Dishman Pharmaceuticals & Chemicals Ltd BUY

November 13, 2006

CMP (INR)	221
Target Price (INR)	273

Key Data	
Bloomberg Code	DISH@IN
Reuters Code	DISH.BO
BSE Code	532526
NSE Code	DISHMAN
Face Value (INR)	2
Market Cap. (INR mn.)	14377
52 Week High (INR)*	264
52 Week Low (INR)	126
Avg. Daily Volume (6m)	40075

Shareholding	%
Promoters	71.18
FII	11.57
Mutual Funds	12.56
Non promoters corporate	1.65
Individuals/ Bodies Corp	3.04
Total	100.00

	FY06	FY07E	FY08E
Revenues (Rs. mn)	2774	5687	8196
EBIDTA	646	1308	1805
PAT	511	859	1238
EPS (Rs.)	7.5	10.6	15.3
Price/BV	8.4	6.4	4.4
RoCE (%)	130	14.8	17.6
RoNW (%)	27.1	31.0	30.5

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Dishman Pharmaceuticals and Chemicals Ltd (DPCL), headquartered in Ahmedabad, India is a recognized supplier of cost-effective, high quality chemical services and products to the global pharmaceutical and chemical industry. DPCL is a leading manufacturer of APIs (active pharmaceutical ingredients), API intermediates, quaternary compounds (quats) and fine chemicals. In 1998, DPCL diversified its interests to contract research and manufacture sector (CRAMS).

Key Highlights

- DPCL's focus in CRAMS for high margin patented drugs and API's for products under patent/R&D, distinguishes its business model from its peers (concentrating on manufacturing old generics/molecules) in the segment.
- To ensure that DPCL's core business of quats does not become commoditised in nature, DPCL has changed its focus to develop and produce niche quats having specialised applications and high prices.
- USFDA approval for one of its facilities at Bavla dedicated for manufacturing Eprosartan Mesylate, an anti hyper-tension drug for Solvay Pharmaceuticals resulting in higher offtake by Solvay for its requirements in US markets. **We expect the business from Solvay Pharmaceuticals to increase to upto Rs. 1000 mn in FY07.**
- Successful execution of Solvay deal for its patented product Tevetan has enabled DPCL to enter into long-term contracts with global pharma majors such as AstraZeneca, Merck, NU SCAAN, Pfizer etc. The management reckons the non-Solvay business to grow at CAGR of 30-35% from FY06-FY08.
- To migrate from a quat company into a leading provider of contract research services in synthetic chemistry, DPCL has created state-of-art R&D center at its Bavla facility. In addition, the company acquired contract research organisations such as UK-based Synprotec DCR LTD and IO3S and Carbogen-Amcis in Switzerland. The past, present and future research assignments of these companies will provide excellent scale-up opportunities within DPCL's manufacturing plants.
- Acquisition of Carbogen-Amcis provides a strategic fit for DPCL. Carbogen-Amcis with its strong product pipeline and US based revenue concentration (60% of total revenues) will enable DPCL to gain access into US pharma and biotech companies where it has limited exposure.

- Dishman Infrastructure Limited, a company promoted by DPCL has obtained in principle approvals from the Ministry of Commerce and Industry for setting up of Engineering SEZ and Pharmaceuticals & Fine Chemicals SEZ in Gujarat over the next three years with an investment outlay of Rs. 6500 mn. A significant portion of the pharma & chem, SEZ would be utilized by DPCL for its own organic growth plans for the next five years and also to form joint ventures with its existing and potential customers from Europe and USA.

- With the acquisition of Carbogen-Amcis and increased offtake by Solvay pharmaceuticals, we expect the consolidated revenues to increase at CAGR of 71% between FY06-08. The consolidated profit after tax is expected to register a CAGR of 55% during the period. We expect the operating margins to stabilise at levels of 21-22% over the period. At CMP of Rs. 221, DPCL trades at 20x FY07 EPS of Rs. 10.6 & 14.5x FY08 EPS of Rs. 15.3. **We recommend a BUY with a price objective of Rs. 273**.

