billion and Bupropion of $ 2 billion.**

Gabapantene : It is used as an anticonvulsant to treat partial seizures, amyotrophic lateral sclerosis (ALS) & painful neuropathiss. It is used in monotheraphy of refractory partial seizure disorders, & treatment of spasticity in multiple sclerosis, tremors, mood disorders & attenvation of disruptive behaviors in dementia.

Gabapentin is the active ingredient in Pfizer's antiseizure drug Neurontin, which is off patent. It is anti depressant and generic equivalent of Neurontin brand tablets and capsules which is a Pfizer product.

Business Segments

Pharmaceutical Segment – CRAMS

Initiatives taken to improve profitability in CRAMS Business…

On a revenue rise of 24.97%, the investment in R&D activities has increased by 531.21%.

R&D capex as a percentage of turnover has increased by 1.13% (YoY) on a 24.97% (YoY) higher turnover. We expect that the above R&D capex will bear fruits in the near future and translate into higher margins in the years ahead.

R & D capital Expenditure (Rs. in mn)

Particulars	2007 - 08	2006 - 07	2005 - 06	CAGR %
R & D expenditure	96.20	32.76	5.19 millions	330
% of turnover	3.2	1.40	0.27	1.13
Sales	3006.60	2337	1870	27

Growth Drivers

Thanks to its vastly talented human resource pool Hikal's strength lies in its ability to offer cost effective, quality products at competitive prices and thereby positions itself as a leading player in its business segment.

Increase spending in R & D activities is likely to generate revenues from hifh value long term contracts from innovator companies.

It offers end to end solutions from laboratory stage to manufacturing stage of the product.

Initiatives for Restructuring of its subsidiary Marsing:
- ***Pruning of manpower***
- ***Rationalization of product mix***

The above exercise has resulted ***in reduction of losses*** of Marsing Ltd.

Industry Overview – CRAMS…

According to Frost & Sullivan, ***the CRAMS business in India will grow to around $ 7 billion by 2013 from $895 million in 2006.***
It is the next big opportunity that proposes to be the next big growth driver for the industry after post – WTO strategy.
CRAMS has its roots in the outsourcing & off-shoring strategy that is successfully being employed by the developed countries especially in the field of IT and ITes.
Attributes like number of world class manufacturing facilities, large patient population, and cheap skilled manpower makes India a favorable outsourcing destination for big global innovators and generic pharmaceutical companies.
Healthcare budgets of governments in US & Europe are going up because of ageing population. As a result they are looking for cheaper generics as an option to lower drug costs.

Contract manufacturing in India is still at an early stage with just about US$ 300 millions worth of deals struck so far. However, it is estimated that the industry will generate US$ 1bn revenues by 2010.
Looking at this opportunity many small & midsize Indian pharma companies are spending on upgrading their manufacturing facilities so as to get them approved by regulatory authorities in US & European countries.

CRAMS Story – in a birds eye view

	Global Market	Indian Market 2010 opportunity
Discovery Research Outsourcing	US$ 8bn – 2007 (Kalorama Information)	US$ 250mn – 300mn
Clinical Research Outsourcing	US$ 14.4bn – 2007 (Centerwatch)	US$ 300mn – 400mn (Industry Sources) US$ 1.5bn – Mckinsey
Custom Manufacturing	US$ 25.7bn – 2010 (Frost & Sullivan)	Can Potentially capture 10% of this opportunity

Source: Company website

Indian company	Outsourcing value (US$ million)	Key outsourcing partner	Type of outsourcing
Nicholas Piramal	45	AMO, Allegran Inc. etc	CM for API
Dishman	30	Solvay, GSK etc	CM for intermidiates & API
Shasun	30	Eli Lily, GSK, Novartis	CM for API
Jubilant	25	Novartis	CM for intermediaries & API
Matrix Labs	20	GSK	CM for API
Ipca Labs	15	AstraZenca	CM for API for generics

Industry Overview – CRAMS…

Cost reduction initiatives by global innovators

Global innovators today face a tough challenge of declining revenues the reason being a thinning pipeline and the ever increasing generic competition. To meet the growth challenge, global pharma leaders are in the process of tightening their cost burden by either reducing the workforce or selling parts of their unviable units.

Similarly, Pfizer, Novartis, Amgen, GlaxoSmithkline etc along with cutting down the sales force have started restructuring their business by shutting down or selling off sick manufacturing units. Pfizer plans to close down two manufacturing sites in the US, and selling one in Germany. Pfizer is also considering outsourcing 30% of its manufacturing to Asia, doubling the amount the company currently out sources (i.e15%). These moves by global pharma leaders would catalyze the CRAMS led growth for the low-cost offshore destinations like India and China.

Planned Cost Cutting Measures by global innovators

Company	Planned measures	Savings	As planned on
AstraZeneca	to cut 7600 jobs (11%) over the next 2 years which would stop production in 27 manufacturing sites and looks to outsource manufacturing activities to India, China, & other eastern European countries	to save $900 mn	Jul-07
Pfizer	to cut 10000 jobs (10%) along with planning to close about 5 research facilities and close/sell 3 manufacturing facilities	to save $2bn annually	Jan-07
Novartis	to cut 2500 jobs over the next 2 years	to save $1.6bn annually	Dec-07
Amgen	to cut 2600 jobs (14%)	to save $1bn annually	Aug-07
Merck	to cut 7000 jobs (11%) by the end of 2008 and close 5 out of 31 plants	to save $3.5bn by 2010	Nov-05
Schering Plough	to cut 5500 jobs (10%)	to save $1.5bn by 2012	Apr-08

