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Aurobindo Pharma

Re-rating on cards

Initiating Coverage

17 August, 2010

BUY

Price	Target
Rs 949	Rs 1,242

Sensex	**18,051**

Price Performance

(%)	1M	3M	6M	12M
Absolute	(6)	4	2	43
Rel. to Sensex	(6)	(2)	(9)	22

Source: Bloomberg

Stock Details

Sector	Pharmaceuticals
Reuters	ARBN.BO
Bloomberg	ARBP@IN
Equity Capital (Rs mn)	290
Face Value (Rs)	5
No of shares o/s (mn)	58
52 Week H/L (Rs)	1,017/633
Market Cap (Rs bn/USD mn)	55/1,175
Daily Avg Vol (No of shares)	200562
Daily Avg Turnover (US$ mn)	3.9

Shareholding Pattern (%)

	Jun-10	Mar-10	Dec-09
Promoters	56.2	56.9	58.7
FII/NRI	23.0	24.2	22.1
Institutions	11.7	10.2	10.7
Private Corp	2.1	2.0	1.7
Public	7.0	6.7	6.9

Source: Capitaline

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- **Aurobindo's transformation from an API to formulation player complete; Valuations to catch up. 48% discount to Emkay pharma universe unwarranted**
- **Pfizer deal enhances credibility and visibility**
- **Foray into new segments to further expand margins; higher capacity utilization and favorable product mix to improve return ratios**
- **Expect earnings CAGR of 20% over FY10-12E. Initiate coverage with a BUY and TP of Rs1,242, 31% upside**

'Formulation player' profile, entry into new segments to expand margins

Over the last five years, Aurobindo has transformed itself from an API player to a formulation player –evident from the rising formulation contribution in the revenue mix (10% in FY05 to 54% in FY10). We expect its foray into a) high margin niche formulations such as oral contraceptives, controlled substances and injectables and b) increased focus on branded generics, particularly in the semi-regulated markets; to further increase the contribution of the formulation segment to 63% by FY12E. Favorable business mix coupled with high asset utilization to expand its core EBITDA margins by ~173 bps to ~20.3% in FY12E.

Pfizer deal enhances credibility and visibility

Aurobindo's tie-up with Pfizer to supply over 100 products in both regulated and emerging markets not only enhances its credibility in the highly regulated markets of US and EU but also enables its entry into the 'high margin high growth' emerging markets. Pfizer's strong brand equity and established marketing network will enable faster ramp up in revenues. We expect revenue from Pfizer and other MNCs to quadruple to US$ 190mn in FY12E, registering ~100% CAGR over FY10-12E.

Play on improving profitability; receding balance sheet concerns

With increased capacity utilization coupled with favorable product mix, we expect its financial health to improve, in future. Owing to higher profitability and peak investment cycle coming to an end, we expect Aurobindo to generate free cash flow of Rs3.6bn (adjusting to capex) over FY10-12E. This will bring down the D/E of the company from 1.2x in FY10 (1.9x in FY09) to 0.7x in FY12E. Overall, we expect its RoIC and RoCE to improve from 20.4% and 16.5% in FY10 to 26.8% and 18.6% respectively in FY12E.

Valuations have yet to catch up; initiate coverage with a BUY

At CMP of Rs949, Aurobindo is trading at 48% discount to Emkay's pharma universe (excluding MNCs), which we believe, is unwarranted, as most of the concerns such as leveraged balance sheet, lower growth, and profitability and return ratios, have largely been addressed. We are of the view that Aurobindo's transformation from an API player to formulation player is almost complete. However, its valuations are yet to catch up. We have valued Aurobindo at 11x one-year forward earnings (~30% discount to coverage universe) to arrive at a target price of Rs1,242.

Financial Snapshot **Rs Mn**

YE-Mar	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/EBITDA	P/BV
FY09	30,773	3,750	12.8	3,503	65.1	108.8	28.3	14.6	14.1	4.1
FY10	35,754	6,255	18.5	4,561	78.2	20.1	25.0	12.1	8.9	2.9
FY11E	41,204	7,623	19.2	5,331	91.4	16.8	22.4	10.4	8.0	2.3
FY12E	48,975	9,614	20.3	6,587	112.9	23.6	23.8	8.4	6.5	2.0

Investment Rationale

Re-rating on cards, Initiate coverage with a BUY rating

We believe that Aurobindo Pharma promises strong upsides as its valuations catch up with its new and improved revenue and earnings profile. During the last 5 years, Aurobindo Pharma has shed its API image and has consistently worked towards becoming a formulation player. This is evident from its revenue mix (tilting largely in favor of formulations ~54% of total sales) and its subsequent improvement in margins and earnings (1022 bps expansion in OPM and 169% CAGR in APAT). Its tie-up with Pfizer further accentuates its position as a formidable formulation player. While Aurobindo's transformation from an API player to a formulation player is almost complete, its valuations have just started catching up –leaving room for healthy upsides. We have valued Aurobindo at 11x one-year forward earnings (~48% discount to coverage universe, excluding MNCs) to arrive at a target price of Rs 1,242, an upside potential of 31%.

We believe that it deserves a higher multiple than its historical multiple of 10x as there is a marked shift in the revenue and earnings profile of the company. Aurobindo Pharma's valuations had taken a major hit in October 2008 on account of a) Lack of earnings visibility b) Over leveraged balance sheet c) Forex loss on account of currency fluctuations and c) Poor investor sentiment led by FCCB concerns. However, the company has undergone a major transformation since then, making these valuation concerns redundant.

Our assigned valuation multiple of 11x takes into account its transition from an API player to a formulation player. However, we have valued it at a discount to our coverage universe as Aurobindo Pharma still has a long way to go before it boasts of a similar market presence and distribution network like Cipla, Lupin, Cadila, Glenmark and Torrent.