Promoters

Dishman Pharmaceuticals and Chemicals Ltd is incorporated by Mr. Janmejay R. Vyas, pharmaceutical and chemical consultant, in many companies in 1983. The initial efforts were directed towards the production of a range of Phase transfer catalysts and quats. Visualizing the changing trends in the global pharmaceutical and leveraging on its in-house capabilities, the company repositioned itself as a large contract manufacturing outsourcing organisation. Within a short span, DPCL has achieved several contract research and manufacturing projects and is all set to emerge as India's leading CMO (Contract Manufacturing Outsourcing) organization to various pharma majors.

State-of-art manufacturing facilities

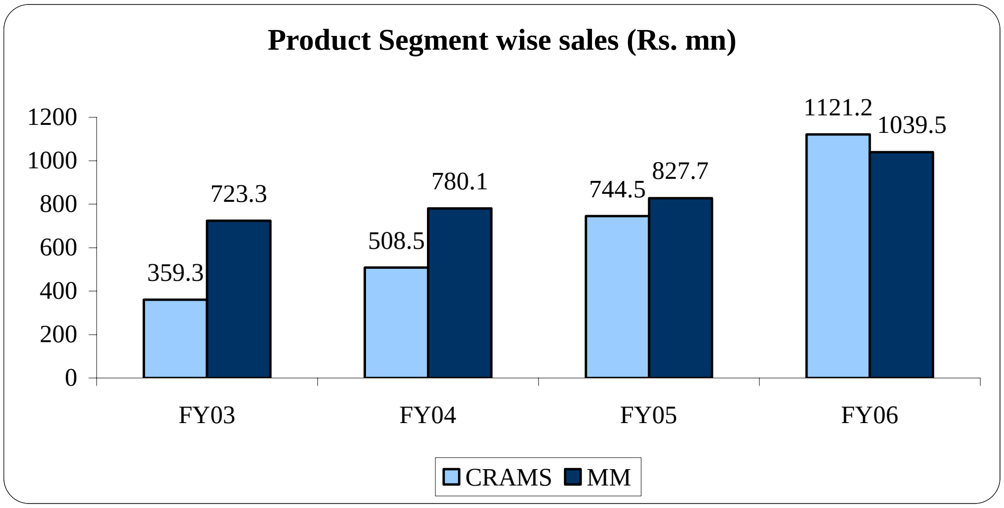
DPCL operates three manufacturing facilities located at Bavla and Naroda **v**illage in Gujarat.

- **Bavla facility**: The company's Bavla facility, a 100% EOU undertakes contract manufacturing for global pharmaceutical innovators like Solvay, Merck, GlaxoSmithKline etc. The facility comprises of eight production units. This site is also used for the manufacture of Intermediates and APIs. Recently the company successfully completed USFDA approval for this facility, which manufactures Eprosartan Mesylate (an API for Solvay's anti hyper-tension drug – Tevetan). With this, Solvay will source its requirements for US markets from Dishman.
- **Naroda Facility**: The Company's Naroda facility undertakes manufacture of Phase Transfer Catalysts and Quaternary Compounds (Quats) for domestic as well as export markets. DPCL also operates a research and development unit at this facility.

Business Segments of DPCL

DPCL's business is organised under two segments:

1. Marketable Molecules (MM - QUAT and specialty chemicals, API and intermediates)
2. Contract Research and Manufacturing (CRAMS)



