MOTILAL OSWAL

Sun Pharmaceuticals Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 9,757	SUNP IN
	REUTERS CODE
S&P CNX: 2,860	SUN.BO

Equity Shares (m)	185.5
52-Week Range	935/540
1,6,12 Rel. Perf. (%)	1/-2/-14
M.Cap. (Rs b)	133.8
M.Cap. (US$ b)	2.9

7 June 2006

Buy

Previous Recommendation: Buy

Rs721

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/06A	15,931	5,732	27.7	25.8	26.1	8.4	42.0	19.9	8.2	26.4
03/07E	18,891	6,545	31.6	14.2	22.8	7.1	37.7	20.8	6.8	21.7
03/08E	22,731	7,899	38.1	20.7	18.9	5.3	35.9	22.2	5.4	16.2

Sun Pharma's (SPIL) 4QFY06 results reflect the impact of mounting pressure on Caraco's margins, higher costs and negative bottom-line contribution by the recently acquired loss-making businesses:

- Consolidated sales grew by 36% to Rs3.96b while PAT grew by 21% to Rs1.43b boosted mainly by higher other income at Rs697m (up 170%). The other income included a one-time income of about Rs250m for the quarter.
- EBITDA margins declined by 11% to 24.4% mainly because of higher material costs (up 52%), higher staff costs (up 74%) and higher R&D expenses (up 74%). Consolidation of acquired companies (Able Labs and Valeant Pharma's facilities) also impacted EBITDA margins since the company incurred a cost of about US$4m on them without commensurate revenues. SPIL also incurred a one-time acquisition related expenses (for inventory valuation of stocks of acquired companies) of Rs150m for the quarter.
- Pricing pressure in the US has also impacted the consolidated performance. Caraco's gross margins declined by 320bp for the quarter due to intense pricing pressure in the US.
- Sun Pharma has guided sales growth of 18-20% for FY07E, Generic R&D expenses at 10-12% of sales and capex of Rs1b. It expects to maintain EBITDA margins at 31-32% for FY07E. We view the target of filing 30 ANDAs as a long-term positive since it will significantly strengthen SPIL's US pipeline. Sun Pharma is currently valued at 23x FY07E and 19x FY08E fully diluted EPS, which does not fully factor in the value that Sun could add by using its strong cash chest (US$460m) for acquisitions as well as ramp up its overseas business. We maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED) (Rs Million)

Y/E MARCH	FY05				FY06				FY05	FY06
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Revenues	**2,790**	**2,871**	**3,138**	**2,911**	**3,859**	**4,112**	**4,236**	**3,966**	**11,668**	**15,932**
YoY Change (%)	*23.0*	*13.5*	*27.2*	*24.9*	*38.3*	*43.2*	*35.0*	*36.2*	*22.3*	*36.5*
EBITDA	**1,016**	**1,169**	**1,276**	**1,036**	**1,353**	**1,415**	**1,476**	**969**	**4,403**	**4,975**
Margins (%)	*36.4*	*40.7*	*40.7*	*35.6*	*35.0*	*34.4*	*34.8*	*24.4*	*37.7*	*31.2*
Depreciation	78	96	101	120	116	130	177	189	406	615
Net Other Income	37	-5	-43.6	258	209	193	268	697	213	1,608
PBT	**975**	**1,068**	**1,132**	**1,174**	**1,446**	**1,478**	**1,567**	**1,477**	**4,209**	**5,969**
Tax	38	31	48	53	33	23	70	113	205	239
Rate (%)	*3.8*	*2.9*	*4.2*	*4.5*	*2.3*	*1.5*	*4.5*	*7.7*	*4.9*	*4.0*
Profit after Tax	**938**	**1,038**	**1,084**	**1,121**	**1,413**	**1,455**	**1,497**	**1,364**	**4,004**	**5,729**
Share of Minority Partner	54	39	14	-62	50	-23	33	-65	42	-3
Adj Net Profit	**884**	**999**	**1,070**	**1,183**	**1,363**	**1,478**	**1,464**	**1,429**	**3,962**	**5,732**
YoY Change (%)	*136.3*	*42.4*	*22.3*	*1.2*	*54.2*	*48.0*	*36.8*	*20.8*	*13.0*	*44.7*
Margins (%)	*31.7*	*34.8*	*34.1*	*40.6*	*35.3*	*36.0*	*34.6*	*36.0*	*34.0*	*36.0*

*E: MOSt Estimates; * Quaterly results have been recasted and hence do not tally with full year results*

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Exports drive revenue growth

Export growth was robust at 31%YoY (to Rs2b), with formulation exports growing 46.6% while API exports registered a de-growth of 6%. On a consolidated basis, Caraco was a key contributor to formulations exports growth, reporting the highest-ever quarterly revenues of US$24.7m (up 42% YoY). Exports accounted for about 47% of gross revenues.