Industry Overview – CRAMS…

CRAMS story to unfold like IT story

Particulars	IT	CRAMS
Factors for growth	a) Talented skilled labour (software engineers)	a) Qualified scientists
	b) Low cost base	b) Labour cost is 1/7 of developed economies
	c) Improved quality & innovation	c) Ability to set up world class USFDA compliant facilities
	d) Flexibility in scheduling	d) Outsourcing has become a strategic option for Pharma MNCs to sustain demand from markets entering in generic phase
	e) Faster delivery of technology solutions	e) Drugs worth $ 70 billion would be going off the patents by 2011
Opportunity areas	a) Communication Service Providers, Healthcare & Life sciences Industry, Media & Entertainment, Aerospace & Defense, Banking & Capital Markets, Logistic Services, Semiconductor industry.	a) Drug Discovery Research, Clinical Research Outsourcing
High growth services	a) IT Consulting, Network Consulting & integration, Processing services, Network Infrastructure & Management, Packaged software support & installation	a) Bioinformatics, Medicinal Chemistry and regulatory filings have unexplored potential
Leading players	Infosys, TCS, Wipro, Satyam, Mind Tree Consulting etc.	Suven lifesciences, Nicholas Piramal, Hikal, Sasun Chemicals, Divi's Laboratories, Jubliant Organosys Ltd
Industry size	a) Indian IT & ITES sector grew from USD 5.3 billion (IFY 1999-00) to USD 16.5 billion in IFY 2004-05.	a) India will grow to $7 billion in 2013 from $895 million in 2006.
Expected size of the industry	a) According to NASSCOM – KPMG IT & ITES export market is projected to grow to $49 billion by 2009.	a) India will grow to $7 billion in 2013 from $895 million in 2006.
Nature of industry	As IT is knowledge based industry, it is human centric	Hikal being a model CRAMS story with its dual presence in manufacturing as well as in research, is both knowledge as well as Brick & Motor centric.

Industry Overview – CRAMS…

CRAMS story to unfold like IT story

Particulars	IT	CRAMS
Attrition Rate	**IT industry faces a higher attrition rate.**	**Unlike IT industry, Hikal faces a lower attrition rate owing to the following management initiatives :**
		i) Conducting Training & Developmental Programmes
		ii) To make a great place to work in, Hikal has appointed a leading HR consultancy company to advise them, to become the best employer in the industry.

Source: Report on Software Engineering Consulting Services – US Commercial Service

Pharmaceutical Industry -

Global Pharmaceuticals market is approx.$600 bn. & is growing at 5%.

Indian Pharmaceuticals market is growing at ***12% to 15%.***

North America, Europe & Japan continue to be main markets.

Indian Co's have entered these markets successfully.

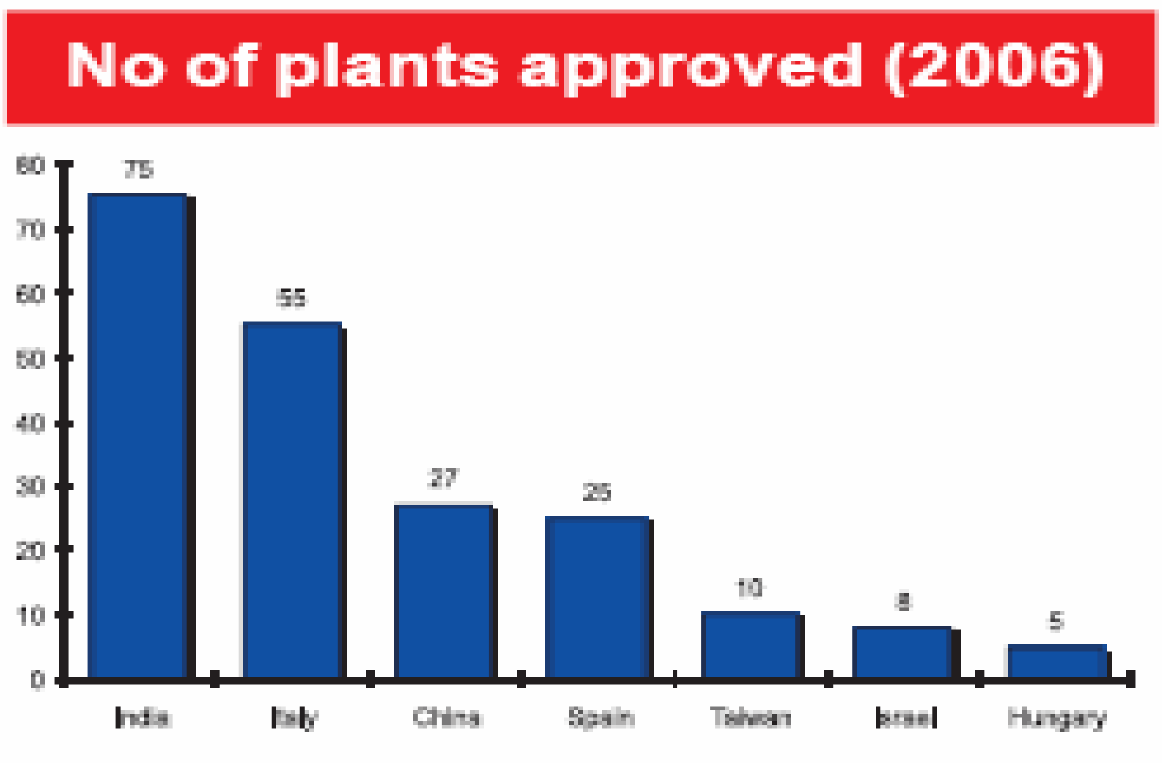
India today is a global hub for contract research and manufacturing due to lower cost.

India has the highest no. of USFDA plants outside the US.