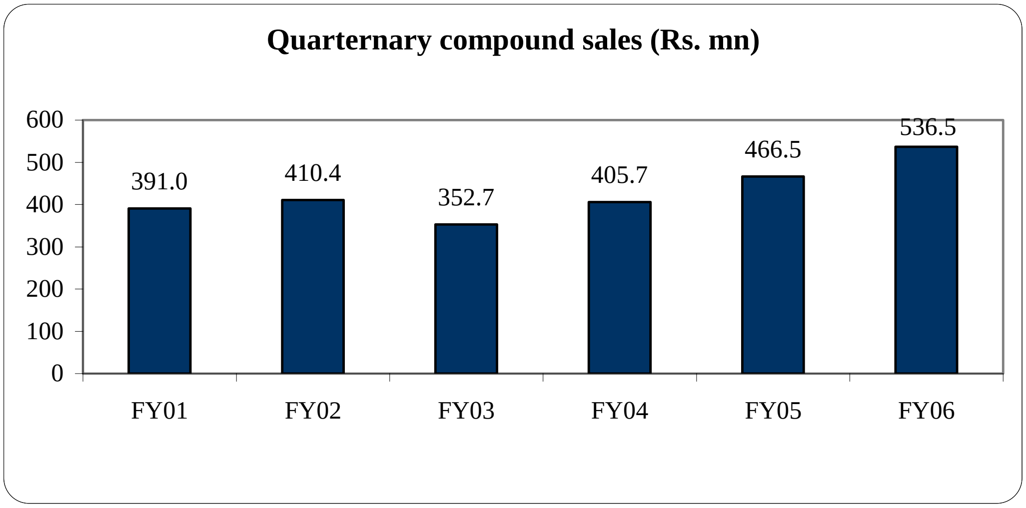
Source: Company

Marketable Molecules (MM)

"MM" segment – revenue driver since inception

As noted earlier, this segment comprises of QUAT and specialty chemicals, API and intermediates manufactured on a regular production basis and marketed by the company and its subsidiaries. Majority of the production of marketable molecules is exported to US, Europe, Japan, Middle East and South Africa. **We expect the division to report growth of 15-16% over the next 2 years.**

DPCL produces diverse quats. Quats are used as catalysts to transfer a reactant from one phase to another. The quats produced by Dishman find multifarious applications in manufacture of pharmaceuticals, dyes, agrochemicals, paints, polymers, paper etc. The division reported a 26% growth in revenues from Rs. 827 mn in FY05 to Rs. 1039 mn in FY06. Overall, the segment has grown at a CAGR of 20.5% from Rs. 678 mn in FY03 to Rs. 1189 mn in FY06.



Source: Company

Focus on niche quats to maintain high sales growth and profitability

In order to evolve as a "QUAT" company, DPCL initially focused more on volume sales. This enabled DPCL to establish business relations with the key customers in the quats market. However Quats, being a commodity in nature, yields lower margins to the producers and faces intense competition. Therefore manufacturing innovative and specialised quats is the key for the producers. Realising this, DPCL has changed its focus to develop and produce high value niche quats having specialised applications in car batteries, energy saving processes, performance enhancement in oil and gas industry etc.

Focus on high value niche quats enables DPCL to be at the top-end of the market while at the same time realising higher margins. Another benefit the company derives from this strategy is attaining special skills not widely available, thereby mitigating risk from other producers and new entrants.

Manufacturing facility in China to drive revenues for the division

In order to explore new markets and compete with low cost Chinese manufacturers, DPCL intends to set up a manufacturing base for marketable molecules in China. Towards this end, the company has acquired 80,000-sq.mt industrial plot in Shanghai Chemical Industry park (SCIP) at a cost of approx. $4 mn out of which 50 % is payable after obtaining business licence and balance 50%, within two years of agreement. DPCL intends to start production of quats and intermediates in the first phase and contract manufacturing facilities including US-FDA compliant API plants in the second phase within two years. Total first phase investments will be $ 10 mn.

Foray into API, intermediates and pharma services

DPCL graduated from being a leading quats producer to a global supplier of intermediates, APIs and services to the generic pharmaceutical industry, utilizing its ability to handle complex chemistries. The segment can be subdivided into regularly produced intermediates and customized intermediates, either offered exclusively to these customers or to any other markets with the customers' consent. In the area of Bulk drugs/API, DPCL has identified certain niche drugs. The intermediates and APIs produced find application in antiseptic formulations, as preservatives in hospital disinfectants, in cosmeceutical preparations and in gastro enteric, cardiovascular formulations.

Arab joint venture

During the year, DPCL has signed a Joint Venture and Shareholders' (JV) Agreement with Arab Company for Drug Industries and Medical Appliances (ACDIMA), Saudi Pharmaceutical Industries and Medical Appliances Corporation (SPIMACO) and Takamul Holding Company for Investments (THC). DPCL, ACDIMA, SPIMACO and THC will jointly hold the equity in ratio of 30%, 25%, 25% and 20% respectively.

The JV Agreement was signed for setting up a joint venture project initially to manufacture 20 APIs based on the know-how to be supplied by DPCL for not only marketing in the Arab world but also exporting them. DPCL will also supply key intermediates to JV for production of APIs. The revenue potential of the venture is pegged at $15-20 mn when it becomes operational from FY08.