Exhibit 1: PE Band (one-year forward)

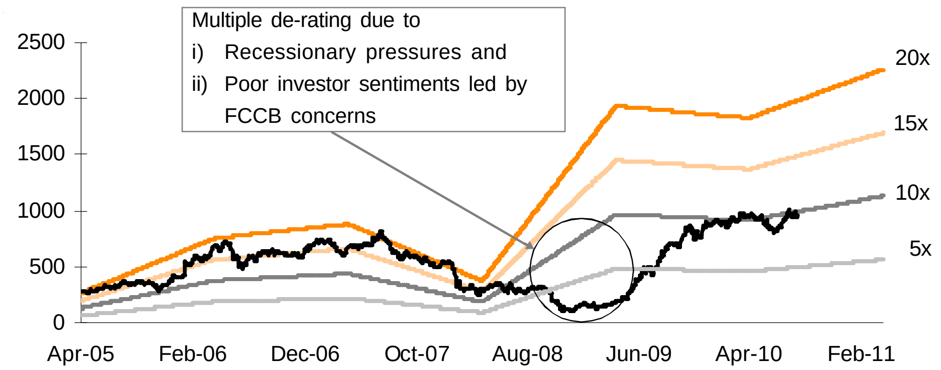
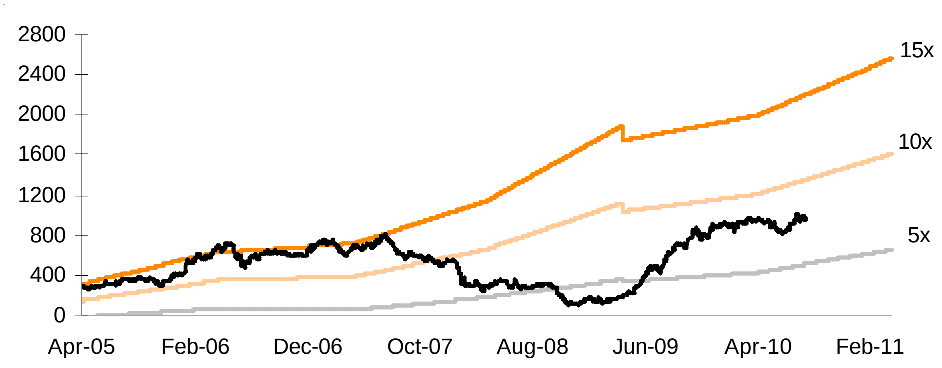


Exhibit 2: EV/EBITDA (one-year forward)



Source: Emkay Research

Exhibit 3: Valuation Summary of Emkay Pharma Universe (Ex-MNC Pharma)

	CMP	EPS (Rs)			P/E		P/BV		EV/Sales		EV/EBIDTA		RoE	RoCE
	Rs	FY10	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY12E	FY12E
Sun Pharma (Base)	1716	43.9	62.8	82.9	27.3	20.7	3.8	3.3	7.9	6.1	25.9	18.8	17.8	15.5
Cipla	304	13.3	15.4	18.2	19.7	16.7	3.7	3.2	4.3	3.7	18.8	16.1	20.4	21.8
Ranbaxy (Base)	447	0.6	10.8	13.7	41.5	32.7	3.5	3.3	2.9	2.7	31.6	19.1	17.2	15.5
Cadila	624	23.3	30.5	38.3	20.4	16.3	5.9	4.6	3.4	2.8	14.2	11.4	30.9	31.8
DRL (Base)	1355	41.1	61.7	73.0	22.0	18.6	4.8	3.7	3.3	2.7	16.6	14.2	30	32
Lupin	1811	76.9	94.7	113.0	19.1	16.0	5.1	4.2	2.9	2.5	13.8	11.5	31.8	31.6
Glenmark	268	11.3	13.2	16.7	20.3	16.0	2.6	2.2	2.8	2.4	10.2	9.0	18.2	18.2
TPL	530	27.8	37.0	46.4	14.3	11.4	4.1	3.2	2.2	1.8	10.6	8.5	30.2	32.5
Ipca	272	16.1	20.0	24.5	13.6	11.1	3.2	2.5	2.1	1.7	10.0	8.2	41.7	33.9
Jubilant	339	28.6	34.7	40.2	9.8	8.4	2.0	1.6	1.8	1.6	8.7	7.5	23.4	17.2
Dishman	206	11.3	14.5	18.7	14.2	11.0	1.8	1.6	2.2	1.8	9.2	7.6	16.2	14.1
Divis	733	25.8	31.9	40.2	23.0	18.3	10.7	8.8	16.5	13.4	39.0	31.2	22.7	22.4
Piramal	487	22.7	26.2	33.3	18.5	14.6	5.0	4.0	2.6	2.3	12.7	11.0	30.5	27.3
Average		**26.4**	**34.9**	**43.0**	**20.3**	**16.3**	**4.3**	**3.6**	**4.2**	**3.5**	**17.0**	**13.4**	**25.4**	**24.2**
Aurobindo	**949**	**96.6**	**91.4**	**112.9**	**10.4**	**8.4**	**2.3**	**2.0**	**1.8**	**1.5**	**8.0**	**6.5**	**23.8**	**18.6**

Source: Emkay Research

Corporate transformation almost complete

Over the last decade, Aurobindo has shed its API image and has been working towards establishing itself as a formidable formulation player. This transformation has started yielding positive results with its revenues, margins and earnings growing by 21%, 1022 bps and 169% respectively over FY05-10. We believe this transition phase is almost complete and Aurobindo is now moving towards the next phase of catching up with its new peers in the formulation space.

The following exhibits chart its transformation from an API player to a formulation player and the subsequent improvement in its revenue and margin profile.

