RANBAXY LABORATORIES

INR 389

Awaiting positive cues from USFDA

ACCUMULATE

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December 19, 2006

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USFDA warning letter – still hanging

USFDA's warning letter to Ranbaxy's Paonta Sahib facility has halted its new product launches in the US market, affecting its US generic sales negatively. We believe that this issue will be resolved by June 2007, following which, new launches will happen from this facility. However, despite an expected launch of 12 new products, the US generics sale (29% of total revenues) is likely to decline by 10% in CY07E. This is due to the expiry of 180-day exclusivity of *simvastatin* and practical loss of *pravastatin* exclusivity in CY07E.

Atorvastatin exclusivity – a USD 605 mn opportunity

After its long legal battle with Pfizer, Ranbaxy has been able to secure 180-day exclusivity for *Atorvastatin* (US sales of USD 7.6 bn), starting from March 2010. There were concerns that the addressable market size of *Atorvastatin* will be cannibalised by Pfizer's new combination molecule expected to be launched in 2008. However, recently Pfizer discontinued the molecule. The subsequent positive fallout for Ranbaxy is that Pfizer now will promote *Atorvastatin* much more aggressively than ever before, creating a wider addressable market. We now expect Ranbaxy to generate operating profit of USD 605 mn from the product in CY10, translating into a net present value (NPV) adjusted price of INR 41 per share.

Cost cutting efforts – continuing, but savings to decline in CY07

Ranbaxy initiated its cost cutting initiatives in CY06 targeting to reduce its SG&A and R&D costs. We expect the company's cost cutting efforts to continue even in CY07E. However, savings from such cost cutting measures is likely to slow down thereafter because: 1) Ranbaxy has high fixed cost structure due to its presence in 49 countries and 2) its acquisition of Be-Tabs in December 2006 is unlikely to see any cost reduction since its integration will take atleast one year. We expect CY07E EBITDA margin to improve by 100bps, whereas, the CY08E EBITDA margin to improve by 200bps as a result of higher benefits from the integration of acquired companies (Terapia and Be-Tabs).

Outlook and Valuation

Ranbaxy's growth in FY07E is contingent upon resolution of the Paonta Sahib issue, which is likely by June 2007. Its current valuation at a P/E of 20.2x on CY07E, (after adjusting for the *Atorvastatin* profits in 2010) is least amongst its peers. While this reflects the concerns related to the warning letter, the stock will remain range bound till the issue is completely resolved. Thus, we downgrade the stock to **'ACCUMULATE'** from **'BUY'.**

Financials

Year to December	CY05	CY06E	CY07E	CY08E
Revenues (INR mn)	52,816	60,738	68,065	77,736
Rev growth (%)	*(2.8)*	*15.0*	*12.1*	*14.2*
EBITDA (INR mn)	3,111	9,293	11,125	14,297
Net profit (INR mn)	2,617	5,265	6,852	9,481
Shares outstanding (mn)	372.4	399.0	399.0	399.0
EPS (INR)	7.0	13.2	17.2	23.8
EPS growth (%)	*(62.6)*	*87.8*	*30.1*	*38.4*
P/E (x)	55.5	29.5	22.6	16.4
EV/EBITDA (x)	52.3	18.5	15.1	11.3
ROE (%)	10.7	11.2	13.5	16.4

Reuters	:	RANB.BO
Bloomberg	:	RBXY IN

Market Data

52-week range (INR)	:	530 / 317
Share in issue (mn)	:	372.5
M cap (INR bn/USD mn)	:	144.9/3,256.9
Avg. Daily Vol. BSE/NSE ('000)	:	1,819.7

Share Holding Pattern (%)

Promoters	:	34.9
MFs, FIs & Banks	:	17.8
FIIs	:	19.6
Others	:	27.8

Investment Rationale

US generics to degrow

USFDA's issues with the facility

Ranbaxy's Paonta Sahib dosage form facility in Haryana has been notified by the USFDA for various issues raised by the investigators at the time of site inspection in February 2006. The major observations made by the USFDA in its letter to Ranbaxy are:

- Failure to maintain documentation of operating conditions at the laboratory prior to November 2004.
- Failure to save electronic raw data relating to operating parameters at the laboratory prior to February 2006.
- Discarding/disregarding of data due to 'variation in the area, faulty, abnormal, or any other reason'.
- Failure to maintain adequate written stability testing programs designed to assess the stability characteristics of drug products and to determine appropriate storage conditions and expiration dates.