Unique position in disinfectant bulk actives

DPCL has developed a unique position by manufacturing as many as 15 disinfectant bulk actives. Apart from popular hospital disinfectants such as Cetrimide, the company's R&D has developed two sophisticated disinfectants, which are not being offered by any company in the world with appropriate master Drug Master File (DMF). To this end, DPCL has filed DMF in Europe for both these actives. Based on this unique situation, DPCL proposes to start a disinfectant formulation division. This division will make products for surgical disinfections, hospital disinfections, wound dressings etc. The company also plans to file several application related patents for above two products. Expense envisaged is not in excess of Rs.50 mn and the company intends to enter into marketing relationship worldwide with reputed pharma companies. The company expects a huge value addition on its bulk actives by this strategy and in next five years, this division is likely to contribute significant growth to DPCL Group's total revenue.

Proposal to start a disinfectant formulations division

Contract Manufacturing

Contract manufacturing and India

Manufacturing by players in the regulated markets is generally outsourced from Europe. However, India is slowly emerging as a low cost manufacturing destination for early and late-stage intermediates. India was estimated to account for around 7% of the global outsourcing market for bulk drugs in FY05. By FY10, India is expected to account for 10-15% of the global outsourcing market, which is expected to surge at a compounded rate of 22.2% from Rs. 80.7 bn in FY05 to Rs. 220 bn in FY10 *(Source: CRIS Infac Annual review Pharmaceuticals – October 2005)*. This space has high entry barriers and a long gestation period with stringent quality requirements, relationship establishment and takes 2-3 years without any revenues in the interim.

Deal with Solvay Pharmaceuticals – the key growth driver for DPCL

DPCL's forayed in contract manufacturing with its first major contract with Solvay in FY01. The contract is for supplying API Eprosartan Mesylate ("EM"), patented in 1993, and its intermediates upto December 2008, extendable annually thereafter. The patent for EM expires in the year 2013 and thus, it has a significantly long patent protection period. EM is an anti-hypertensive drug formulated by Solvay and marketed under the brand name "Teveten". One salient feature of the deal is that during the contract period in case Solvay is unable to place orders for the manufacture, it will make reasonable efforts to put the production facilities to another use.

The contract manufacturing division has been the main driver of company's revenues since FY03. The division reported a 26% growth in revenues from Rs. 827 mn in FY05 to Rs. 1039 mn in FY06. Overall, the segment has grown at a CAGR of 48% from Rs. 365 mn in FY03 to Rs. 1163 mn in FY06. **However, a notable risk here is that the Solvay business accounts for 55-60% of the divisional revenue.**

USFDA approval for the Bavla facility to trigger EM supply to US

Recently, DPCL has successfully completed US FDA inspection for its facility located at Bavla, which is a 100% EOU, to manufacture Eprosartan Mesylate to be supplied to Solvay Pharmaceuticals, BV, a fortune 500 company. DPCL is one of the two companies in the world with whom Solvay has entered into a long-term agreement for supply of newly developed molecule, whose patent is to expire in 2013. With this event, Solvay will source its requirements for US markets from Dishman. Solvay has increased the quantity of Eprosartan Mesylate to be supplied by Dishman by 50% for FY07. In order to meet the increased offtake, DPCL has expanded its capacity at Bavla facility from 60 mt to 200 mt. **Considering the aforesaid, we expect the business from Solvay to increase to upto Rs. 1000 mn in FY07.**

Other manufacturing assignments to reduce the dependence on Solvay

In addition to its long-standing contract with Solvay Pharmaceuticals, DPCL has entered into contracts with other global pharma majors like Merck, AstraZeneca< NU SCAAN, GlaxoSmithKline for outsourcing of intermediates and products.

Key manufacturing agreements

International Partner	Outsourced Products
Solvay Pharmaceuticals	6 projects; the main one being for starting material and advanced intermediate for Tevetan (Eprosartan Mesylate)
AstraZeneca	Intermediate for Nexium (esomeprazole)
Merck	Intermediate for Losartan (to be supplied to its contract manufacturer in Japan)
NU SCAAN	Development and manufacture of Bulk actives for neutraceuticals products.