Exhibit 4: From API to formulations (% of sales)

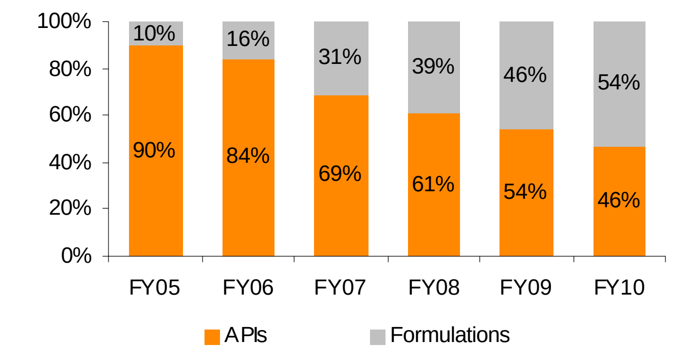
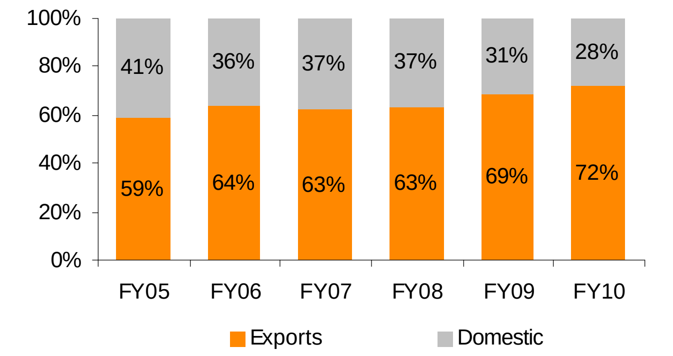


Exhibit 5: Shifting trend towards exports (% of sales)



Source: Company, Emkay Research

Exhibit 6: Focus markets in FY07

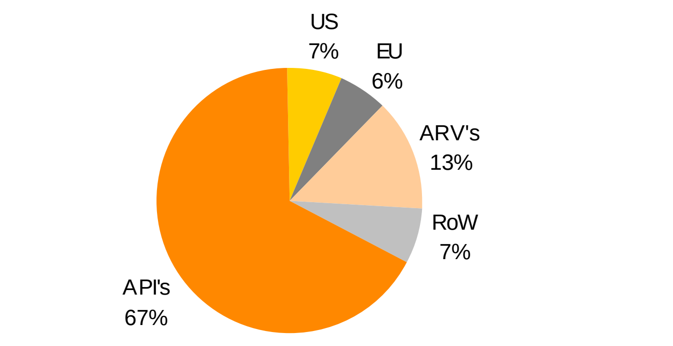
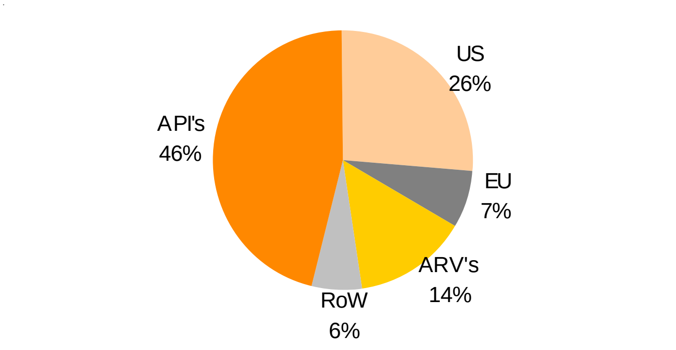
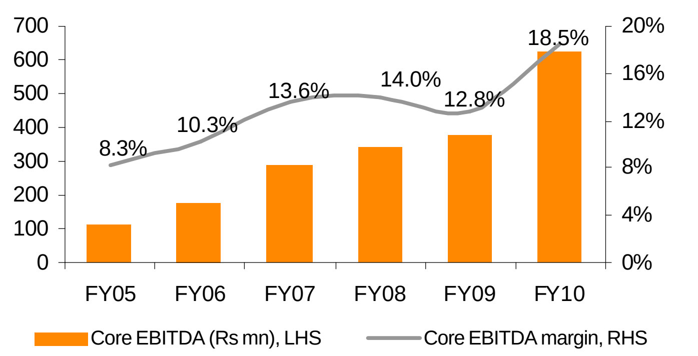


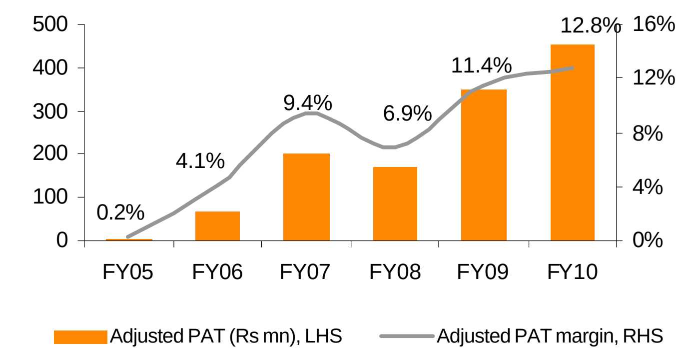
Exhibit 7: Focus shifting towards advanced markets in FY10



Source: Company, Emkay Research

...leading to margin expansion and improved profitability





Source: Company, Emkay Research

Pfizer's association has increased its credibility as well as visibility

Pfizer entered into a 15 year licensing and supply agreement with Aurobindo in Q4FY09. Initially, the agreement was for 38 products (orals as well as injectables) to be supplied in US and Europe. Later on, this agreement was expanded to over 100 products across geographies including RoW markets. Pfizer's deal with Aurobindo is its first in-licensing deal - signifying Aurobindo's strength in the research and manufacturing space. Supply to the US and EU markets commenced from Q4FY09 and Q4FY10 respectively, while supplies to ROW markets are expected by Q4FY11E.

This association with Pfizer offers multiple benefits for Aurobindo -

a) The deal has enhanced the credibility of Aurobindo in highly regulated markets such as US and EU.

b) It further enables Aurobindo's entry into the high margin high growth emerging markets, which will take it up the pharma value chain

c) It can leverage on the strong brand equity and marketing strength of Pfizer across geographies without having to invest in front-end infrastructure. This is likely to result in faster revenue ramp up.

d) This greatly improves Aurobindo's revenue and earnings visibility. Moreover, launch of injectable products by Pfizer will further boost sales.

e) Aurobindo has built up significant capacities in the last three years. The deal with Pfizer will improve overall capacity utilization from 80% in FY10 to 98% in FY12E.