Implications

The issues raised by USFDA relate more to the laboratory and stability data, implying that only new molecules from this facility are at stake. Consequently, new ANDA applications from this facility will be approved only after the facility receives a final clearance from USFDA. It is, however, important to note that USFDA has not raised any issues regarding the existing products and these products will continue to be manufactured at the Paonta Sahib facility. Moreover, these issues will not affect approvals from other regulatory authorities such as the MHRA.

Likelihood of clearance soon

The management maintains that it has addressed the above-mentioned issues adequately with the help of external consultants and expects a final clearance soon.

We, however, believe that a final clearance will not come without another round of facility audit by the USFDA authorities. We expect another audit of the facility in Q1CY07 and a final clearance to come in Q2CY07.

Impact on product launches

So far, Ranbaxy's management has not disclosed the number of new molecules to be launched from the Paonta Sahib facility. It, however, maintains that *Pravastatin* has been the largest product at stake due to observations at the facility, so far. The company has two other USFDA approved dosage form facilities at Dewas, Madhya Pradesh and Ohm Laboratories, US that caters to the US market.

Ranbaxy used to launch about 15 products every year, largely out of Paonta Sahib and Dewas. On the basis of this, we believe about 7-8 products would have been held up at Paonta Sahib due to the impending USFDA issue.

There is a likelihood that once USFDA gives a clearance, pending ANDA approvals will come almost immediately. We however believe that even though the USFDA issue is resolved, it will take few months for all the approvals to come in.

Based on the company's guidance, we have assumed 12 new product launches in the US generics market. This, however, may prove too ambitious if the USFDA approval is delayed because of any reason.

Launch pipeline – growth to pick up from CY08E

Being a company that pioneered the US generics business in the Indian pharmaceutical industry, Ranbaxy's launch pipeline for CY07E is relatively lacklustre. As of now, we expect the company to launch only 12 new products in CY07, the largest being *simvastatin* and *pravastatin*.

Ranbaxy is confident of retaining its 180-day exclusivity on *pravastatin* 80 mg, which the USFDA will approve after giving a final clearance to the Paonta Sahib facility. However, the other versions (20 mg and 40 mg) are already out of the 180-day exclusivity and have already undergone severe price erosion. This will put pressure on Ranbaxy's pricing of the 80 mg version, taking away the benefit of charging premium on the product during the exclusivity period. Additionally, since the generic versions of 20 mg and 40 mg are already in the market, it would already have cannibalised the sales of 80 mg.

We have estimated the CY07E US generics sales to decline by 10%due to:

- a bulk of the product launches happening in the second half of CY07E
- an 180 day exclusivity on *simvastatin* 80 mg expiring in December 2006
- continued price erosion on the existing generic products, and
- no first-to-file (FTF) launch expected in CY07E.

However, the company's US generics business looks attractive CY08 onwards with a likelihood of four FTF opportunities, two each in CY08E and CY09E. CY08E will largely benefit from the full year potential of products launched in CY07E.

Para IV opportunities

Currently, Ranbaxy has 23 Para IV filings, of which, 8 are FTFs. Even if Ranbaxy is not able to win the litigation on these 8 FTFs, it is at least assured of exclusivity on launching these products. In addition, the company has 11 other FTFs on which it has not been sued till date. We believe this FTF pipeline, which gains momentum beginning CY08, is worth almost USD 26.8bn; *Lipitor* and *Nexium* alone account for USD 11.6bn.

We, have however, not factored in any upsides from these Para IV filings in our estimates.