(Source: Company, KPMG: Indian Pharmaceuticals Industry)

Even though Solvay business will continue to be the main stay of this division, the non-Solvay business from the above contracts and other contracts in the pipeline is expected to contribute significantly (expected growth from non-Solvay business about 30-35%) in the foreseeable future.

Contract Research Outsourcing

Contract Research completing the CRAMS strategy

Contract research and process improvement of contract-manufactured molecules form an integral part of DPCL's research and development focus. The company is engaged in the business of synthetic chemistry research through which it has developed cost effective processes for manufacture of various intermediates, API, Quats and specialty chemicals. In addition to the state-of-the-art R&D center at Bavla facility, DPCL will have a cGMP (current good manufacturing practices) pilot facility comprising of eight contract research and development units. The complete R&D center along with the cGMP facility will focus on contract research, new product development, development of "potent" molecules and development of future generics and preparation of drug master files. This center will have and 200 R&D scientists will be working in this center on a 3-shift basis on synthetic chemistry.

Increasing trend in DPCL's R&D spend

Particulars	FY03	FY04	FY05	FY06
Standalone sales (Rs. mn)	**1114.2**	**1242.7**	**1577.6**	**2168.6**
R&D expenditure	**13.9**	**18.6**	**397.1**	**245.1**
As % of turnover	**1.25**	**1.50**	**2.52**	**11.3**

Generics Business

Approvals pending for six Drug master files

DPCL has its own generic business development programme under which it identified a number of molecules going off patent between 2004-2010. The company has filed six DMFs (drug master file) for four products, namely, Xipamide, Cetylpyridinium Chloride, Tramadol Hydrochloride and Eprosartan Mesylate up to November 30, 2003 with the foreign regulatory authorities. The DMFs already filed plus the DMFs that are being filed will present a significant opportunity for its foray into the field of future generics and thus give further impetus to the CMO segment.

Contract manufacturing and research being the core of company's business model, in addition to establishing overseas subsidiaries; DPCL has undertaken series of overseas acquisitions as under:

Strategic overseas acquisitions to gain access to technical capabilities and research assignments

1. **Synprotec DCR Limited, UK:** Synprotec is a UK based Contract Research company having contract R&D and manufacturing capabilities in U.K and a strong customer base, having serviced major global pharma MNCs and specialty chemical companies. At the time of acquisition, it had a healthy order book covering CR assignments of several Molecules for various MNCs. Synprotec's past, present and future research assignments will provide excellent scale-up opportunities within Dishman's manufacturing plants.

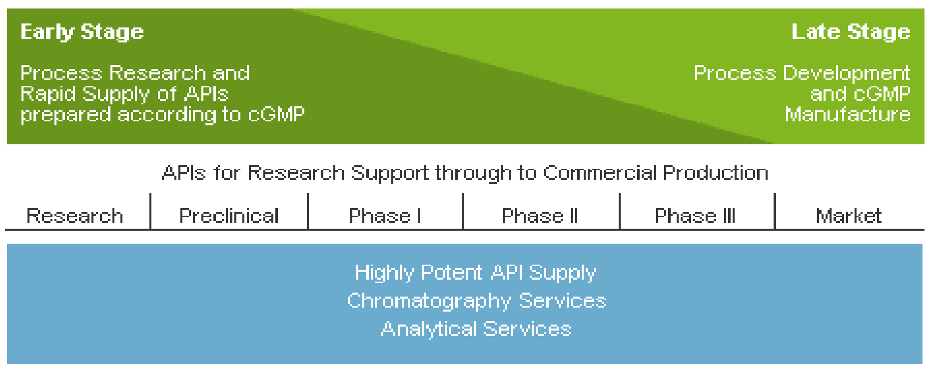
2. **Innovative Ozone Services Inc. (IO3S):** IO3S is the only company in the world in the field of consultancy and research in Ozone Chemistry. It has a fully developed laboratory as well as a pilot plant for Ozone based reactions. At the time of acquisition, it has an order book covering CR assignments of several Molecules for various MNCs. The move will strengthen the DPCL's activities in Contract Research and Manufacturing in the specialized field of Ozone Chemistry (recently invested into large scale Ozone Chemistry plant at Bavla) as well as further improve the European and US interface with customers.