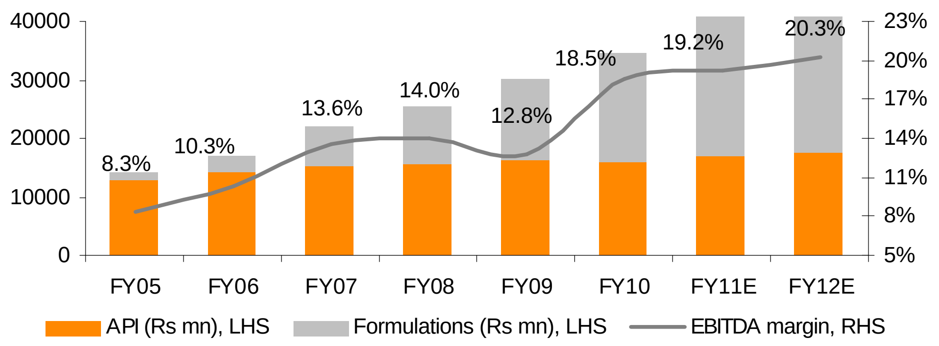
Aurobindo has already garnered revenues to the tune of ~US$ 47mn in FY10 on account of the Pfizer deal. Supply to Europe has already commenced from Q4FY10 and the supply to ROW markets is expected to commence from Q4FY11E. Going ahead, we expect its revenue from Pfizer and other MNCs to quadruple to US$ 190 mn in FY12E (18% of overall revenue), registering ~100% CAGR over FY10-12E. Apart from this, Aurobindo is also likely to generate significant dossier income without spending incremental money on filing as most of the products are already developed. Margins are also expected to improve as Aurobindo's 6 USFDA approved formulation manufacturing facilities, which were lying under-utilized (4 out of 5 units under-utilized and to yet to be commissioned) will be effectively put to use with the progression of this deal.

Aurobindo is in discussions with other MNC pharma companies (for licensing and supply contracts for emerging markets) which may bring fresh upsides to the stock.

Aurobindo's foray into newer segments to further expand margins

After establishing its presence in the formulation segment, Aurobindo is moving up the value chain by entering into high margin niche formulations such as oral contraceptives, controlled substances as well as injectables. Moreover, within the formulation segment, the company is also focusing on branded generics, particularly in semi-regulated markets through own as well as partnership routes (company is in talks with two-three MNCs for emerging market tie-ups, apart from Pfizer). We believe that increasing approvals and new marketing tie-ups will further improve its product as well as geographical mix and enable the company to leverage its large back-end infrastructure and product basket. We expect these initiatives to further increase the contribution of the formulation segment to 63% by FY12E. We expect this favorable business mix coupled with high asset utilization to expand its core EBITDA margins by ~173 bps over FY10-12E to ~20.3% in FY12E.

Exhibit 8: Entry into newer segments to further enhance margins



Source: Company, Emkay Research

Vertically integrated model ensures margin sustainability

Aurobindo's formulation business has been backed by its own APIs. Approximately, 95% of the key intermediates and APIs required for formulations are captively sourced. This has facilitated the company broaden its scope from just anti-biotics and anti-retroviral therapies (ARV) to high value growth segments such as CVS, CNS and GI. Going ahead, we believe the company will reduce its dependence on Semi-Synthetic Penicillins (SSP's) and instead focus more on high-margin anti-biotics (Cephalosporins) and other general APIs. On the formulations front, the company caters to the high margin niche segments of oral contraceptives, controlled-release products, sterile injectables and other lifestyle ailments. In the US, Aurobindo has 148 DMF filings- the highest by any Indian company. The company has filed a total of 1667 DMF filings globally. We believe Aurobindo has a sustainable competitive advantage because of its backward integration and large product filing.

Owing to higher proportion of APIs to be used for captive consumption, we expect API contribution to decrease from ~46% in FY10 to ~37% in FY12E.

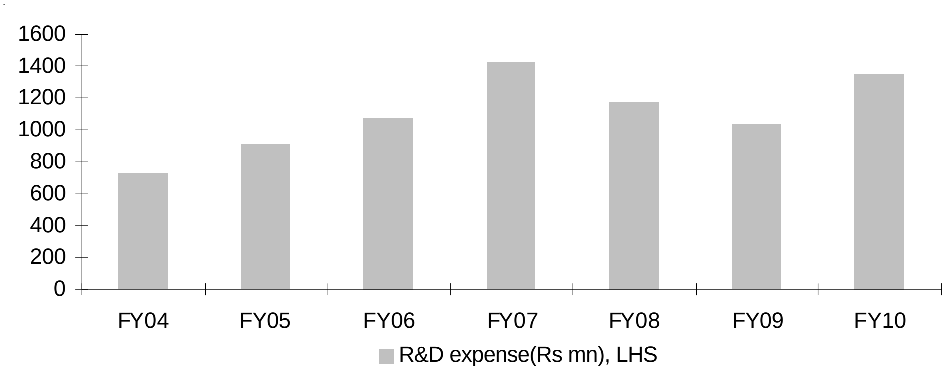
Higher R&D expenses translating into largest ANDA pipeline

With 121 ANDAs approved in the US (169 filings so far), Aurobindo is the second largest pharma company among its Indian peers in terms of portfolio. Aurobindo has been consistently investing in R&D (~4% of the revenue) and currently marketing over 61 products in the US (16 in FY07), its US revenue has gone up from Rs2359 mn in FY08 to Rs9124 mn in FY10 (~4x in 2 years). Despite being a late entrant in most of the products, Aurobindo has been able to garner respectable market share in many products because of its end-to-end vertically integrated business model. 95% of its ANDAs are backed by its own DMFs and this has resulted in higher revenue accretion and margins improvement in the formulations segment. During FY07-10, ANDA filings have increased from 82 to 169. Aurobindo now has a total of 121 ANDA approvals (91 final approvals and 30 tentative approvals) from USFDA and is currently marketing 61 products in US. Its main products in the US include Valcyclovir, Amoxicillin, Cefpodoxime, Cefprozil, Carvedilol, Simvastatin, Metformin, Citalopram and Paroxetine.

Going ahead, we expect growth in US to be driven by approvals on filings under niche areas, such as oral contraceptives, controlled-release products, injectables and filings with Para IV certification. We expect incremental product filings and higher capacity utilization to further drive its future earnings growth. Moreover, we expect Aurobindo's other initiatives such as acquisition of Sandoz's New Jersey based facility for controlled substances and other high value products to add further momentum to its US growth.