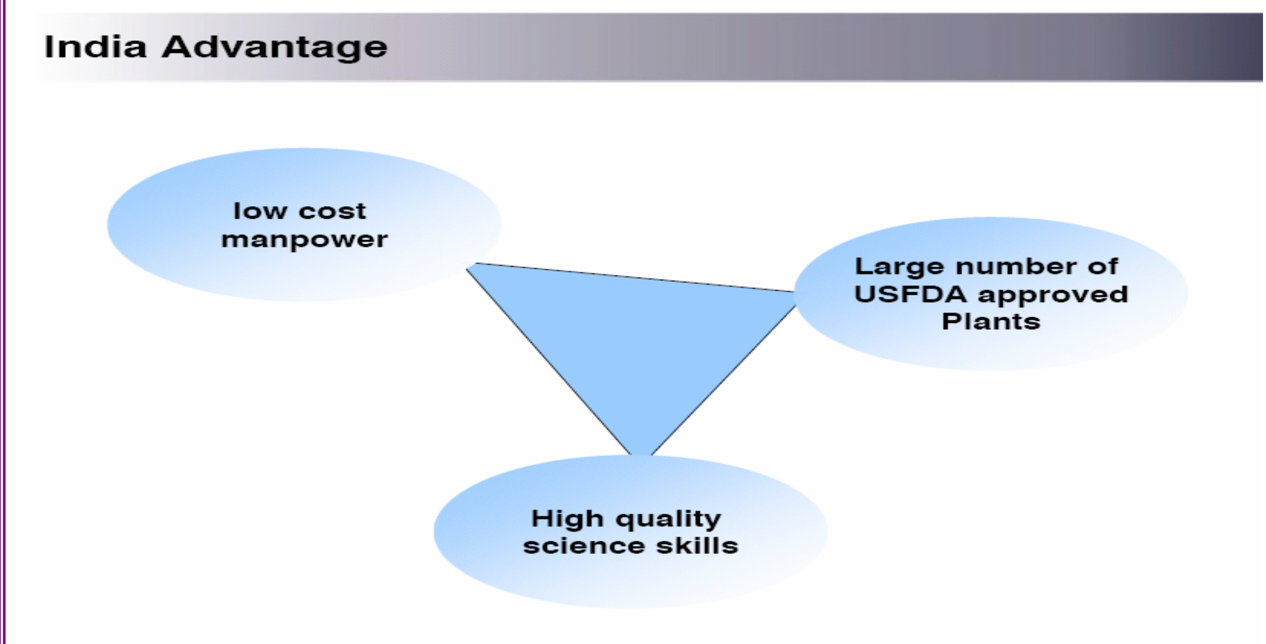
Industry Overview

Highest number of USFDA approved plants in India

India has the maximum number of US FDA approved plants outside the US of about 75 plants followed by Italy with 55 and China with 27. The increasing number of approved sites would help the sector widen its presence in the global market, by producing high quality products at approved sites and in larger volumes within the country and in other regulated markets.



Source: USFDA


India Advantage
low cost
manpower
Large number of
USFDA approved
Plants
High quality
science skills

Industry Overview

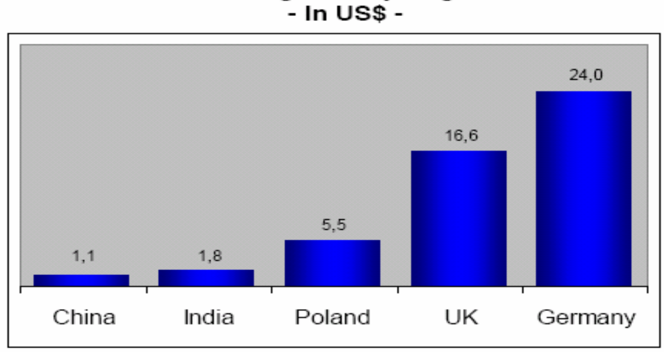
Clinical Trials

- India has wide patient-resource for clinical trials.
- While clinical trial cost is US$ 300-350mn in US, the cost in India is US$ 25mn for new molecule
- India has the 2nd highest no. of qualified doctors in the world.
- Patient enrollment phase III studies could be up to 6 times faster in India than in the western countries.
- Presently market is at US$ 100mn and expected to grow to US$ 1bn in the next 4-5 years.
- Conformity to ICH* & GCP** quality guidelines

Indian Pharma Industry: Strengths - Cost

- Cheaper manpower (Cost to hire a Ph.D. scientist = US$ 25K ; FTE = $65K to $100K / year)
- 40% cheaper to set up a plant in India than the US/EU
- 35 - 45% cost savings for conducting clinical trials in India
- Money available for expansion and start-ups from leading Banks and FII's

Average hourly wages
- In US$ -



* Source: FDA and Proximare Analysis

However apart from the cost advantage there are several other factors influencing the outsourcing decision:

- Manufacturing facilities must adhere to International standards
- Delivery of quality products as per delivery schedule
- Confidentiality on core intellectual property rights
- Good relationship with clients

Industry Overview

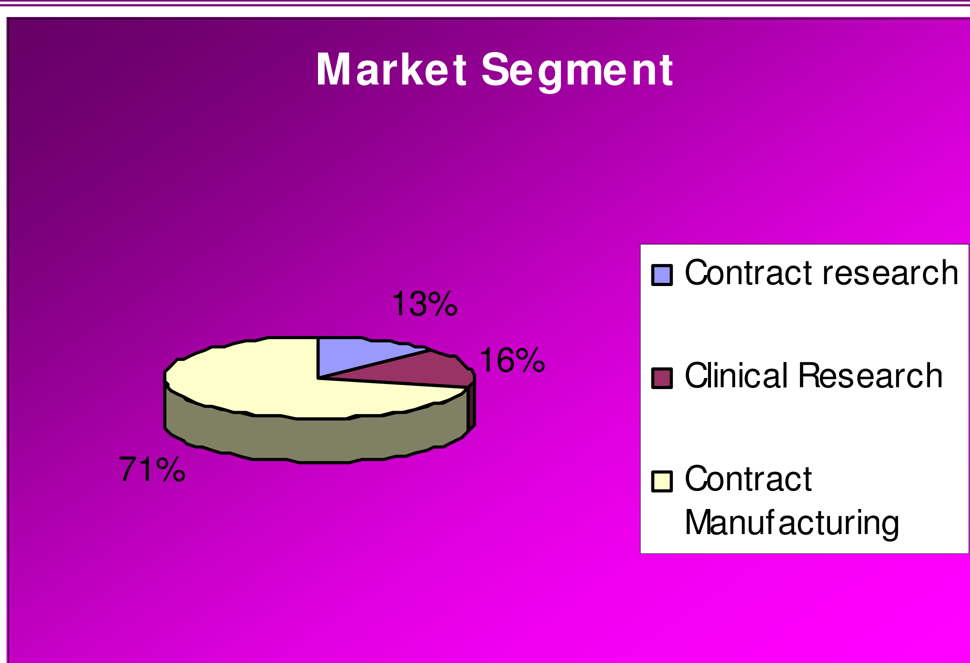
CRAMS: India - remains the preferred outsourcing destination

Mounting R&D cost pressures, declining productivity on the drug discovery front, impending patent expirations (resulting to pinching generic penetration), escalating pricing pressures and the ultimate falling profitability have made Contract Research and Manufacturing Services (CRAMS) an inevitable option for global pharma peers. Given this fact, global pharma innovators are under tremendous pressure to contract out the non-core and uneconomical research and manufacturing services to third parties –operating at a relatively lower cost structure in the emerging countries like – India, China etc.