Acquisition of Carbogen-Amcis – a strategic fit for DPCL

3. **Carbogen & Amcis AG, Switzerland:** In order to expand its CRAMS business in regulated markets, DPCL recently acquired Carbogen and Amcis (including all intellectual property, patents, trademarks, customer contracts etc) from Solutia Europe SA/NV (SESA) through its wholly owned subsidiary namely Dishman Pharma Solutions AG ("DPS"). The consideration for the acquisition is US$ 75 mn (approx. 6x FY05 EBIDTA) financed through share capital contribution by DPCL of US$ 22.50 mn in DPS and a syndicate loan of US$ 52.50 mn to DPS by ICICI Bank and Rabo International.

About Carbogen and Amcis

CARBOGEN AMCIS provides world-class chemistry skills to provide seamless drug substance development and commercialization services. The company provides integrated chemistry services that include: -



(Source: www.carbogen-amcis.com)

Perceived synergies from the acquisition

- Carbogen-Amcis has business relations with over 60 leading pharmaceutical and biotech companies, including 7 out of top 10 pharma companies worldwide. Carbogen-Amcis derives 60% of its revenues from its US customers. This enables DPCL to gain access into the newer areas where it has limited exposure.

- Carbogen-Amcis is currently involved in the development of 6 molecules, which are undergoing phase III clinical trials, commercialization of the same would yield substantial revenues to DPCL.

- Operating margins of Carbogen-Amcis are likely to improve due to sourcing of low-cost raw materials and intermediate requirements from India and China. This would further improve the consolidated profitability of DPCL.

- Carbogen-Amcis recently announced a capital investment of $8 mn for their additional oncology production line, which is fully augmented at the moment. The investment is necessitated as two of its customer's Oncology products have successfully cleared phase-III and the customers will be filing market authorization in near future. This would further boost DPCL's CRAMS revenues and profits as and when the project goes on stream.

Financial performance of CARBOGEN-AMCIS

For FY05, Carbogen-Amcis reported revenues of approx. Rs. 2900mn. The profit from operations stood at Rs. 560 mn, yielding EBIDTA margin of 19.3%. Overall, the net profit stood at Rs. 329 mn, resulting in PAT margin of 11.3%. Although the profit margins are lower to DPCL India, the management expects the same to improve going forward by sourcing low-cost raw materials and intermediate requirements from India and China. The management reckons the business to grow at 10-15% annually, which is likely to contribute close to Rs. 2200 mn in FY07 and Rs. 4000 mn by FY08.

Financial overview and valuation

- With robust growth in the CRAMS business (expected share in FY08 in total revenue – 80%), we expect DPCL to report sales growth of 104% for FY07 (Rs. 5687.5 mn) and 44% for FY08 (Rs. 8196.7 mn). Stripping the income from acquisitions, the topline is expected to grow by minimum 30% for the next three years.

- The operating margins are expected to drop from 24.4% in FY06 to 22.1% till FY08 as Carbogen-Amcis has lower margins than that of DPCL. Overall, the profit from operations is expected to improve from Rs. 646 mn in FY06 to Rs. 1805 mn for FY08.

- The net profit is expected to improve from Rs. 511 mn in FY06 to Rs. 859 mn in FY07 and further to Rs. 1238 mn in FY08.

- Dishman Pharmaceuticals and Chemicals Limited has evolved over the years from a quat company to a leading player in the contract manufacturing space. Further, in order to provide services across the value chain, the company is taking the right steps to position itself in the contract research field. In the company, subject to smooth integration of the overseas ventures, the revenue flow from the international acquisitions will provide significant boost to the profitability and cash flows. At CMP of Rs. 221, DPCL trades at 20x FY07 EPS of Rs. 10.6 & 14.5x FY08 EPS of Rs. 15.3. **We recommend a BUY with a price objective of Rs. 273**.