SUN PHARMA - BUSINESS BREAK UP (RS M)

	4QFY06	4QFY05	YOY (%)	3QFY06	QOQ (%)
Domestic Sales					
Formulation	2,132	1,404	51.8	2,476	-14.0
Bulk	144	174	-17.4	187	-23.0
Others	2	0	-	0	-
Total Domestic Sales	**2,278**	**1,579**	**44.3**	**2,662**	**-14.0**
Contribution (%)	*53.0*	*50.7*	-	*59.0*	
International Sales					
Formulation	1,528	1,042	46.6	1,302	17.0
Bulk	464	495	-6.1	525	-12.0
Others	18	1	-	0	-
Total Internl. Sales	**2,010**	**1,538**	**30.7**	**1,827**	**10.0**
Contribution (%)	*47.0*	*49.3*		*41.0*	
Gross Sales	**4,288**	**3,116**	**37.6**	**4,489**	**-4.0**

Source: Company/Motilal Oswal Securities

Domestic sales below estimates

Sun's domestic formulation sales recorded 51.8% growth YoY to Rs2.13b, led by its strong brand equity in the CNS segment and prolific rate of new launches. Sun Pharma enjoys the No.1 rank with psychiatrists, neurologists, cardiologists and ophthalmologists. We had expected much higher sales at Rs2.7b as 4QFY05 was a weak quarter owing to VAT implementation.

Higher costs, pricing pressure drag down EBITDA margins

EBITDA margins declined by 11% despite good topline growth due to 50% increase in material costs, 74% jump in staff costs and a 74% increase in R&D expenditure. Overall, expenses increased 60% leading to 11% drop in EBITDA margins to 24.4%. The margin decline also reflects the pricing pressure in the US generics market with Caraco recording a 320bp drop in gross margins at 51.4% despite the launch of generic Ultracet (which enjoys higher margins due to limited competition).

The costs include a one-time charge of Rs150m related to inventory valuation of stocks with acquired companies. SPIL also incurred about US$4m of expenses for the acquired companies which, are yet to contribute to SPIL's revenues. We believe that SPIL will continue to incur these expenses (about US$16m for FY07E) without any commensurate revenue contribution as it is in the process of filing products from the acquired facilities. These acquisitions are expected to generate revenues from FY08E onwards as product approvals start coming through gradually.

Higher other income boosts PAT

SPIL recorded consolidated net profit of Rs.1.43b (up 21%), led mainly by higher other income (including interest income on idle FCCB funds). Other income recorded a 170% jump to Rs697m for the quarter. Adjusted for the one-time income of Rs250m, other income has increased by 73%. The company continues to enjoy income tax benefits due to acquisition of loss-making units resulting in lower effective tax rate.

De-merger of NCE & NDDS research activities to de-risk existing business

Sun Pharma has proposed a de-merger of its NCE/NDDS research into a separate company in order to de-risk the existing business. Key highlights of the de-merger include:

- NCE & NDDS research activities to be de-merged into a separate company. These activities are likely to involve R&D expenditure of Rs700m-800m in FY07E, which will now be incurred in the new R&D company. SPIL will transfer cash of Rs2b and other assets of Rs550m to the new R&D company. The cash will enable the company to sustain its operations for the next two years. SPIL's book value will reduce accordingly. About 120-140 employees (including 100 scientists) will also be transferred to the new R&D company.
- All IPRs related to the NCE/NDDS projects will also be transferred to the new R&D company. SPIL will not have any first-right of refusal on the IPRs or geographical licenses related to these products. Since NDDS products have also been transferred to the new

R&D company, SPIL is unlikely to launch branded products in regulated markets on its own.