The deteriorating profitability at the innovative players end would continue to provide a major boost to outsourcing of pharma activities to low cost offshore destinations like India and China. India, driven by its intrinsic competitive advantages like – low cost manufacturing, large pool of research talent and adequate research capability - has already proved to be an one of the most preferred outsourcing destinations for global pharma space. Currently, India's contribution to the global CRAMS markets accounts to about 3% and this is expected to reach 10% in the next 10 years. While the overall CRAMS business worldwide is estimated at $20 billion and it targets $31 billion by 2010. In fact, Indian CRAMS segment is estimated to have earned revenues of approximately $895 million in 2006 and is expected to reach to close to US $6.6bn by 2013E.

The entire CRAMS opportunity can be viewed in three broader segments like: -

- Contract Research
- Clinical Research
- Contract Manufacturing



Source:USFDA

Industry Overview

CRAMS gains edge over generics

Though India has traditionally been famous for generic drugs in the global pharma space, the future of generics as an investment theme seems bleak. The intensifying competition even on the day-1 of patent expiry of blockbuster drugs, reducing first-to file opportunities, rising pricing pressure, significant litigation cost on patent challenges have made the earning outlook of generic majors uncertain. While on the other hand CRAMS, backed by its long-term nature (i.e. around 5 years or more), better margins and sustaining profitability, emerge as a powerful theme of investment in the Indian Pharma space.

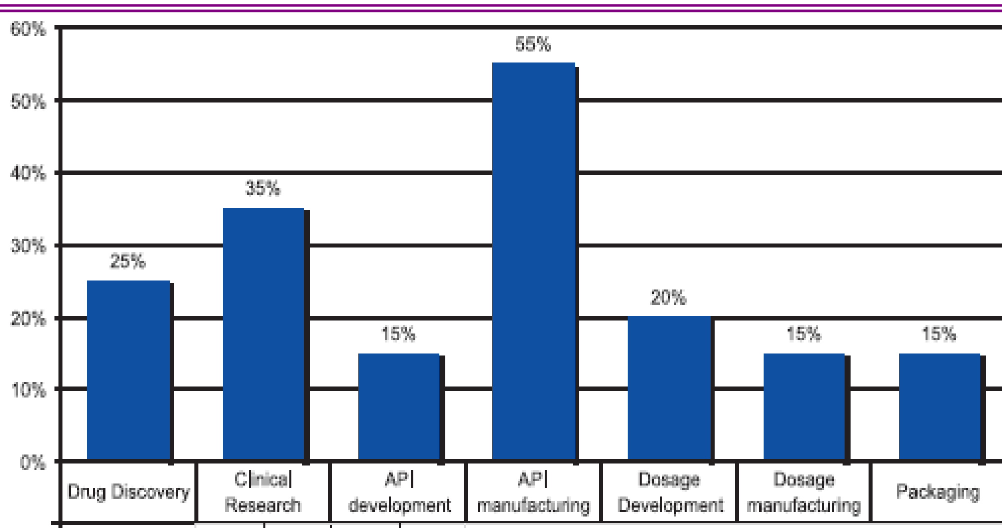
CRAMS to deliver 25-30% growth with margin expansion

Driven by steady flow of CMO outsourcing and stronger outlook for high-end outsourced activities like CTO and CRO, We believe Indian CRAMS peers with their well established manufacturing and research capabilities are well placed to deliver sustained revenue growth in the range of 25-30%, while margins would see progressive expansion (about 200%) backed by increasing share of high-end services going forward. going ahead.

Where the opportunity lies for Indian players

Though Indian CRAMS peers have, of late, proved their expertise & technical capabilities in the entire value chain of pharma life-cycle and become the preferred partner of global pharma innovators for collaborative research, low-end activity contract manufacturing dominates the current outsourcing pie. Currently innovators outsource 55% of the CMO activity (particularly API manufacturing). The out-sourcing of high end services like Clinical trials (CTO) and drug discovery (CRO) are at lower side with just 35% and 25% of total pie which is being outsourced currently.

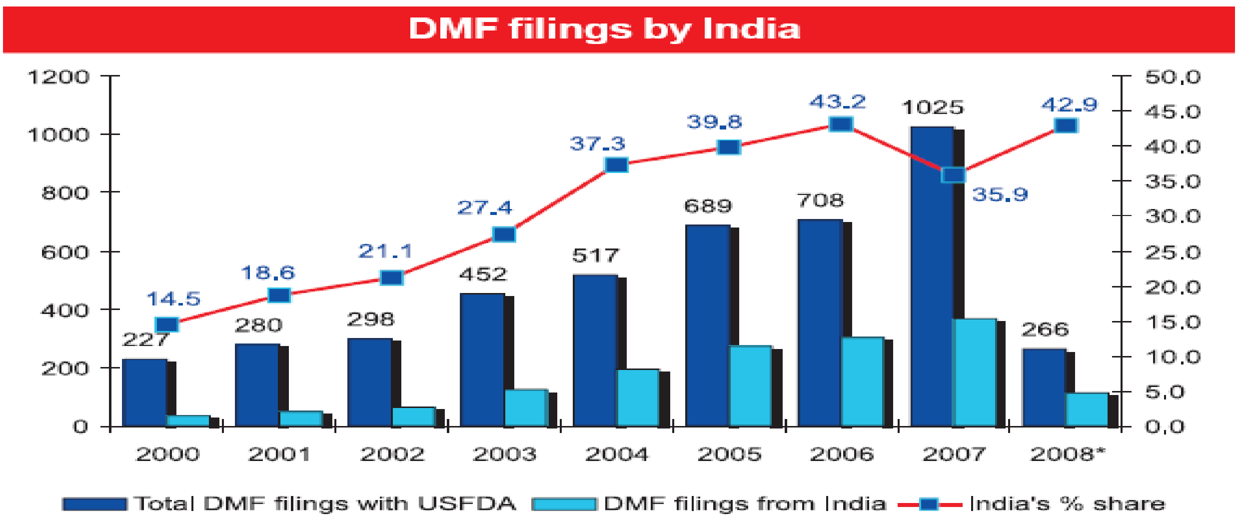
In India, API Manufacturing & Development activities dominate 55% & 15% respectively out of total CRAMS business.