Quarterly Performance

Consolidated financial results for quarter ended September 2006 (Rs. mn)

Particulars	Q2FY07	Q2FY06	% Change	H1FY07	HIFY06	% Change
Net Sales from operations	**1169.7**	**683.9**	**71.0**	**1992.1**	**1294.4**	**53.9**
Total Expenditure	**923.8**	**512.7**	**80.2**	**1543.9**	**1008.9**	**53.0**
Earnings before Depn, Interest and tax (EBIDTA)	**245.9**	**171.2**	**43.6**	**448.2**	**285.5**	**57.0**
Depreciation	41.4	24.9		75.7	49.3	
Earnings before interest and tax (EBIT)	**204.5**	**146.3**	**39.8**	**372.5**	**236.2**	**57.7**
Financial charges	37.6	23.9		46.3	41.3	
Other Income	42.1	28.0		76.8	55.8	
Earnings before tax (EBT)	**209.1**	**150.5**	**38.9**	**403.0**	**250.7**	**60.7**
Provision for Taxation	40.8	14.5		49.1	20.7	
Profit after taxation	**168.3**	**135.9**	**23.8**	**353.9**	**230.0**	**53.8**
Earnings per share (in Rs./share) (basic)	**2.45**	**1.98**		**5.15**	**3.35**	
Earnings per share (in Rs./share) (diluted)	**2.09**	**1.83**		**4.40**	**3.22**	
Operating profit margin (%)	**21.0**	**25.0**		**22.5**	**22.1**	
Net Profit margin (%)	**14.4**	**19.9**		**17.8**	**17.7**	

Results Analysis:

- On a consolidated basis, the sales for Q2FY07 grew by 71%, predominantly due to inclusion of sales (approx Rs. 500 mn) from Carbogen-Amcis. Apart from that, the core business has grown moderately due to deferred shipment to Solvay, expected to begin in Q3FY07. Core sales also grew marginally due to lower contribution from contract research and marketable molecules segment. The management has given a guidance of minimum 30% growth in topline exclusive of acquisitions.

- Operating margins fell by 400 bps on account of lower yield on the Carbogen-Amcis business (19% as compared to 25% of DPCL). Coupled with this, the margins were lower on account of provision of Rs. 33 mn due to fire at the Bavla facility. Since margins from Carbogen-Amcis business are likely to improve only in FY08, the management reckons the same to stabilise at the current levels.

- The interest cost increased by 57% on account of increased borrowings for Carbogen-Amcis acquisition.

- The consolidated net profit grew by 23% for the Q2FY07 from Rs. 135 mn to Rs. 168 mn mainly on account of 180% rise in provision for taxation from Rs. 14.5 mn in Q2FY06 to Rs. 40.8 mn in the reporting period. During the reporting period, DPCL has allotted 126627 equity shares of Rs 2/- each of the Company at a premium of Rs 170/- per equity share upon exercise of option of conversion of 0.50% FCCB issued in Q1FY07.

Risks and concerns

- Dependence on Solvay Pharmaceutical: At present, close to 55% of the revenues of the CRAMS segment is derived from “Eprosartan Mesylate” deal with Solvay. Decrease in volume of work (Solvay has indicated higher offtake) or a decrease in price at which the services are offered may adversely impact DPCL’s revenues.

- Failure to get regulatory approvals: CRAMS is touted as the next major growth driver for DPCL. The company undertakes contract manufacturing and research for some of the multinational companies. Failure or delay in obtaining the necessary regulatory approvals for products by the innovator pharma MNC’s may adversely affect DPCL’s profitability.

- Turnover of skilled manpower: Research and development being the key component its business model. Failure to retain and attract skilled manpower could adversely affect the company’s growth strategy.

EARNINGS SUMMARY

(Rs Mn)

Particulars	FY05	FY06	FY07E	FY08E
Net Sales	**1885.8**	**2774.4**	**5687.5**	**8196.7**
Total Expenditure	1369.5	2128.2	4379.4	6391.4
Manufacturing expenses	903.3	1520.4	3071.3	4457.3
Personnel cost	216.8	343.1	739.4	1106.1
Selling, administration and Distribution costs	249.4	264.7	568.7	827.6
Earnings before Depreciation, Interest and taxation.	**516.3**	**646.2**	**1308.1**	**1805.3**
Other Income	16.4	80.5	65.0	100.0
Depreciation	82.6	59.5	256.3	315.5
Interest	110.1	121.6	187.4	256.7
PBT	**340.1**	**545.6**	**929.4**	**1332.1**
Taxes	8.0	34.2	70.3	93.2
Profit After Tax	**332.1**	**511.4**	**859.1**	**1238.9**
Growth in sales (%)	11.8	47.1	104.5	44.1
Operating Profits Growth (%)	18.0	25.2	102.4	38.1
PAT Growth (%)	60.1	53.4	68.0	44.2
Operating Profit Margin (%)	27.4	24.4	23.1	22.7
Net Profit Margin (%)	17.6	18.4	15.1	15.8