- New R&D company may not have any revenues for the next two years till the NCE/NDDS are out-licensed or commercialized. However, it is likely to earn interest income on the unutilized portion of Rs2b cash transferred by SPIL.
- We see this as a de-risking step as NCE/NDDS research involves uncertain returns. Since SPIL's NCE and NDDS projects are entering clinical trials, the R&D expenditure for these activities is expected to increase exponentially in the coming years.
- Existing shareholders of SPIL to get shares of the new company in 1:1 ratio. SPIL's shares have a face value of Rs5/share while the new R&D company will have a face value of Re1/share. FCCB holders to have similar rights as existing equity shareholders. SPIL has raised about US$350m through a FCCB. Conversion price for FCCBs remains at Rs729/share but can change if FCCB holders do not exercise their conversion rights in the new R&D company.
- De-merger to be effective from 1 April 2006. The new R&D company will be listed separately on the stock exchanges.

Impact of de-merger of NCE & NDDS research

We believe that the de-merger will de-risk SPIL's current operations from the uncertainties related to innovative R&D activities. It will also help SPIL to de-risk it existing business from the high R&D expenses which the company is likely to incur for conducting clinical trials. We believe that the de-merger will result in the following benefits:

- Savings in R&D costs related to NCE/NDDS research (approximately Rs700m-800m for FY07E).
- Marginal 20bp increase in effective tax-rate as R&D expenses enjoy 150% weighted deduction as per the Income Tax Act.
- Reduction in other income due to transfer of Rs2b cash to the new R&D company.
- Reduction in SPIL's book value to reflect transfer of assets worth Rs2.55b (including cash) to the new R&D company.

Generic pipeline being strengthened

SPIL (along with Caraco) has about 44 ANDAs pending US FDA approval. In FY07 Sun expects to file about 30 ANDAs including Caraco's filings with the US FDA. Management has in the past, indicated that the filings will be a mix of Para-III and Para-IVs, but will not be skewed in favor of patent challenges. Filings are also likely to pick up out of the recently acquired Valeant facility (situated at Ohio, USA). This facility gives SPIL the capability to manufacture liquids and semi-solids. It is pertinent to note that Caraco does not have such capabilities and that it would have been economically uncompetitive for SPIL to transport such products from India to USA. The acquisition of Valeant's Hungary facility is expected to help SPIL in filings for the European markets. We expect SPIL's generic pipeline to acquire significant strength in the US market by end FY07E with about 60-70 ANDAs pending US FDA approval.

SPIL has recently acquired the assets of US-based Able Laboratories Ltd. for US$23.15m. Able Labs had filed for bankruptcy as per US regulations and had invited bids for its assets. SPIL will be acquiring the manufacturing facilities of Able Labs through this acquisition. The purchase also includes a lease for Able's premises in New Jersey, some contracts and purchase of another property in New Jersey. Able Labs had faced problems with US FDA compliance in the past and had to recall all of its 30 products from the US market. In August 2005, the US FDA denied Able's proposal that it be permitted to revalidate its data and re-launch its product line without full US FDA review.

Able was in the process of transferring its manufacturing lines to a new 225,000 sq ft facility from its old 50,000 sq ft plant. We believe that this new facility will be utilised by SPIL to launch its own products in the US generics market. SPIL will also have the option of re-launching Able's products after rectifying the deficiencies identified by the US FDA. Able Labs had generated sales of about US$100m from its generic portfolio in 2004. We, however, do not have details on Able's product portfolio and hence are not aware about any possible overlaps with SPIL's existing portfolio.

We believe that SPIL is cautiously acquiring generic assets (with specific focus on distress assets). This is evident from SPIL's recent acquisitions of Valeant Pharma's facilities in Hungary and USA (both costing about US$10m each). The acquisition of Able Labs assets is also a step in this direction. With this acquisition, SPIL has, till date, spent about US$40-50m of the US$350m raised through the FCCB some time back. Unlike its other generic peers, SPIL is looking at acquiring assets with reasonable valuations and hence has targeted distress sellers in the past. In fact, SPIL's acquisitions in India have also been on similar lines.

While we do not expect any immediate financial benefits to SPIL from the acquisition of Able Lab's facilities (since it will have to rectify the deficiencies identified by the US FDA), we believe that it will be long-term positive for the company going by SPIL's past track record of acquisitions. SPIL is currently in the process of re-filing some of the products of Able Labs with the US FDA and we expect these products to start contributing to SPIL's revenues from FY08E onwards.