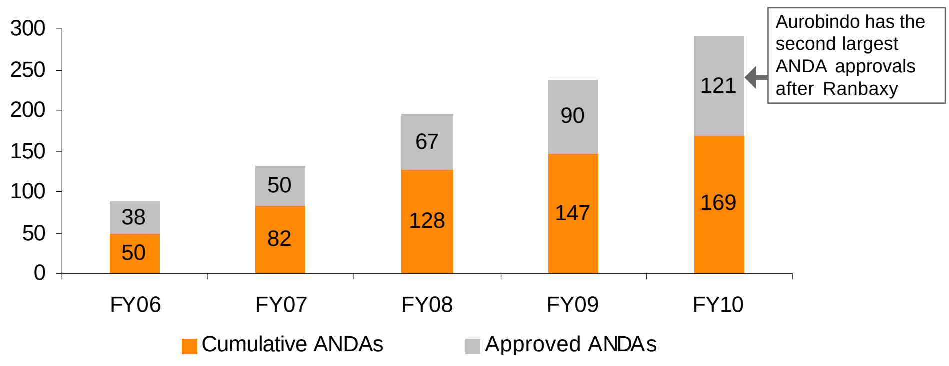
Ramp-up in own launches (expect 35 product launches in next 2 years), supplies to Pfizer (75 orals and 12 injectables) as well as contribution from controlled substances and injectables, is likely to result in ~32% CAGR in its US business to US$ 353 mn in FY12E (US$ 140 mn contribution from Pfizer in the US, ~40% to the US sales).

Exhibit 9: Rising R&D expenses …



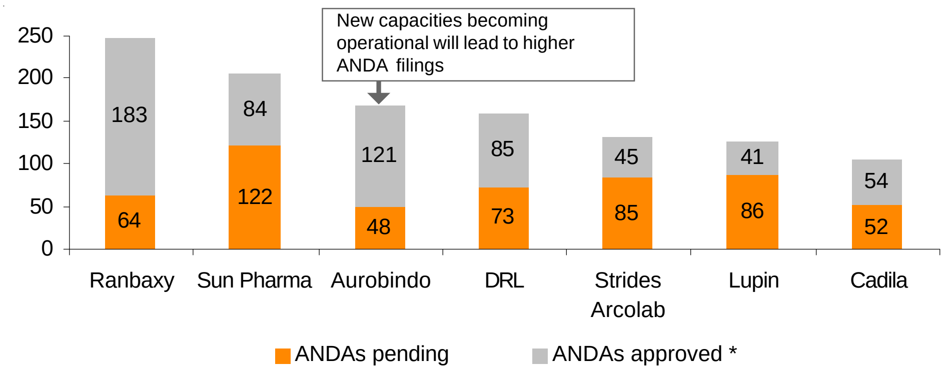
Source: Company, Emkay Research

… leading to higher ANDA filings



Source: Company, Emkay Research

Exhibit 10: ANDA filings comparison across peers



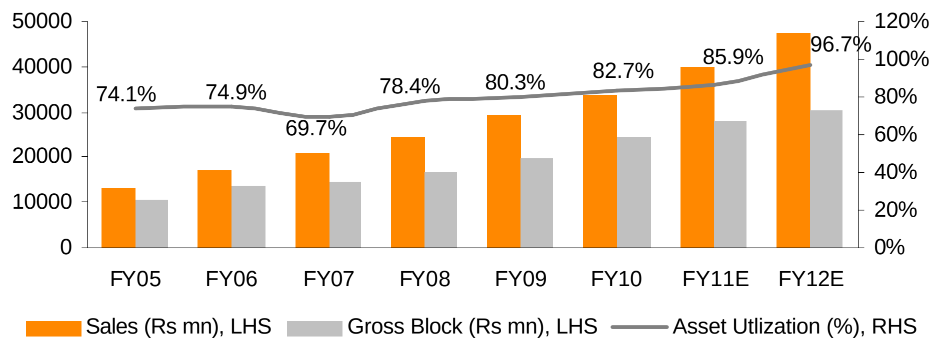
** includes tentative approvals*

Source: Company, Emkay Research

Increasing asset utilization, higher margins to improve return ratios

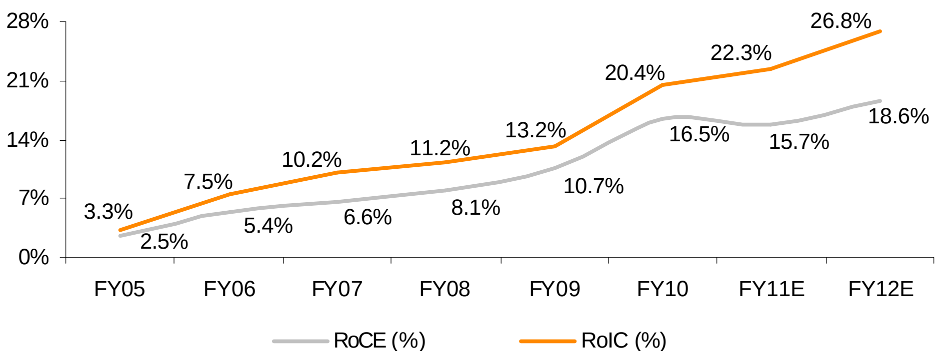
In the last five years, Aurobindo has invested almost Rs10bn on infrastructure, mostly through borrowings (via convertible bonds). Slow build up in revenue and low capacity utilization led to significant pressure on profitability given the unabsorbed overheads on its manufacturing infrastructure. This had strained its profitability, cash flow and balance sheet (DE was 1.9x in FY09). However, we have witnessed a marked improvement in its cash flow over the last few quarters on the back of the Pfizer deal (dossier income) for multiple markets and critical scale up in its own operations in key markets. We believe that as revenue scales up, the higher fixed costs which were a drag on profitability will provide operating leverage. Overall, we expect its asset utilization to improve from 0.83x in FY10 to 0.97x in FY12E. Higher capacity utilization coupled with favorable product mix will improve the financial health of the company. Overall, we expect its RoIC and RoCE to improve from 20.4% and 16.5% in FY10 to 26.8% and 18.6% respectively in FY12E

Exhibit 11: Higher asset turnover leading to robust growth in sales



Source: Company, Emkay Research

Exhibit 12: Return ratios to improved further



Source: Company, Emkay Research

Infrastructure to give a boost to operating leverage

Aurobindo is one of the largest companies in terms of manufacturing capacity. Over the years, it has built world class manufacturing infrastructures which are at par or even bigger than those of many Indian pharma companies. Aurobindo currently owns 14 manufacturing facilities, of which, 11 facilities are in India, two in US and one in China. It has 4 formulations and 6 APIs facilities in India, out of which 9 are approved by US FDA and other leading regulatory agencies in the world.