Industry Overview

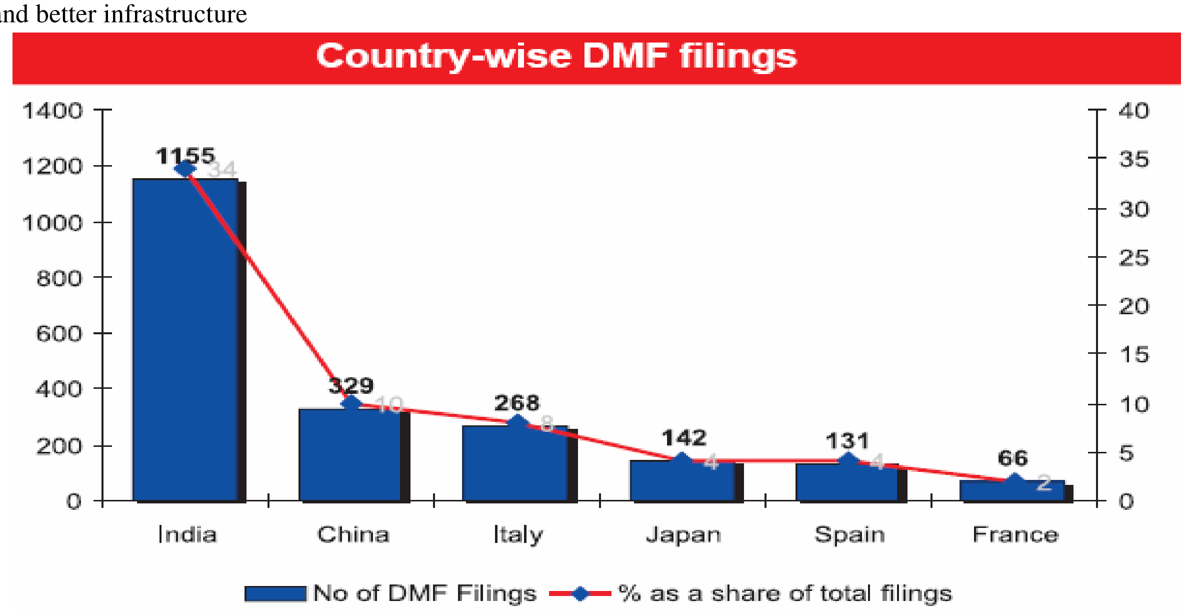
India tops in global DMF and ANDA filings

Indian companies have been at the forefront, both in terms of DMF and ANDA filings with approximately 35 % share in DMF's and about 25% share in ANDAs. Indian companies have filed more than an estimated 306 ANDAs in 2006 accounting for over 43% of global ANDA filings, compared to only about 30.7% in 2003. Over the last two to three years, several second/third tier Indian companies have aggressively scaled up their ANDA/ DMF filings in the US market.



Country-wise DMF filings (June 2000-2007)

Over the period, Indian pharmaceutical companies have outperformed other countries in filings maximum number of DMF's owing to the fact that the country has immense resources in the form of highly skilled task force and better infrastructure



Source: USFDA

Industry Overview

	Global Market	Indian Market 2010 opportunity
Discovery Research Outsourcing	US$ 9bn –2006	US$ 1bn
Clinical Research Outsourcing	US$ 38bn –2006	US$ 1.5 - 2bn
Custom Manufacturing	US$ 48bn –2010	US$ 2.5bn

Source: Industry

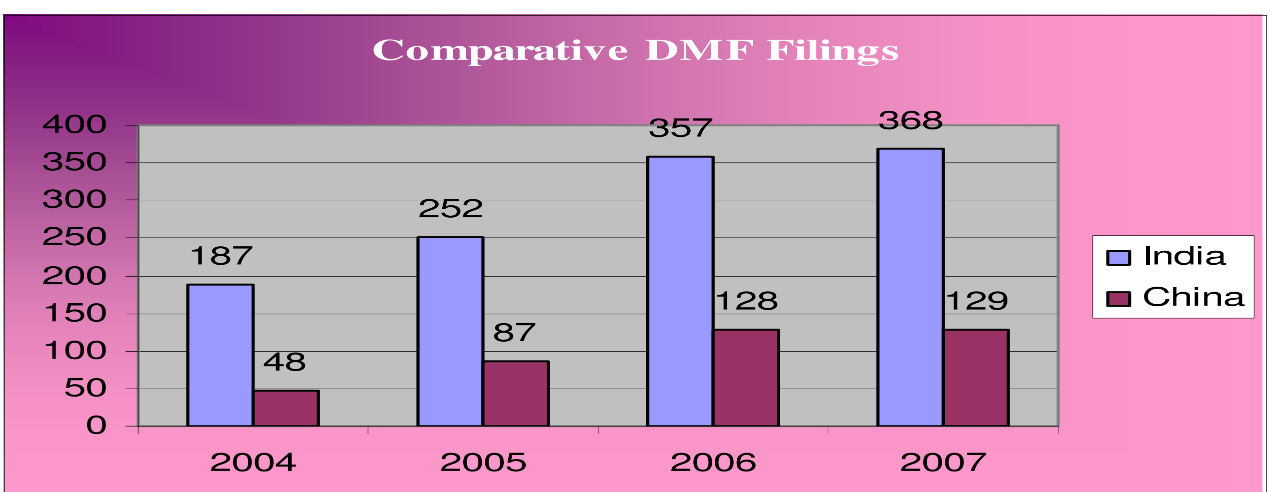
China, is a competitor but not a threat

In the Asian front, China is believed to be strong contender of India for global CRAMS opportunity. On the contract manufacturing front China with relatively lower operating cost compared to India is focused on mass production activity instead of specialized research and manufacturing activity. Sometimes quality issues provide India an edge over China on CMO. Further, the recent Chinese moves to curtail the excessive manufacturing activity would help India to grab more CMO deals in future. Similarly, on Clinical services (CTO) front India driven by its comparative strengths of - large pool of trained professional, speedier patient enrolment and adequate approved infrastructure, is better placed compare to China. Incidentally, CTO is on of the biggest opportunity in the global pharma outsourcing space. However, on the contract research front, China driven by its huge R&D spending made a significant headway compared to India. Specifically, China's share of R&D spending to global total stood at 17% compared Indian share of 7% in 2006. Both India and China (despite being competitors) would continue to leverage their advantages to exploit the huge opportunity of global pharma outsourcing.