Table 1: First-to-file pipeline

Molecule	Brand name	Innovator	Patent expiry	Earliest launch*	Total mkt. size (USD mn)	Current status
Atorvastatin	Lipitor	Pfizer	Mar-10	Mar-10	7,600	The molecule is under litigation in 12 countries. In the largest market, the US, Ranbaxy has invalidated the patent expiring in June 2011 while the basic patent expiring in March 2010 has been upheld. As a result Ranbaxy has won a 180-day exclusivity for Lipitor beginning March 2010. In the other litigating countries, the product extension has been invalidated, while the basic compound patent has been upheld.
Pioglitazone	Actos	Takeda	Jan-11	Jun-09	2,200	Possible shared exclusivity between Mylan, Watson and Ranbaxy. Watson and Ranbaxy are not challenging the basic compound patent '777 which was ruled against Mylan. A decision in the case against Ranbaxy is awaited
Valacyclovir	Valtrex	GSK	Jun-09	Jun-08	1,080	Ranbaxy is the FTF for the basic compound patent. 30-mnth stay has expired. Trial date not yet set. Expect a final decision in the next 18 months
Tamsulosin	Flomax	Boehringer Ingleheim	Oct-09	Jun-08	798	Ranbaxy is the FTF for the basic compound patent. 30-mnth stay has expired in Sep 06. Pre-trial conference set for Dec-06. Expect a decision in the next 18 months
Modafinil	Provogil	Cephalon	Apr-15	Oct-11	672	Cephalon has entered into a settlement with FTFs Mylan, Ranbaxy, Teva and Barr. As per the settlement the the generic companies will be allowed to sell a generic version of Provigil beginning Oct 2011 with an earlier entry if any other generic version of Provogil enters the market.This settlement has been challenged. However, Ranbaxy has already commenced supply of API. The company is also receiving milestone payments for granting exclusive license to Cephalon with regard to certain of its worldwide intellectual property rights to modafinil
Ibuprofen+Pseudo softgels	Advil cold sinus	Wyeth	June-09	Jun-08	36	Wyeth has filed a suit in the District Court of New Jersey. Trial date not yet set. Expect an outcome in the next 18 months
Esomeprazole	Nexium	Astra Zeneca	Oct-07	Oct-07	4,000	AstraZeneca has filed a suit on Nov 22, 2005 claiming infringement of its patent. The FDA is now barred from approved from approving the ANDA until the expiry of 30 months or until the Courts find the patent invalid.
8 molecules					**16,386**	
				Not sued till date		
11 molecules					**9,750**	
				Total		
19 molecules					**26,136**	

Source: Company, Edelweiss research

*Note * The earliest launch timeline is estimated by considering the current status of the case and assuming a possible victory for Ranbaxy.*

Lipitor opportunity and its valuation

Over the past few years, Ranbaxy has fought legal battles with Pfizer trying to invalidate the patents on *Lipitor* in various countries. While the basic patent on the product has been upheld in most of the litigating countries, the later patents on the product have been proved invalid. As a result, Ranbaxy will be able to launch the product as soon as the basic patent expires in the litigating countries, the earliest being Norway in February 2009.

In the US, the largest market, the court has upheld the basic patent expiring in March 2010, while the later patents expiring in June 2011 have been proved invalid. As a result, Ranbaxy will enjoy exclusivity in the US market beginning March 2010. Our assessment of this opportunity leads us to estimate an upside of INR 41.3 per share.

Table 2: Assessment of the Lipitor opportunity

Lipitor current sales in USD mn	7,600
Likely sales in 2010 at 25% erosion	5,700
Six months sales	2,850
Price erosion @ 50%	1,425
Ranbaxy's market share 50% (assuming one authorized generics)	71,2.5
Ranbaxy's profit @ 85% operating magin	606
Ranbaxy's profit in INR mn	27,859
NPV @ 14% of Lipitor profits	16,495
NPV per share	41.3

Source: Edelweiss research

Improving cost efficiency

Ranbaxy had initiated cost cutting efforts in CY06E that will continue even in CY07E, albeit, the savings are likely to decline. We expect EBITDA margin improvement of 100bps in CY07E largely coming from savings in SG&A costs.