Having started out as a pure API player in less regulated markets, it has integrated forward into formulations with focus on regulated markets and is now gradually moving into niche formulations such as oral contraceptive and controlled substances as well as injectables. Company has recently taken organic and in-organic initiatives to build capabilities in these areas such as acquisition of the Sandoz facility in New Jersey for controlled substances, acquisition of Trident Life Sciences to build capabilities in injectables and putting up a facility in India for oral contraceptives. Moreover, the company has also recently commercialized its operation in SEZ (unit VII at Jedcherla) which has capacity to produce 10 billion tablets and one billion capsules. Aurobindo has leveraged its infrastructure to its advantage and has developed a large basket of products. Aurobindo is currently the second largest Indian company in terms of ANDA approval and third largest in terms of ANDA filing. Aurobindo's upfront investment in building end to end integrated manufacturing infrastructure coupled with large product pipeline provides long term revenue and earnings sustainability. We believe that Aurobindo is now in a much better position to leverage its extensive manufacturing infrastructure, going forward.

Strong internal accruals to allay balance sheet concerns

High leverage and possible inability to refinance its FCCBs have plagued Aurobindo in the past. However, we believe that the company is now in a commendable position to meet these repayments on account of strong cash flows from operations and peak capex cycle coming to an end. We expect the company to generate free cash flow (adjusting to capex) of Rs3.6bn over FY10-12E. In fact, the D/E of the company has already come down from 1.9x in FY09 to 1.2x in FY10. Going ahead, we expect it to further come down to ~0.7x by FY12E. We expect significant improvement in its interest coverage ratio from 4.6x in FY09 to 7.7x in FY12E. Aurobindo has bought back FCCBs worth US$63mn (at a discount of around 65% of accredited value) over FY09 and FY10 and the balance tranche of its August'10 FCCB (US$60mn) has already been converted into equity (US$2.2mn is due for redemption till August'10). The remaining tranches of FCCBs (US$204mn including YTM) are out-of-money and due for redemption by Q1FY12. Since both of the tranches are out of money, we are treating them as debt and believe that company would be able to repay the debt through a mix of internal accruals (US$80mn to be generated internally) and borrowings (expect ECBs of US$125mn).

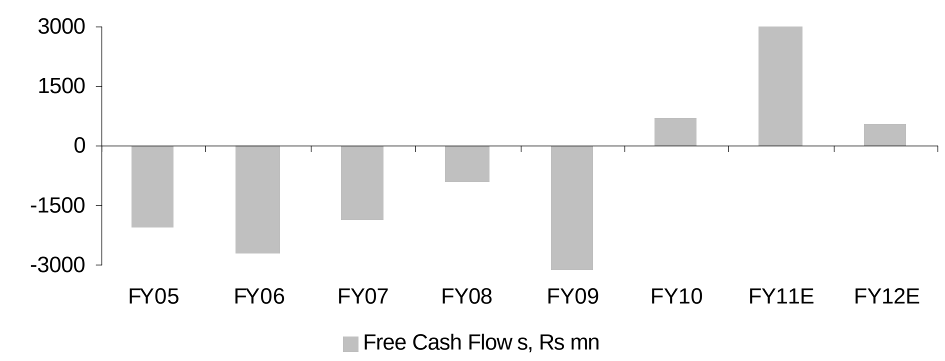
Exhibit 13: Aurobindo's FCCB profile

FCCB	Amount (USD mn)	CP	YTM %	FCCBs bought back (USD mn)	O/S (USD mn)	Redemption with YTM (USD mn)	Adj. conversion price* (Rs)	Current status	Underlying share O/S (mn)
May'11 (Tranche A)	50	879	47.3	17	33.0	48.6	1330.8	Out of money	1.7
May'11 (Tranche B)	150	1014	46.3	43.8	106.2	155.4	1527.9	Out of money	4.7
Total	**200**			**60.8**	**139.2**	**204.0**			**6.4**