Caraco records good performance

Caraco has recorded its highest ever sales for the quarter with 42% top-line growth to US$24.7m. Caraco Pharma, (SPIL's US subsidiary), reported 4QFY06 results which were in line with our estimates, as net revenues grew by 42.5% YoY to US$24.7m and PAT (pre non-cash R&D) growing by 27.5% to US$7.47m.

Net revenue growth of 42.5% to US$24.7m was primarily driven by launch of Ultracet (end of 3QFY06) and market share gains in Tramadol with acetaminophen. For FY06, net revenues grew by 29% to US$82.8m. However, increased competition in US market let to intense pricing pressure in US markets in FY06.

In 4QFY06, continued pricing pressure led to gross margins declining by 320bp to 51.4%. However, better product mix led to 140bp QoQ improvement in gross margins. For FY06, gross margins declined by 860bp to 49.4% reflecting continued price erosion.

Caraco's R&D cost to affiliate (i.e. compensation to SPIL for product transfer) increased by 37% to US$14m, whereas Caraco's own R&D cost increased by 70% to US$2.9m. R&D cost to affiliate is expected to come down in FY07E onward as only 4 products of 25 products agreement with Sun Pharma are remaining to be transferred. The company doesn't anticipate higher product development cost, inspite of aggressive product development plan, as it expects to utilize savings in non-cash R&D for product development.

During FY06, Caraco filed 10 ANDAs and received approval for 3 ANDAs and has 14 ANDAs pending approval with USFDA. Net loss (reported) in 4QFY06 increased to US$6.5m (from US$4.8m in 4QFY05). However, adjusting for non-cash R&D, net income increased by 27.5% to US$7.5m.

Expect competition for Ultracet in near term

Caraco received favorable ruling in a summary motion from the US lower court for its patent challenge on Ultracet (Acetaminophen and Tramadol HCl) tablets. J&J is the innovator for this product with patent expiry in August 2011. At innovator prices, Ultracet commanded revenues of about US$330m-US$350m.

US-based Par Pharma was eligible for 180-day exclusivity on the product and had launched the generic version in April 2005. Its exclusivity expired in October 2005. Ivax has launched an authorized generic for the product along with Par Pharma. Hence, the market currently has two generic players. Teva has also filed a patent challenge on this drug and is awaiting a court ruling. However, Teva may or may not go ahead with the litigation since it already has a presence in the market through Ivax (now taken over by Teva). Teva is expected to garner a major share of the market, given its dominant presence and distribution clout.

Caraco launched generic Ultracet (it was a launch-at-risk) in December 2005. Caraco's 4QFY06 performance reflects the full impact of generic Ultracet sales. We expect more competition for this product in the near term as a few more generic companies are expected to launch their versions. We expect Caraco to generate about US$10m in sales from generic Ultracet for FY07E. However, it should be noted that this is a launch-at-risk product for Caraco as the patent litigation with the innovator is still pending.

Exponential increasing in generic filings to result in higher R&D costs

SPIL's revenue R&D expenditure (at 13% of revenues for the quarter) was up 74% YoY to Rs510m. It expects the R&D spend to increase exponentially in the coming years as the company gears up for filings in regulated markets. The company has guided generic R&D costs at about 10-12% of sales for FY07E (including minor capex). We believe that the company is in the process of significantly increasing its filings for the regulated markets (target of 30 ANDA filings in FY07E) leading to high R&D costs despite the de-merger of NCE and NDDS research activities.

API exports gaining steam

SPIL's API exports grew by 38% for FY06 (full year) but declined by 6% in 4QFY06. About 60-70% of SPIL's API supplies are to the regulated markets including the USA and we believe that a significant portion is supplied to Caraco. Since, Caraco has about 14 ANDAs pending US FDA approval; SPIL's API exports are also likely to record good growth in the coming years. We expect the company to record more than 40% growth in API exports annually for the next two years.

Formulation exports to grow at 40-50%

SPIL has, in the past, indicated that its formulation exports (to non-regulated markets) will grow at 40-50% over the next two years. This business recorded 46% growth for 4QFY06 and 60% for FY06. We have forecast 50% growth in formulation exports for FY07E and 40% for FY08E as the company accesses more markets and gains critical mass in existing markets.

FCCB funds to depress return ratios short term

SPIL has raised US$350m from the international markets through an equity-linked FCCB instrument to fund its acquisitions in regulated markets. Although the company has not disclosed any further details, we believe the company may be looking at expanding its presence in the US generics market through an acquisition to be funded by the FCCB.