SG&A cost: Ranbaxy's fixed cost structure is high, as it has ground operations in 49 countries. We believe that the rationalisation in SG&A cost will slow down in CY07E after cutting costs aggressively in CY06E. We thus expect only a 50bps improvement in EBITDA margin due to SG&A expenses in CY07E as against more than 100bps of improvement in CY06E.

SG&A expenses are likely to be 29% of total sales in CY06E, and then reduce to 28.5% in CY07E and 27.5% in CY08E. The drastic improvement in CY08E SG&A expense is due to the full benefit of the Terapia acquisition. As Romania becomes a part of the EU in January 2007, Ranbaxy will be able to cross-market the EU products in Romania (through Terapia) and vice versa. In addition, the integration benefit of Be -Tabs too will start flowing in from CY08E.

R&D cost: Ranbaxy has achieved significant reduction in R&D expense in CY06 by setting up its in-house bio-equivalence facility. Although R&D expenses reduced by 24% CY06 in absolute terms, any further reduction in CY07E is unlikely, as part of the current cost cutting is due to reduced number of ANDA filings in CY06.

We expect another 50bps improvement in EBITDA margin in CY07E through savings in R&D, salaries, and other costs.

Gross margin: We believe that the gross margin of Ranbaxy will decrease in CY07E, as CY06 had the benefit of the 180-day exclusivity of *simvastatin* 80 mg. Further, continued pricing pressure in the US, UK, France, and German markets will keep the margins under pressure.

Strengthening presence through acquisitions

Ranbaxy has targeted to achieve a topline of USD 2 bn by 2007 largely through the inorganic route. With respect to this, the company has made five acquisitions in CY06. Despite its aggressiveness to grow through acquisitions, the company has largely remained value accretive with a strong strategic intent. Further, the company has been eyeing a large acquisition in the US to supplement its growth plans. We derive comfort from Ranbaxy's track record of growing successfully inorganically and believe that its M&A moves in future will offer positive triggers to the stock.

Terapia acquisition – strong accretion to CY07 revenues

Ranbaxy acquired Terapia in February 2006 for USD 324 mn. Terapia is the largest independent generic player in Romania with revenues of USD 324 mn and an EBITDA margin of around 35%. The company has 150 existing marketing authorisations and 60 marketing authorisations in the pipeline. Almost 70% of Terapia's domestic revenues come from the high value CVS and CNS segments. The company also has its own bio-equivalence and production facilities.

Since the acquisition in February, Ranbaxy has made significant investment in Terapia in terms of sales force expansion. This is because the company intends to introduce in Romania its existing products in the EU, after Romania becomes a part of EU beginning January 1, 2007.

Going forward, we believe that Terapia is likely to perform well, as the product portfolios for the two companies are highly complementary with Ranbaxy being largely present in the anti-invectives segment and Terapia in the high-value CVS and CNS segments. This gives Ranbaxy a platform to further widen its presence across Europe and CIS belt.

Prior to the acquisition, the Russian market (comprising Russia, Ukraine, and Romania) recorded revenues of USD 64 mn. Post Terapia acquisition, we expect revenues from this market to almost double, clocking USD 132 mn of revenues in CY06E.

Table 3: Acquisitions in CY06

Date	Company/ Business	Country (USD mn)	Price (USD mn)	Sales (USD mn)	EBITDA	Remarks
16-Feb-06	Terapia	Romania	324	80	28	With Romania joining the EU stariting 2007, Ranbaxy will be able to launch all its existing products in the EU, in Romania. The product portfolios of the two companies are non-overlapping helping Ranbaxy to leverage this acquisition to the maximum.
27-Mar-06	Allen S.p.A (GSK)	Italy	NA	NA	NA	Ranbaxy has a nascent presence in Italy with the company just having entered the market. The acquisition gives the company a ready portfolio for the Italian market
30-Mar-06	Ethimed	Belgium	NA	NA	NA	Ranbaxy will get access to Belgium, Netherlands and Luxembourg markets through this acquisition. The company intends to introduce its own products in these markets through Ethimed's distribution netwrok.
18-Jul-06	Mundogen (GSK)	Spain	NA	NA	NA	Provides a platform to futher leverage the ompany's presence in the Spanish market through Mundogen's distribution network.
1-Dec-06	Be-Tabs	South Africa	70	32	9	Expands Ranbaxy's presence in the largest market in Africa. Be-Tabs is the 5th largest generic company with a strong OTC portfolio.