** Adj. for YTM difference and exchange difference*

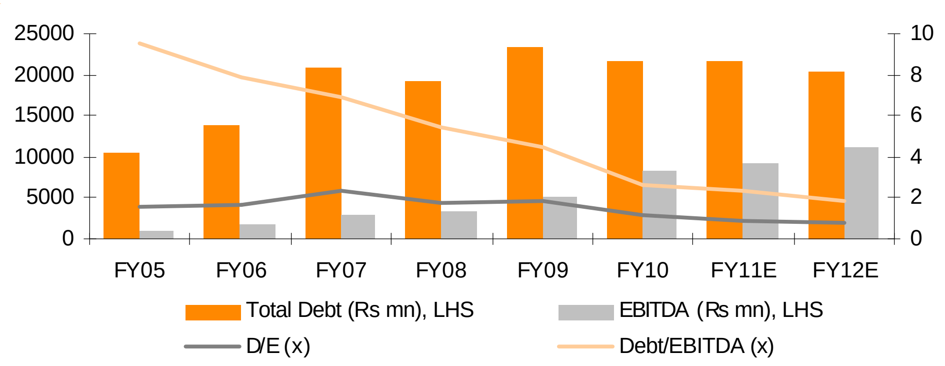
Source: Company, Emkay Research

Exhibit 14: Increasing cash from operations to allay balance sheet concerns



Source: Emkay Research

… leading to improvement in D/E and Debt/EBITDA



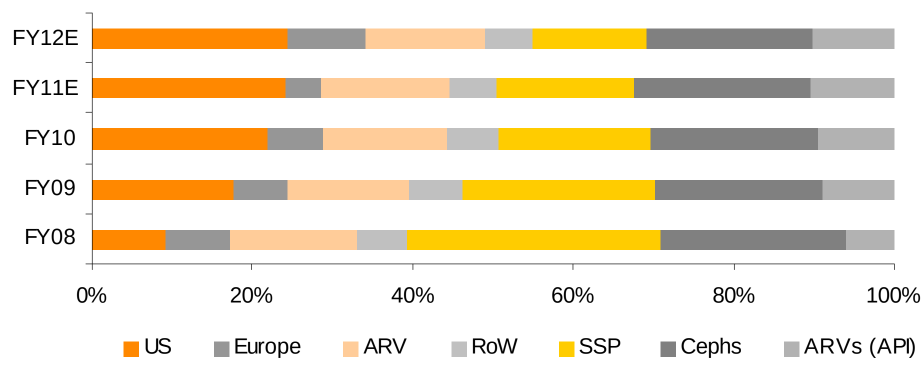
Source: Emkay Research

Financials

Sales to grow by ~19% CAGR over FY10-12E

We expect Aurobindo to report a healthy 19% revenue CAGR over FY10-12E period on the back of ramp-up in its own operation, foray into other emerging markets, steady dossier income and execution of supply contracts for Pfizer. Overall, we expect its formulation business to record 29% CAGR to Rs30.7bn driven by (a) 32% growth in US, (b) 55% growth in Europe and 25% growth in emerging markets. Ex-Pfizer, we expect formulation business to grow by 17% to Rs22.2bn. We expect Pfizer to contribute 28% of overall formulation sales in FY12E from the current level of 11% in FY10. Dossier income for FY11E and FY12E is likely to be at Rs1.5bn each. The API business growth is likely to remain subdued as most of the APIs are being used for captive consumption.

Exhibit 15: Revenue break-up



Source: Company, Emkay Research

Base business EBITDA margin to expand by 173 bps over FY10-12E

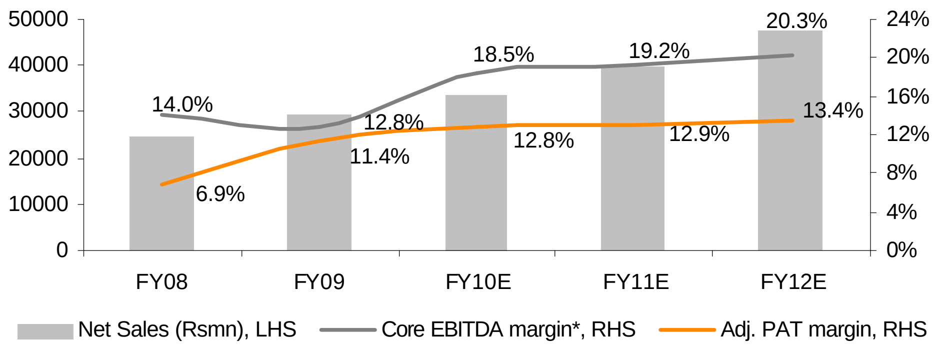
Aurobindo's EBITDA margins suffered in the past as the company traditionally had a strong presence in SSP and cephalosporins only. However, Aurobindo's transformation from an API player to a formulations player resulted in an EBITDA margin expansion of ~238 bps during FY08-09 and ~621 bps during FY09-10. Going forward, we expect its core EBITDA margins (excluding dossier income) to further increase by ~173 bps to 20.3% in FY12E. This is on account of Aurobindo's focus on high margin formulations catering to oral contraceptives, controlled-release products, sterile injectables and other lifestyle therapies. Margin expansion is also likely to be aided by its recent tie-up with Pfizer, leading to higher contribution from the advanced markets of US and Europe as well as foray into branded generic segment in the ROW markets. We expect EBITDA to grow at FY10-12E CAGR of ~24% to Rs9.6 bn in FY12E.

Core earnings set to grow at a CAGR of ~20% over FY10-12E

We estimate the core net profit to grow at a CAGR of ~20% to Rs6.6 bn over FY10-12E, driven by improved product mix and higher capacity utilization. Owing to higher revenue from SEZ, we expect a reduction in the the tax rate from 25% in FY10 to 21% in FY12E. Improved product mix (higher contribution of formulation business), and higher capacity utilization will lead to robust operating performance, improved cash generation and higher capital efficiency going forward. Overall, we expect earnings CAGR of 20% to Rs91.5 and Rs112.9 in FY11E and FY12E respectively.

On the balance sheet front, we expect the high financial leverage to gradually cool-off. Such a structural shift in balance sheet will pave the way for further growth. On account of capex cycle tapering-off and better operational efficiencies, we expect the company to generate positive free cash flow of Rs3.6bn over FY10-12E. This should help the company to partially repay the “out-of-money” FCCBs worth US$204mn (including YTM) which are due for redemption in May 2011. We have assumed the outstanding FCCBs as debt and expect company to repay them through a mix of internal accruals and borrowings. Overall, we expect company’s DE ratio to come down from 1.9x in FY09 to .7x in FY12E. Similarly, the RoIC and RoCE are expected to improve from 20.4% and 16.5% in FY10 to 26.8% and 18.6% respectively in FY12E.

Exhibit 16: Sales and margins trend



** excluding dossier income*

Source: Company, Emkay Research

Key Concerns

Delay in ramp up of sales from Pfizer

Aurobindo has got a fillip to its revenue model post entering into a supply agreement with Pfizer in 2009. Currently, ~10% of its revenues accrue from Pfizer. Going ahead, we expect Pfizer's contribution to the top line to increase 3x to 18% on account of significant ramp up in sales from the deal. Any delay in order ramp-up, poses downside risk to our estimates.

Heightened M&A activity at the global level could impact supply contracts

Declining revenues and decreasing growth opportunities for the MNC pharma companies and the resultant consolidation could impact Aurobindo, if its partners are acquired or do not source the products from Aurobindo on account of reduction in outsourcing budget.

Inability to address FCCB redemption to significantly impact our estimates

FCCB concerns had an impact on Aurobindo's share price in the past, but now with improving operating cash flows, the company is better placed financially to address the redemption of FCCBs through a prudent mix of debt and equity. Any unfavorable event, reducing its ability to pay-off debt can adversely impact our earnings estimates.