This may depress the return ratios in the short term (as the benefits of acquisition will accrue over a period of time) depending on the quantum of equity dilution. Delay in deploying funds raised through this offering may also have an adverse impact on these ratios in the short term. However, we believe that expanding its presence in the regulated markets is imperative for SPIL in order to gain critical mass in the regulated markets. We also draw comfort from the company's past successes in acquiring other players.

Sun Pharma is likely to follow a conservative policy for acquisitions in regulated markets. It has recently acquired Able Pharma and the facilities of Valeant Pharma in the US and Hungary. It has till date spent about US$40m-US$50m to acquire these assets. These acquisitions reflect the characteristic Sun Pharma policy of acquiring loss-making units and effecting a turnaround.

Phlox Pharma gives access to high-end Cephalosporins

SPIL had acquired Phlox Pharma – a BIFR company – through a 790:1 stock swap implying a negligible equity dilution of Rs0.15m. The company has stated that, contrary to Gujarat Lyka (which SPIL had acquired some years ago and later disposed off); Phlox Pharma gives its access to the high-end second and third generation Cephalosporin range of products including sterile Cephalosporins. Gujarat Lyka's facilities could manufacture only the first generation products and hence SPIL had closed down the unit. SPIL expects to incur capex of Rs150m to spruce up the Phlox unit as well as to complete the formulations unit of Phlox. Filings for regulated markets (for sterile Cephalosporins), including that for dosage forms will be made from this unit in the future. However, we believe that SPIL will be a late entrant in the Cephalosporin segment in the regulated markets as other generic companies have already filed their products. We also believe that since Phlox was a BIFR company, SPIL will enjoy income tax benefits through its acquisition of Phlox.

Acquisitions to adversely impact FY07 consolidated earnings

All the acquisitions made by Sun Pharma in the past few months have been for distress assets. While these acquisitions will have positive implications for the company in the long term, we believe they are likely to drag down consolidated earnings in FY07. Sun Pharma has indicated a timeline of at least 18 months for effecting a turnaround at these units. Our estimates have been accordingly adjusted to take into account the impact of these acquisitions.

Eyeing a large acquisition in the US

Sun Pharma is on the look out for a large acquisition in the US but is currently constrained by very high valuations for most of the generic assets. The company has indicated that the strength of its product pipeline and customer relationships will be the key drivers for any potential acquisitions. It expects payback of about 4-5 years from such an acquisition. The company currently has cash of US$460m on its books, which could be utilized for funding future acquisitions. Our estimates do not take into account the upsides from any potential acquisitions.

Guidance

Sun Pharma has guided sales growth of 18-20% for FY07E, Generic R&D expenses at 10-12% of sales and capex of Rs1b. It expects to maintain EBITDA margins at 31-32% for FY07E. It targets to file 30 ANDAs with the US FDA in FY07E to strengthen its generic pipeline (which will also result in higher R&D costs).

Valuation and outlook

An expanding generic portfolio coupled with change in product mix in favor of high-margin exports is likely to bring in long-term benefits for SPIL. As investors start focusing on SPIL's generics business, the concerns about a slowdown in the company's domestic formulations business (due to the patent regime) are already being discounted. We do not expect introduction of MRP-based excise to have a significant impact on SPIL's domestic operations since a major portion of its production is at excise-exempt zones.

Sun's ability to sustain high growth rates at superior margins even on a high base is a clear positive. With the domestic business progressing well and increasing traction on the US front (both in Caraco and from India), the possibility of a rapid scale-up over the next couple of years is high. Sun Pharma is currently valued at 23x FY07E and 19x FY08E fully diluted EPS, which does not fully factor in the value that Sun could add by using its strong cash chest (US$460m) for acquisitions as well as ramp up its overseas business. We maintain **Buy** with a price target of Rs800.

Sun Pharmaceuticals: an investment profile

Company description

Sun Pharma is among the largest players in the domestic formulations market and the most profitable one. It makes and markets specialty medicines and APIs for chronic therapy areas such as cardiology, psychiatry, neurology, etc. Sun has forayed into regulated markets by acquiring majority stake in Caraco Pharma and intends to look at inorganic means to get a foothold in Europe, as well.