Industry Overview

India Vs China

Key Points	India	China
Process Know how	Indian medical staffs are well trained and large in no i.e. about 5000 students are trained every year. BY 2010, India will require 50,000 people in clinical trials.	Chinese staff are less trained and are mostly engaged in mass production actively instead of specialized research and manufacturing activity.
Talent pool advantage	India has comparatively larger source of physicians and technical personal	Comparatively less specialized physicians are available for carrying out research activities
Infrastructure	Quality approved facilities back strong inflows of business. (~ 75 USFDA approved plants)	Less number of approved facilities for conducting research work (~ 27 USFDA approved plants)
Government's strong commitment pro-industry policies	India's continuing failure to do so needs to be urgently rectified	Positive environment that not only offers drug manufacturers a product patent regime but also offers the crucial data protection measures
Number of Doctors and well trained research personnel	India has large no of doctors and well trained research personnel	Comparatively lesser qualified doctors & research fraternity available
Language barrier	One of the advantages that India has over China is the language advantage. Most of the Indians speak in English.	Indians speak good English, Chinese don't. While many Chinese are studying hard trying to break the language barrier, they still have a long way to go.



FCCB Issue

•Hikal had raised USD 12 million from FCCB in 2005.

•The bondholder has the option to convert it at a price of Rs. 745 per share of par value of Rs. 10 per share.

•The investors are overseas institutional investors.

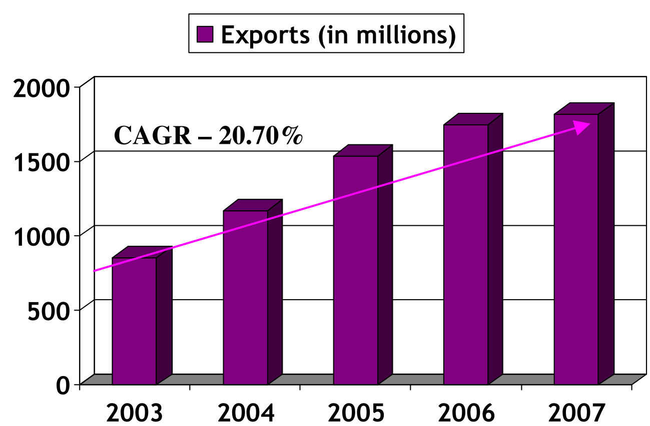
Preference Share Issue

•It had earlier raised Rs. 467 millions via 7% (Cumulative Redeemable Preference Shares) on Nov. 24th Nov. 2005 with an option to convert in whole or in part. One Cumulative Redeemable Preference Share for one equity share of Rs. 10 at a premium of Rs. 655/-

•The same were fully redeemed on 23rd May 2007.

Revenues

- Exports – 80%
- Domestic – 20%



Foreign Exchange Earned & Outgo

Foreign Exchange	2006 – 07	2005 - 06
Used	Rs.423 millions	Rs.543 millions
Earned	Rs.1,821 millions	Rs.1,757 millions

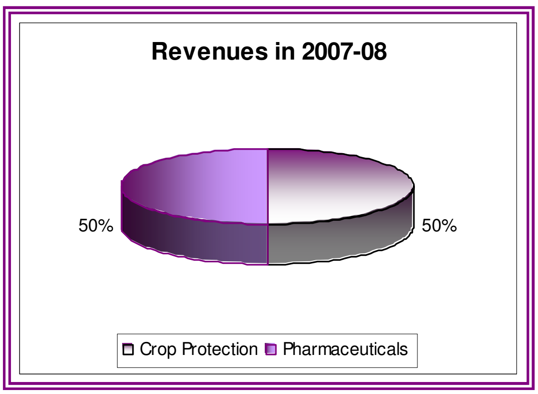
Capacity additions in Pharmaceuticals Business

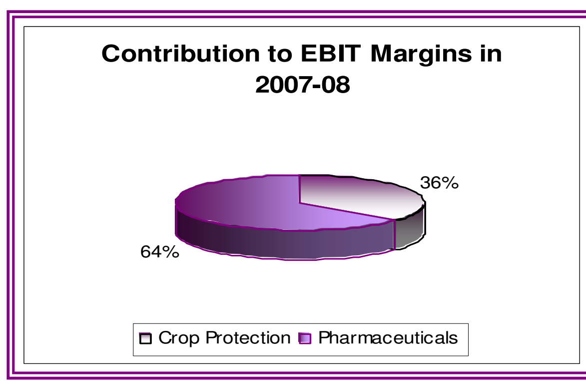
Segment	2003	2007	CAGR (%)
Crop Protection Products (MT)	4,436	4,436	-
Pharmaceutical products (MT)	***66***	***360***	***52.82***

The above table makes it clear that, Hikal is focusing on

Higher margins product in the Pharmaceuticals business.

Revenues & EBIT Margins – Segment wise

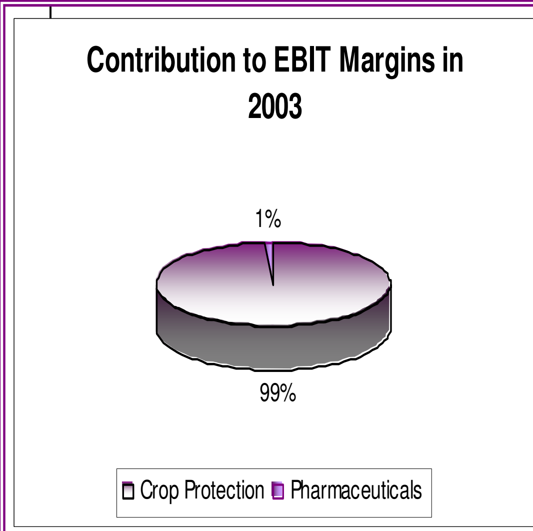


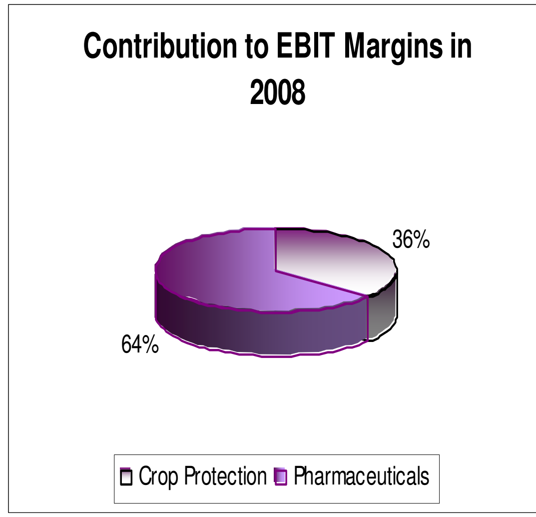


In the year 2007-08, Revenues from Crop Protection and Pharmaceuticals business accounted for 50% each.