Source: Company, Edelweiss research

Be-Tabs acquisition – Ranbaxy recently acquired a South African company – Be-Tabs at USD 70 mn. Be-Tabs has annual sales of USD 30 mn and an EBITDA margin of 25%. The acquisition offers a strategic fit to Ranbaxy as the company's product portfolio, 50% comprising OTC products, complements that of Ranbaxy, which comprises mainly anti-infectives.

The acquisition has also given Ranbaxy a manufacturing presence in South Africa, which is likely to help the company gaining government contracts. The South African market is growing by about 12-15% annually, which augurs well for Ranbaxy.

Based on the above factors, we expect Ranbaxy's South African sales to reach USD 100 mn in CY 07E.

Financial outlook

We believe that CY07E will be a moderate year for Ranbaxy with little product visibility and an overhang of the USFDA issue regarding the Paonta Sahib facility. The management, however, reiterates that the company will launch 10-15 products in CY07E. Based on this, we have estimated 12 new product launches in CY07E. Accordingly, we expect 12% revenue growth in CY07E, a lot of which will depend on the USFDA clearance of the Paonta Sahib facility and subsequent launch of products from it. Any delay in the approvals will negatively impact our estimates.

We expect Ranbaxy's cost cutting measures to moderate in CY07, especially for the SG&A, as the year will see a full year impact of Terapia expenses and additional expenses on account of Be-Tabs acquisition. Other expenses (as a percentage of sales), will however, come down by 150bps in CY07. A part of this improvement is likely to get compensated by the reduction in gross margin by 50bps, as *simvastatin* 180-day exclusivity expires in December 2006.

Net EBITDA margin is likely to improve by 100bps in CY07, translating into an EPS growth of 30% in CY07E. Without the Be-Tabs acquisition, we expect the EPS growth to be as low as 11% in CY07E.

We expect CY08E to be a better year for Ranbaxy aided by a full year impact of product launches in CY07 in the US and improved sales on account of upfront marketing expenditure to leverage the Terapia and Be-Tabs acquisitions without incurring extra SG&A expense.

We thus expect an organic growth in revenues of 14.2% and EPS growth of 38.4% in CY08E. We expect the EBITDA margin to improve by 200bps, as we anticipate some gross margin improvement along with an improved efficiency in SG&A.

Risk and Concerns

Delay in clearance of Paonta Sahib facility

We anticipate the Paonta Sahib facility to obtain final clearance from USFDA by Q2CY07 after another round of audit. Any further delay in the approval for the facility could slow down the pace of new launches, resulting in a downside to our estimates.

We have expected approvals for held up products soon after USFDA clears the facility. However, there is a chance that those ANDAs will take a normal course for approval, resulting in significant delay in revenue generation.

DPCO risk to the domestic formulation

Currently, 21% of the company's revenues come from the domestic market. Any change in the existing drug pricing policy is likely to have a significant impact on our domestic formulations estimates.

Generic price erosion

The generic market is vulnerable to severe price erosions. If such price erosions are higher than anticipated, they may affect Ranbaxy's profitability adversely.

Integration of acquisitions

Ranbaxy has invested heavily in acquiring companies across Europe and South Africa, to expand its presence in these geographies. Successful integration of these acquisitions is the key to the company's future growth in these markets. Any delay/failure in integrating these acquisitions successfully could result in a significant downside to our estimates.

Hardening interest rate scenario

Currently, Ranbaxy has a net debt of USD400 mn (excluding the FCCB). The company's interest expenditure is approximately 12% of the EBITDA. In a hardening interest rate scenario, the company could see a significant rise in interest expenses, which could bring the margins under pressure.