Financial tables

Income Statement (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net Sales	**29,349**	**33,777**	**39,704**	**47,475**
Growth (%)	20.5	15.1	17.5	19.6
Dossier Income	**1424**	**1977**	**1500**	**1500**
Total Sales	**30,773**	**35,754**	**41,204**	**48,975**
Expenditure	**25,599**	**27,523**	**32,081**	**37,861**
Raw Materials	16,367	17,211	19,852	23,500
R&D	1,032	1,351	1,787	2,136
Employee Cost	2,437	3,273	4,050	4,747
Other Exp	5,763	5,688	6,392	7,477
EBITDA (excl. DI)	**3,750**	**6,255**	**7,623**	**9,614**
Growth (%)	9.9	66.8	21.9	26.1
EBITDA (incl. DI)	**5,174**	**8,232**	**9,123**	**11,114**
Growth (%)	47.1	59.1	10.8	21.8
OPM % (excl. DI)	**12.8**	**18.5**	**19.2**	**20.3**
OPM % (incl. DI)	**16.8**	**23.0**	**22.1**	**22.7**
Depreciation	1,276	1,493	1,869	1,986
Other Income	167	389	389	389
Interest expenses	839	678	809	4,082
PBT	**726**	**7,522**	**6,834**	**5,435**
Tax	214	1,914	1,504	1,141
Effective tax rate (%)	29.4	25.4	22.0	21.0
Adjusted PAT	**3,503**	**4,558**	**5,331**	**6,587**
(Profit)/loss from JV's/MI	1	-3	0	0
Adjusted PAT after MI	**3,503**	**4,561**	**5,331**	**6,587**
Growth (%)	108.8	30.2	16.9	23.6
Adj. Net Margin (%)	**11.4**	**12.8**	**12.9**	**13.4**
Forex/extraordinary item	2,990	-1,051	0	2,903
Reported PAT	**513**	**5,609**	**5,331**	**4,294**

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Equity share capital	269	279	292	292
Reserves & surplus	12,130	17,998	23,471	27,374
Net worth	**12,398**	**18,276**	**23,762**	**27,666**
Minority Interest	**32**	**43**	**0**	**0**
Secured Loans	13,464	13,689	13,654	20,490
Unsecured Loans	9,866	7,866	7,866	0
Loan Funds	**23,330**	**21,555**	**21,520**	**20,490**
Net deferred tax liability	769	954	954	954
Total Liabilities	**36,528**	**40,828**	**46,235**	**49,109**
Gross Block	19,736	24,400	27,900	30,150
Less: Depreciation	5,749	7,242	9,111	11,097
Net block	**13,988**	**17,158**	**18,789**	**19,053**
Capital work in progress	5,363	5,652	5,652	5,652
Investment	3	3	3	3
Current Assets	**22,875**	**25,096**	**31,247**	**35,707**
Inventories	8,776	11,025	12,391	14,513
Sundry debtors	8,898	9,560	10,660	12,747
Cash & bank balance	1,259	762	4,236	3,710
Loans & advances	3,869	3,713	3,970	4,747
Other current assets	73	36	-10	-10
Current lia & Prov	**5,701**	**7,080**	**9,454**	**11,305**
Current liabilities	5,435	6,645	7,832	9,365
Provisions	266	435	1,622	1,940
Net current assets	**17,175**	**18,016**	**21,792**	**24,402**
Misc. exp & Def. Assets	0	0	0	0
Total Assets	**36,528**	**40,828**	**46,235**	**49,109**

Cash Flow (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	**-865**	**5,156**	**4,945**	**3,546**
Depreciation	1,276	1,493	1,869	1,986
Interest Provided	839	678	809	4,082
Other Non-Cash items	-167	-652	-1,086	-1,158
Chg in working cap	-3,406	-1,339	-303	-3,135
Tax paid	-214	-1,914	-1,504	-1,141
Operating Cashflow	**-2,537**	**3,423**	**4,731**	**4,179**
Capital expenditure	-5,478	-4,952	-3,500	-2,250
Free Cash Flow	-8,015	-1,529	1,231	1,929
Other income	1,591	2,366	1,889	1,889
Investments	602	0	0	0
Investing Cashflow	**-3,285**	**-2,586**	**-1,610**	**-361**
Equity Capital Raised	581	825	808	377
Loans Taken / (Repaid)	4,246	-1,775	-35	-1,030
Interest Paid	-839	-678	-809	-4,082
Dividend paid (incl tax)	283	293	391	391
Financing Cashflow	**4,272**	**-1,335**	**354**	**-4,344**
Net chg in cash	**-1,551**	**-498**	**3,474**	**-526**
Opening cash position	2,810	1,259	762	4,236
Closing cash position	**1,259**	**762**	**4,236**	**3,710**

Key ratios

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Profitability (%)				
Core EBITDA Margin	12.8	18.5	19.2	20.3
Net Margin	11.4	12.8	12.9	13.4
ROCE	10.7	16.5	15.7	18.6
ROE	28.3	25.0	22.4	23.8
RoIC	13.2	20.4	22.3	26.8
Per Share Data (Rs)				
EPS (adjusted)	65.1	78.2	91.4	112.9
CEPS	88.9	103.8	123.5	147.0
BVPS	230.6	328.0	407.4	474.4
DPS	1.5	4.3	5.0	5.0
Valuations (x)				
PER	14.6	12.1	10.4	8.4
P/CEPS	10.7	9.1	7.7	6.5
P/BV	4.1	2.9	2.3	2.0
EV / Sales	2.5	2.2	1.8	1.5
EV / EBITDA	14.1	8.9	8.0	6.5
Dividend Yield (%)	0.2	0.5	0.5	0.5
Turnover (x) Days				
Debtors T/O	3.3	3.5	3.7	3.7
Inventory T/O	3.4	3.1	3.3	3.3
Gearing Ratio (x)				
Net Debt/ Equity	0.6	0.5	0.4	0.3
Net Debt/EBIDTA	4.3	2.5	1.9	1.5

Source: Company, Emkay Research

Emkay Rating Distribution

BUY	Expected total return (%) (stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (stock price depreciation) of upto (-)10% within the next 12-18 months.
SELL	The stock is believed to under perform the broad market indices or its related universe within the next 12-18 months.

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