Key investment arguments

- Ability to identify niches in long term therapy areas with high entry barriers and build strong franchise to ensure sustainable growth and high margins
- Well-diversified portfolio de-risks its portfolio against any slowdown in a particular category
- Among the few Indian companies to have a direct presence in the US market (through Caraco)

Key investment risks

- Highly dependent on new product launches for growth in domestic market
- Has not demonstrated the ability to build any big brand so far – a key driver for growth going forward
- Capability to scale up exports, particularly to unregulated markets, is yet to be fully demonstrated

Recent developments

- Recently acquired Able Pharma in US and two facilities from Valeant Pharma in US and in Hungary
- Has recently proposed de-merger of NCE & NDDS research activities.

Valuation and view

- Revenue and earnings CAGR of 19% and 17% expected over FY06-FY08E
- Multiples of 23x FY07E and 19x FY08E earnings do not reflect the potential upside from any overseas acquisitions
- Re-iterate **Buy** with price target of Rs800

Sector view

- Regulated markets would remain the key sales and profit drivers in the medium term. Europe is expected to emerge as the next growth driver, particularly for companies with a direct marketing presence
- We are overweight on companies that are towards the end of the investment phase, with benefits expected to start coming in from the next fiscal

COMPARATIVE VALUATIONS

		SUN PHARMA	CIPLA	NPIL
P/E (x)	FY07E	22.8	22.4	19.1
	FY08E	18.9	18.8	14.8
P/BV (x)	FY07E	7.1	4.9	3.7
	FY08E	5.3	4.0	3.4
EV/Sales (x)	FY07E	6.8	4.2	2.0
	FY08E	5.4	3.5	1.8
EV/EBITDA (x)	FY07E	21.7	16.7	13.1
	FY08E	16.2	13.7	10.9

SHAREHOLDING PATTERN (%)

	MAR.06	DEC.05	MAR.05
Promoters	71.3	71.4	71.9
Domestic Institutions	2.7	2.8	2.8
FIIs/FDIs	15.9	15.7	14.6
Others	10.1	10.1	10.7

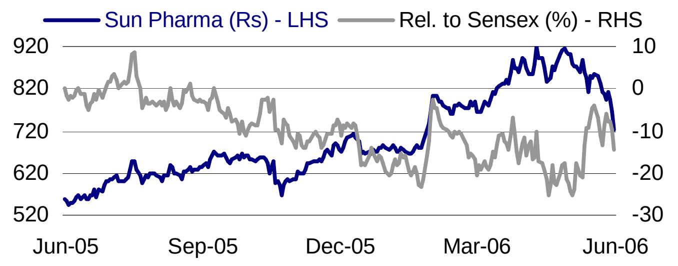
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY07	31.6	33.0	-4.2
FY08	38.1	37.8	0.9

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
721	800	11.0	Buy

STOCK PERFORMANCE (1 YEAR)



CONSOLIDATED INCOME STATEMENT					(Rs Million)
Y/E MARCH	2004	2005	2006E	2007E	2008E
Net Sales	**9,442**	**11,433**	**15,931**	**18,891**	**22,731**
Change (%)	*17.5*	*21.1*	*39.3*	*18.6*	*20.3*
Total Expenditure	5,494	7,266	10,957	12,940	15,116
EBITDA	**3,948**	**4,167**	**4,975**	**5,951**	**7,615**
Margin (%)	*41.8*	*36.4*	*31.2*	*31.5*	*33.5*
Depreciation	286	406	615	755	788
EBIT	**3,662**	**3,761**	**4,360**	**5,196**	**6,827**
Int. and Finance Charges	73	129	156	160	240
Other Income - Rec.	223	580	1,764	1,721	1,604
PBT	3,812	4,212	5,968	6,757	8,191
Tax	367	207	239	279	338
Tax Rate (%)	*9.6*	*4.9*	*4.0*	*4.1*	*4.1*
Profit after Tax	**3,446**	**4,005**	**5,729**	**6,478**	**7,852**
Change (%)	*41.0*	*16.2*	*43.0*	*13.1*	*21.2*
Margin (%)	*36*	*35*	*36*	*34*	*35*
Less: Mionrity Interest	151	42	-3	-67	-47
Net Profit	**3,295**	**3,963**	**5,732**	**6,545**	**7,899**