Source: Company Annual Report and ACMIIL estimates

SOURCES OF APPLICATION AND FUNDS

(Rs Mn)

Particulars	FY05	FY06	FY07E	FY08E
Sources of Funds				
Share Capital	137.3	137.3	162.7	162.7
Reserves and Surplus	1334.4	1747.5	2606.8	3845.2
Total Shareholders Funds	**1471.7**	**1884.8**	**2769.5**	**4007.9**
Total Loan Funds	1182.7	3254.8	4791.3	5009.8
Total Capital Employed	**2654.4**	**5139.6**	**7560.8**	**9017.7**
Application of Funds				
Gross Block	1550.1	2190.2	4700.4	5162.4
Less: Accumulated Depreciation	321.4	440.6	695.9	1010.9
Net Block	**1228.7**	**1749.6**	**4004.5**	**4151.5**
Capital Work in Progress	128.5	373.3	200.0	200.0
Investments	4.1	75.0	100.0	125.0
Net Current Assets	1285.5	2930.7	3256.3	4541.2
Miscellaneous Expenses not w/off	7.3	11.0	-	-
Total Assets	**2654.4**	**5139.6**	**7560.8**	**9017.7**

Source: Company Annual Report and ACMIIL estimates

Consolidated Cash Flow Statement (Rs Mn)

Particulars	FY04	FY05	FY06
Pre tax profit	**234.5**	**340.0**	**545.2**
Depreciation	76.4	84.7	122.3
Interest	118.0	85.3	71.0
Changes In WC	(176.1)	(392.1)	(456.1)
Tax	(21.9)	(21.6)	(32.5)
Others	(51.9)	(253.1)	(95.9)
Cash from operations	**179.0**	**(156.8)**	**154.0**
Capital Expenditure	(148.5)	(328.7)	(832.2)
Changes in Investments	-	-	(62.8)
Others.	1.3	10.0	77.8
Cash from Investment activities	**(147.2)**	**(318.7)**	**(817.2)**
Changes in share capital (incl share premium)	-	600.9	-
Change in debts	80.4	87.5	2064.3
Interest & Fin expenses	(118.0)	(147.6)	(109.6)
Div & Div Tax	(5.8)	(31.0)	(38.8)
Others	10.8	(12.3)	7.3
Cash from Financing activities	**(32.6)**	**497.5**	**1923.2**
Total cash generated	(0.8)	22.0	1260.0
Cash at the beginning	70.5	69.7	69.791.7
Cash at the end	**69.7**	**91.7**	**1351.7**

Source: Company Annual Report

KEY RATIOS

Particulars	FY05	FY06E	FY07E	FY08E
Profitability Ratios				
Operating Profit Margin (%)	27.4	23.3	23.1	22.7
PAT Margin (%)	17.6	18.4	15.1	15.8
RONW (%)	22.6	27.1	31.0	30.9
ROCE (%)	17.0	13.0	14.8	17.6
Per Share				
Earnings (Rs.)	4.8	7.5	10.6	15.3
Cash Earnings (Rs.)	6.0	9.2	13.7	19.2
Book Value (Rs.)	21.2	26.3	34.2	49.5
Valuation Ratios				
P/E (x)	41.4	26.7	22.4	17.8
P/BV (x)	10.4	8.4	6.4	4.4
Capital Structure Ratios				
Debt/Equity (x)	0.8	1.73	1.73	1.25
Interest coverage ratio (x)	4.1	5.5	5.9	6.2

Source: Capitaline 2000 and ACMIIL estimates

Notes

HNI Sales	**Institutional Sales**
Bharat Patel Tel.: 91-22-28577303/28577309	Sharmila Joshi Tel.: 91-22-22695078 / 22700119-121