Valuations

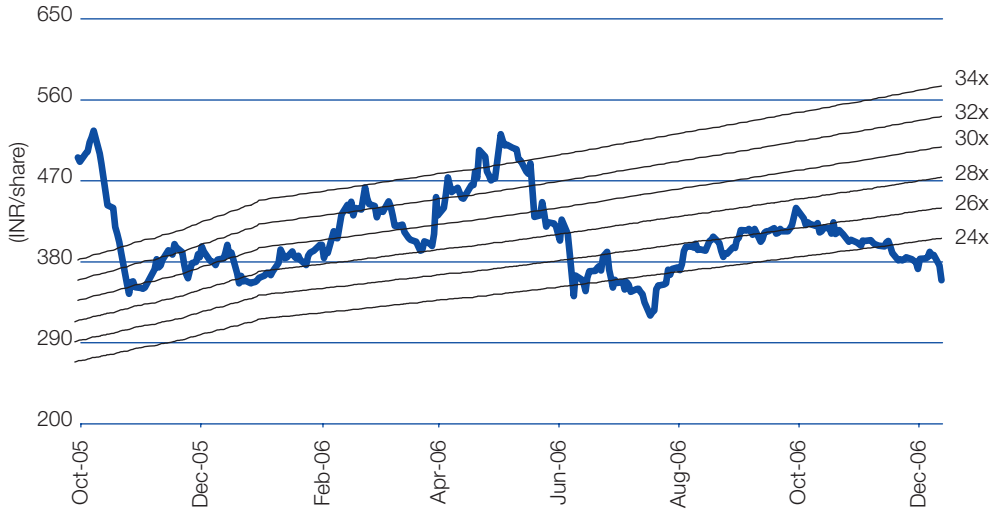
Ranbaxy's CY07E performance hinges a lot on the resolution of USFDA's issue for Paonta Sahib facility. While we expect the USFDA approval to come in by June 2007, it is difficult to accurately predict the exact USFDA response and its time. As the stock is at the lower band of its P/E chart and trading at the lowest valuation compared with peers, most of the concerns related to the USFDA issue are priced in.

We believe that an early outcome on the Paonta Sahib issue and the potential launch of new molecules from this facility can be a near term trigger for the stock. Any value accretive acquisitions will also have a positive impact on the share price.

While CY07E is not likely to see any big launches, CY08 should be a better year due to a full year impact of the launches made in CY07, increasing earnings from acquisitions, and the likely launch of FTF products.

At CMP of INR 389, the stock trades at a P/E of 20.2x (adjusted to the *Lipitor* valuation), the lowest among its peers. The P/E chart too shows the stock trading in its lower band. We expect the stock to remain range bound till the time the Paonta Sahib issue is resolved and there is more visibility on the US generics pipeline. We recommend **'ACCUMULATE'** on the stock.

Chart 1: 1-yr forward P/E band



Source: Edelweiss research

Table 4: Relative valuation tables

		FY07E		FY08E	
	CMP	P/E	EV/EBITDA	P/E	EV/EBITDA
Dr.Reddy's	801	19.9	12.5	27.5	14.0
Ranbaxy	389	29.5	18.5	22.6	15.1
Cipla	241	24.2	17.6	18.9	13.4
Sun	940	28.4	26.6	25.5	22.8
Biocon	353	22.2	16.2	18.9	13.3

Source: Edelweiss research

Financial Statements

Income statement (INR mn)

Year to December	CY04	CY05	CY06E	CY07E	CY08E
Income from operations	54,321	52,816	60,738	68,065	77,736
Total operating expenses	44,507	49,705	51,445	56,940	63,439
Materials cost	19,090	22,213	21,562	24,503	27,596
Employee cost	6,382	6,786	6,985	7,474	8,595
R&D cost	3,376	4,925	3,744	4,118	4,736
Other expenses	15,659	15,781	19,154	20,844	22,511
EBITDA	9,814	3,111	9,293	11,125	14,297
Depreciation and amortisation	1,215	1,445	1,840	1,869	1,899
Interest	335	671	1,111	1,013	869
Other income	1,000	616	360	360	360
Extraordinary items [expenses/(gain)]	372	(333)	-	-	-
Profit before tax	8,892	1,945	6,702	8,603	11,889
Provision for tax	1,881	(698)	1,407	1,721	2,378
PAT(inc. excep. & pre minority int.)	7,011	2,642	5,295	6,882	9,511
Minority interest & others	26	25	30	30	30
PAT (inc. exceptionals) for equity shareholders	6,985	2,617	5,265	6,852	9,481