CONSOLIDATED BALANCE SHEET					(Rs Million)
Y/E MARCH	2004	2005	2006E	2007E	2008E
Equity Share Capital	464	928	928	928	928
Preference Share Capital	155	14	14	14	14
Total Reserves	7,540	10,366	15,037	17,821	24,259
Net Worth	**8,159**	**11,307**	**15,979**	**18,763**	**25,200**
Minority Interest	83	161	158	92	45
Deferred Liabilities	741	896	1030	1231	1231
Total Loans	4,130	18,230	15,912	16,000	16,000
Capital Employed	**13,113**	**30,595**	**33,079**	**36,085**	**42,476**
Gross Block	6,232	7,806	9,806	10,256	10,756
Less: Accum. Deprn.	1,713	2,087	2,702	3,457	4,245
Net Fixed Assets	**4,518**	**5,719**	**7,105**	**6,800**	**6,512**
Capital WIP	410	493	493	493	493
Goodwill	1,612	1,538	1,538	1,538	1,538
Investments	1,765	6,485	6,485	6,485	6,485
Curr. Assets	**6,924**	**18,946**	**20,533**	**24,435**	**31,762**
Inventory	2,542	3,173	3,602	4,390	5,100
Account Receivables	2,250	2,511	2,663	3,157	3,799
Cash and Bank Balance	945	11,809	12,130	14,352	19,811
Curr. Liability & Prov.	**2,116**	**2,587**	**3,075**	**3,666**	**4,313**
Account Payables	1,383	1,741	2,013	2,454	2,851
Provisions	734	845	1,061	1,212	1,462
Net Current Assets	**4,807**	**16,360**	**17,458**	**20,770**	**27,449**
Appl. of Funds	**13,113**	**30,595**	**33,079**	**36,085**	**42,476**

E: MOst Estimates

RATIOS					
Y/E MARCH	2004	2005	2006E	2007E	2008E
Basic (Rs)					
EPS	**17.8**	**21.4**	**30.9**	**35.3**	**42.6**
Fully Diluted EPS	**17.8**	**22.0**	**27.7**	**31.6**	**38.1**
Cash EPS	38.6	23.6	34.2	39.3	46.8
BV/Share	86.3	60.9	86.1	101.1	135.8
DPS	6.5	3.8	6.4	8.6	0.0
Payout (%)	18.4	18.2	23.8	28.2	0.0
Valuation (x)					
P/E		32.8	26.1	22.8	18.9
Cash P/E		30.6	21.1	18.3	15.4
P/BV		11.9	8.4	7.1	5.3
EV/Sales		11.7	8.2	6.8	5.4
EV/EBITDA		32.1	26.4	21.7	16.2
Dividend Yield (%)		0.5	0.9	1.2	0.0
Return Ratios (%)					
RoE	47.3	40.7	42.0	37.7	35.9
RoCE	40.2	20.8	19.9	20.8	22.2
Working Capital Ratios					
Asset Turnover (x)	0.7	0.4	0.5	0.5	0.5
Debtor (Days)	92	85	64	64	64
Inventory (Days)	104	107	87	89	86
Working Capital T/O (Days)	196	551	422	423	465
Leverage Ratio					
Debt/Equity (x)	0.5	1.6	1.0	0.9	0.6

CASH FLOW STATEMENT					(Rs Million)
Y/E MARCH	2004	2005	2006E	2007E	2008E
Oper. Profit/(Loss) before Tax	3,948	4,167	4,975	5,951	7,615
Interest/Dividends Recd.	223	580	1,764	1,721	1,604
Direct Taxes Paid	87	-51	-106	-78	-338
(Inc)/Dec in WC	-860	-689	-778	-1,089	-1,220
CF from Operations	**3,398**	**4,007**	**5,855**	**6,505**	**7,660**
(inc)/dec in FA	-3,340	-1,616	-2,000	-450	-500
(Pur)/Sale of Investments	-1,727	-4,720	0	0	0
CF from investments	**-5,067**	**-6,335**	**-2,000**	**-450**	**-500**
Issue of Shares	-362	-49	303	-1,934	-1,461
(Inc)/Dec in Debt	2,867	14,100	-2,318	88	0
Interest Paid	-73	-129	-156	-160	-240
Dividend Paid	-633	-730	-1,363	-1,827	0
CF from Fin. Activity	**1,799**	**13,192**	**-3,534**	**-3,833**	**-1,701**
Inc/Dec of Cash	**130**	**10,863**	**321**	**2,222**	**5,459**
Add: Beginning Balance	816	945	11,809	12,130	14,352
Closing Balance	**945**	**11,809**	**12,130**	**14,352**	**19,811**

N O T E S

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1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No