EBIT margins in 2007-08 were 18.80% for Crop protections business and 33.70% for Pharmaceuticals business.

EBIT Margins – Comparison Segment wise





Placement of shares with IFC, WASHINGTON

Hikal is in the process of issuing and allot on preferential basis up to 13,60,000 equity shares of face value of Rs 10/- each for cash at the prices of Rs 474 aggregating to the amount up to Rs 64,46,40,000 being the price calculated in accordance with the guidelines of IFC (International Finance Corporation).

Objects of the Issue:

The proceeds of preferential allotment of equity shares will be used for strengthening the financial position of the company:

1) Expansion of business
2) Capital Expenditure & Business development expenditure
3) Augmentation of Working capital
4) Partial retirement of debt.

Standalone Income Statement (Rs in MN)			
Particulars	**FY 08**	**FY09 E**	**FY10E**
Net Sales	3006.60	3908.58	4494.87
Expenses	2380.90	3060.42	3528.47
EBIDTA	625.70	848.16	966.40
Interest	120.30	100	95
Depreciation	184.20	205	245
other income	201.00	210	215
Profit Before Exceptional Item	522.20	753.16	841.40
Exceptional Item	0.00	0.00	0
PBT	522.20	753.16	841.40
Tax	26.20	52.72	105.17
PAT	496.00	700.44	736.22
Equity	150.8	164.4	164.4
EPS	32.89	42.61	44.78
DEPS	30.17	42.61	44.78

Consolidated Income Statement (Rs in MN)			
Particulars	**FY 08**	**FY09 E**	**FY10E**
Net Sales	4790.60	4886.41	5130.73
Expenses	4150.70	3982.43	4130.24
EBIDTA	639.90	903.99	1000.49
Interest	166.20	130.00	105.00
Depreciation	276.80	295.00	305.00
other income	318.30	285.00	270.00
Profit Before Exceptional Item	515.20	763.99	860.49
Exceptional Item	2.00	0.00	0.00
PBT	517.20	763.99	860.49
Tax	39.60	61.12	60.23
PAT	477.60	702.87	800.26
PAT after Minority Interest	477.60	702.87	800.26
Equity	150.80	164.40	164.40
EPS	31.67	42.75	48.68
DEPS	31.67	42.75	48.68

Consolidated Balance Sheet (RS in MN)			
	FY08	FY09E	FY10E
Sources of Funds			
Shareholders Fund			
Share Capital	150.8	164.40	164.40
Reserves & Surplus	1518.48	2649.52	3229.29
Sub-Total	1669.28	2813.92	3393.69
Minority Interest	164.88	161.88	169.88
Loan Fund			
Secured Loan	1498	748.00	653.00
Unsecured Loan	1503	1253.00	948.00
Sub-Total	3001	2001.00	1601.00
Total	**4835.16**	**4976.80**	**5164.57**
Application of Funds			
Fixed Assets	4250.97	4750.97	4861.47
Less: Depreciation	1773.49	2068.49	2373.49
WDV	2477.48	2682.48	2487.98
Investments	223.69	323.69	408.69
C. Assets			
Inventory	1581.00	1471.89	1526.52
S debtors	950.00	945.32	992.58
Cash	292.99	581.43	1081.99
Loan	500.00	550.00	525.00
Total	3323.99	3548.63	4126.10
C. Liabilities			
Creditors	1050.00	1368.00	1573.20
Provisions	160.00	210.00	285.00
Total	1210.00	1578.00	1858.20
Net Current Assets	2113.99	1970.63	2267.90
Misc Exp.	20.00	0.00	0.00
Total	**4835.16**	**4976.80**	**5164.57**

Consolidated Cash Flow Statement (Rs in MN)			
YEARS	FY08	FY09E	FY10E
SOURCES OF FUNDS			
Increase in Share capital	0.00	645	0
Net Cash Accruals	730.47	1015	1113
Increase in Current liability	128.39	368	280
Increase in secured loan	0.00	0	0
Increase in unsecured loan	138.54	0	0
Decrease in Current assets	0.00	64	0
Decrease in Deferred assets	51.43	0	0
Sub Total (A)	**1048.83**	**2091.30**	**1393.46**
USES OF FUNDS			
Preference shares redeemed	469.82	0	0
Increase in Fixed assets	132.71	500	111
Payment of secured loan	12.34	750	95
Payment of unsecured loan	0.00	250	305
Payment of dividend & DDT	141.60	203	220
Increase in investments	0.00	100	85
Increase in Current Assets	285.90	0	77
Decrease in Deferred payment	17.78	0	0
Sub Total (B)	**1060.15**	**1802.87**	**892.89**
Opening Balance	304.31	292.99	581.43
Surplus/Deficit (A-B)	-11.32	288.44	500.57
Closing Balance	292.99	581.43	1081.99

Sales & Profits CAGR Growth - Standalone

(Rs. Mn.)

Particulars (Rs. Mn.)	FY08	FY90E	FY10E	CAGR (%)
Sales	3006.60	3908.58	4494.87	22.27%
Profit After Tax	496.00	700.44	736.22	21.83%

The compounded annual growth rate in revenue is 22.27% whereas CAGR in profits is 21.83% on a standalone basis.