Common size metrics as a % of net revenues

Year to December	CY04	CY05	CY06E	CY07E	CY08E
Material cost	35.1	42.1	35.5	36.0	35.5
Employee cost	11.7	12.8	11.5	11.0	11.1
Other expenses	28.8	29.9	31.5	30.6	29.0
Depreciation	2.2	2.7	3.0	2.7	2.4
Interest expenditure	0.6	1.3	1.8	1.5	1.1
EBITDA margins	18.1	5.9	15.3	16.3	18.4
Net profit margins	12.9	5.0	8.7	10.1	12.2

Growth metrics (%)

Year to December	CY04	CY05	CY06E	CY07E	CY08E
Revenues (%)	12.6	(2.8)	15.0	12.1	14.2
EBITDA (%)	(8.9)	(68.3)	198.7	19.7	28.5
Net profit (%)	(7.9)	(62.5)	101.2	30.1	38.4
EPS (%)	(8.1)	(62.6)	87.8	30.1	38.4

Balance sheet (INR mn)

As on 31st December	CY04	CY05	CY06E	CY07E	CY08E
Shareholders funds	25,077	24,467	46,804	50,927	57,679
Capital	1,859	1,862	2,002	2,002	2,002
Reserves & surplus	23,218	22,605	44,803	48,925	55,677
Borrowings	8,527	20,043	19,343	17,643	15,143
Secured loans	3,839	6,079	5,879	5,379	4,879
Unsecured loans	4,688	13,964	13,464	12,264	10,264
Deferred tax liability (net)	842	(49)	800	800	800
Minority interest	180	166	166	166	166
Other term liabilities	28	3	3	3	3
Sources of funds	**34,655**	**44,629**	**67,116**	**69,538**	**73,790**
Gross block	23,132	29,920	31,420	31,920	32,420
Depreciation	7,838	9,329	11,169	13,038	14,937
Net block	15,294	20,591	20,251	18,882	17,484
Capital work in progress	2,876	5,595	5,595	5,595	5,595
Investments	184	172	19,252	19,252	19,252
Inventories	14,351	13,624	12,996	14,769	16,633
Sundry debtors	11,357	11,404	14,977	16,783	19,168
Cash and bank balances	1,339	2,430	2,638	4,566	8,100
Loans and advances	7,579	4,571	4,571	4,571	4,571
Other current assets	844	1,250	1,250	1,250	1,250
Total current assets	35,470	33,279	36,432	41,940	49,722
Current liabilities	12,693	10,600	10,279	11,681	13,155
Provisions	6,475	4,408	4,137	4,450	5,107
Total current liabilities and provisions	19,168	15,008	14,416	16,131	18,262
Net current assets	16,302	18,271	22,017	25,809	31,460
Uses of funds	**34,655**	**44,629**	**67,116**	**69,538**	**73,790**
Book value per share (INR)	67	66	117	128	145

Cash flow statement (INR mn)

Year to December	CY04	CY05	CY06E	CY07E	CY08E
Cash flow from operations	8,220	2,892	6,652	9,034	12,037
Cash for working capital	959	(951)	(3,266)	(2,177)	(2,774)
Net operating cash flow	9,180	1,940	3,385	6,857	9,263
Net purchase of fixed assets	(5,258)	(7,770)	(1,500)	(500)	(500)
Net purchase of investments	(3,115)	(540)	(18,231)	-	-
Net cash flow from investing	(8,373)	(8,310)	(19,731)	(500)	(500)
Proceeds from equity capital	(3,390)	(3,491)	17,254	(2,729)	(2,729)
Proceeds from LTB/STB	2,343	10,951	(700)	(1,700)	(2,500)
Net cash flow from financing	(1,047)	7,460	16,554	(4,429)	(5,229)
Free cash flow	**806**	**(6,370)**	**(16,345)**	**6,357**	**8,763**

Ratios

Year to December	CY04	CY05	CY06E	CY07E	CY08E
ROE (%)	27.9	10.7	11.2	13.5	16.4
ROCE (%)	26.6	5.9	11.6	13.8	17.3
Inventory days	274	224	220	220	220
Debtors days	76	79	90	90	90
Fixed assets T/o (x)	2.3	1.8	1.9	2.1	2.4
Debt/equity	0.3	0.8	0.4	0.3	0.3

Valuation parameters

Year to December	CY04	CY05	CY06E	CY07E	CY08E
EPS, post exceptionals (INR.)	18.8	7.0	13.2	17.2	23.8
Y-o-Y growth (%)	*(8.1)*	*(62.6)*	*87.8*	*30.1*	*38.4*
CEPS (INR)	22.1	10.9	17.8	21.9	28.5
PE (x)	20.8	55.5	29.5	22.6	16.4
Price/BV(x)	5.8	5.9	3.3	3.0	2.7
EV/Sales (x)	2.8	3.1	2.8	2.5	2.1
EV/EBITDA (x)	15.5	52.3	18.5	15.1	11.3

NOTES

NOTES

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Vikas Khemani - 22864206	Co-Head, Institutional Equities

INDIA RESEARCH			SECTOR
Shriram Iyer	-	2286 4256	Head – Research
Gautam Roy	-	2286 4305	Airlines, Textile
Ashutosh Goel	-	2286 4287	Automobiles, Auto Components
Vishal Goyal, CFA	-	2286 4370	Banking & Finance
Revathi Myneni	-	2286 4413	Cement
Sumeet Budhraja	-	2286 4430	FMCG
Harish Sharma	-	2286 4307	Infrastructure, Auto Components, Mid Caps
Priyanko Panja	-	2286 4300	Infrastructure, Engineering, Telecom
Hitesh Zaveri	-	2286 4424	Information Technology
Priyank Singhal	-	2286 4302	Media, Retail
Prakash Kapadia	-	2286 4432	Mid Caps
Niraj Mansingka	-	2286 4304	Oil & Gas, Petrochemicals
Nimish Mehta	-	2286 4295	Pharmaceuticals, Agrochemicals
Manika Premsingh	-	4019 4847	Economist
Sunil Jain	-	2286 4308	Alternative & Quantitative
Yogesh Radke	-	2286 4328	Alternative & Quantitative

INSTITUTIONAL SALES		
Nischal Maheshwari	-	2286 4205
Rajesh Makharia	-	2286 4202
Shabnam Kapur	-	2286 4394
Amish Choksi	-	2286 4201
Deepak Rao	-	2286 4204
Balakumar V	-	(044) 4263 8283
Monil Bhala	-	2286 4363
Ashish Agrawal	-	2286 4301
Nikhil Garg	-	2286 4282
Swati Khemani	-	2286 4266
Neha Shahra	-	2286 4276
Priya Ramchandran	-	2286 4389
Anubhav Kanodia	-	2286 4361
Tushar Mahajan	-	2286 4439
Harsh Biyani	-	2286 4419
Nirmal Ajmera	-	2286 4258
Ankit Doshi	-	2286 4671
Ravi Pilani	-	4009 4533
Dipesh Shah	-	2286 4434

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RATING INTERPRETATION

Buy	Expected to appreciate more than 20% over a 12-month period	**Reduce**	Expected to depreciate up to 10% over a 12-month period
Accumulate	Expected to appreciate up to 20% over a 12-month period	**Sell**	Expected to depreciate more than 10% over a 12-month period
Trading Buy	Expected to appreciate more than 10% over a 45-day period	**Trading Sell**	Expected to depreciate more than 10% over a 45-day period