Sales & Profits CAGR Growth - Consolidated

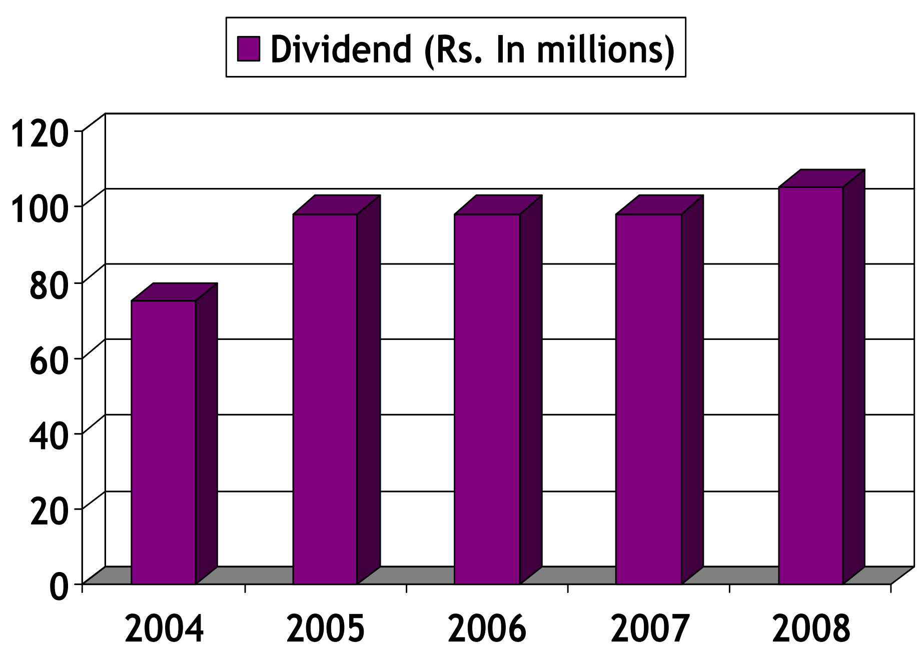
(Rs. Mn.)

Particulars (Rs. Mn.)	FY08	FY90E	FY10E	CAGR (%)
Sales	4790.60	4886.41	5130.73	3.49%
Profit After Tax	441.60	702.87	800.26	34.62%

The compounded annual growth rate in revenue is 3.49% whereas CAGR in profits is 34.62% on a consolidated basis.

Ratios (Consolidated)

Particulars	FY08	FY09 E	FY10 E
Operating Profit Margin/PBDIT	13.36%	18.50%	19.50%
PBT Margin (%)	10.04%	15.63%	16.77%
NPM (%)	9.22%	14.38%	15.60%
Return on Equity (ROE) %	26.45%	24.98%	23.58%
Return on Capital Employed (ROCE) %	15.05%	14.60%	16.02%
Interest/sales (%)	3.47%	2.66%	2.05%
Interest Coverage ratio	3.66	6.41	8.62
Tax/PBT	0.08	0.08	0.07
Book value Rs.	110.69	171.16	206.43
EPS	29.28	42.75	48.68



Investment Rationale

Indian Advantage……

Low Cost, high quality Indian manufacturing has become essential for API & Intermediate production. A large pool of chemistry skills & synthesis experience in India as the country has about 8.5 Mn qualified scientist and almost all of them speak in English. Labor cost is a fraction of those in the west. According to Frost and Sullivan, Indian can provide a cost advantage ranging from 1/6th to 1/3rd of the cost of Drug Development in the western countries.

US R & D Outsourcing expenditure to rise in long run:

R & D Outsourcing expenditure by Pharmaceutical companies has increased from 10% of the total US Pharmaceutical Industry R & D spending in 1997 to 33% in 2005 and is expected to grow to 41% by 2009.

US Pharmaceutical Industry R & D Spending (US $ bn)

	Internal Spending	Total Outsourcing	Outsourcing -Discovery services	Outsourcing -Clinical Services	Total Spending	% Outsourced
1997	18	2	-	2	**20**	**10**
2001	22	7	2	5	**29**	**24**
2005	27	13	4	9	**40**	**33**
2009*	34	24	7	17	**58**	**41**

API prices have increased by ~25%

China is the largest producer of APIs and Intermediaries. However lately Chinese authorities have revoked licenses of various pharma companies for pollution control and also for the forthcoming Olympics which are going to be held in Beijing, China. The shortages in supply to closure of capacities in China have fueled a price rise of ~25%.

Benefits from strategic alliance ….

Its cost competitiveness not only helps in expanding its market share but also brings about significant improvement in its margins, especially in the pharma segment. Recently it increased its shareholding in Jiangsu Chemstar Ind. Ltd. (JV with Sinochem Corp. China - Fortune 500 Company) from 10 – 16%. As the Chinese giant is a major supplier of intermediaries, Hikal through its presence on Board of Jiangsu will be able to procure uninterrupted supply of raw materials at competitive prices.

R & D to support Crams biz …

With its already operational Pune R & D centre comprising of 250 plus scientists dedicated more on pharma research, it will be able to gain competitive advantage and strengthen its presence in DDSS (Drug Discovery Support Services).

Investment Rationale

Gabapentin and Bupropion HCL to augment revenues

Its main two main generic API products Gabapentin and Bupropion Hydrochloride, command market of $3.2 bn and is expected to grow sizeably in the years ahead.

Long-term contracts ensures visibility of biz

Hikal has long-term contracts with Bayer CropScience AG, Germany, global pharmaceutical major Pfizer Inc etc. This will result in to assured profitability and payback for Hikal.

Filing of DMF's...

In the current year it has already filed 2 DMF's and few more are in the pipeline. These filings are likely to add revenues for the future.

Broadening the horizons…

Company is in the expansion mode. It is in the process of issuing 1.36 Mn equity shares on preferential basis. These proceeds will be used for strengthening the financial position of the company. All this will enhance the company's production & will help them to fill the vacuum created by non-functioning of various Chinese API firms.

Potential Price

	No of times EBITDA	FY09 E EBITDA (Rs. Mn.)	Total No. of shares	Mkt Cap (in mn)	Potential Price (in Rs)
Base	8x	904	16.44	7316.90	**445**
Average	10x	904	16.44	9172.79	**558**
Maximum	14x	904	16.44	12543.26	**763**

	No of times EBITDA	FY10 E EBITDA (Rs. Mn.)	Total No. of shares (In mn)	Mkt Cap (in mn)	Potential Price (in Rs)
Base	8x	1000	16.44	8093.92	**492**
Average	10x	1000	16.44	10146.90	**617**
Maximum	14x	1000	16.44	13875.29	**844**

Risk & Concern

- Competition from China.
- Fluctuations in weather which can result in drop in consumption of agrochemicals.
- Fluctuations in exchange rates.
- Changes in government policies of various countries can impact sale of agrochemicals.
- Marsing continues to be a drag on the profitability of Hikal, any downsizing of the European subsidiary operations would lead to substantial improvement in the consolidated bottom line of the company.

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