IDFC SSKI

INDIA RESEARCH

30 November 2009

BSE Sensex: 16632

Company update

Cipla

Rs320

OUTPERFORMER

Good gets better

Mkt Cap: Rs257bn; US$5.4bn

Cipla's partnership-based, geographically diversified model, with particular focus on RoW markets, and its formidable R&D capabilities have proved to be a robust and sustainable growth engine. Momentum will be further boosted by Cipla's much-awaited entry into the EU inhaler market as also likely launch of niche partnership products in USA. Aggressive capex rollout indicates management's comfort on future growth outlook. Coupled with significant EBITDA margin expansion of 260bp to ~26%, we expect 29% EPS CAGR for Cipla over FY09-11 (albeit on a low base) with upside possibilities. An expected decline in capex FY12 onwards would see asset turnover ratios plateau and lead to improving return ratios. Maintain estimates and upgrade the stock to Outperformer with a price target of Rs368 per share.

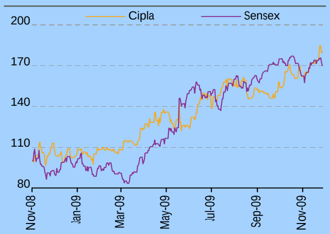
A winning business model: Recent alliances between Dr Reddy's-GSK, Aurobindo-Pfizer, etc endorse Cipla's strategy focused on R&D and manufacturing as also sales and marketing tie-ups with global companies. Cipla is among the most geographically diversified global generics companies with significant presence in multiple RoW markets including Africa, Middle East, Latin America and Australia. With future global pharma market growth likely to largely accrue from RoW markets, Cipla has created an enviable business model to participate in this opportunity.

Inhalers and US launches to drive upsides: With its diversified model yielding steady revenue growth (10-15%), the much-delayed entry into EU inhalers market as well as niche product launches in US will generate upsides. Cipla's inhaler plans for EU (a US$3bn+ market with limited competition) are fructifying with launch of Salbutomol in UK in Q3FY10 and likely approval for its first combination inhaler in H2FY11. Cipla has partnerships for 118 drugs in the US with only 23 commercialized ANDAs so far, indicating significant potential for ramp-up in the market.

Better days ahead; Outperformer: The recent upswing in EBITDA margins (26% in H1FY10) appears sustainable on the back of an improving product mix and tighter cost control. Cipla's aggressive capex intensity (Rs30bn spend over FY06-10) will likely ease by FY11, leading to improved return ratios and higher asset turnover. The management's intent to enhance investor interaction through quarterly investor calls provides comfort and will aid re-rating. Any adverse FDA action or unfavorable court decision on contingent liabilities related to overcharging stay potential risks for the stock. Upgrade to Outperformer.

Stock data	
Reuters	CIPL.BO
Bloomberg	CIPLA IN
1-yr high/low (Rs)	332/171
1-yr avg daily volumes (m)	2.08
Free Float (%)	61.9

Price performance



Performance (%)

	3-mth	6-mth	1-yr	3-yr
Cipla	19.0	44.4	65.1	22.7
Sensex	5.4	17.9	84.3	20.8

Key financials

As on 31 March	FY07	FY08	FY09	FY10E	FY11E
Net sales (Rs m)	35,621	42,032	52,346	58,734	67,034
Adj. net profit (Rs m)	6,680	7,014	7,768	11,245	12,851
Shares in issue (m)	777	777	777	803	803
Adj. EPS (Rs)	8.6	9.0	10.0	14.0	16.0
% change	*25.5*	*5.0*	*10.7*	*40.1*	*14.3*
PE (x)	37.2	35.5	32.0	22.8	20.0
Price/ Book (x)	7.7	6.6	5.7	4.9	4.1
EV/ EBITDA (x)	30.5	30.4	21.0	17.6	15.2
RoE (%)	25.6	20.1	19.2	23.4	22.2
RoCE (%)	21.1	16.3	19.9	20.2	19.6

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INVESTMENT ARGUMENT

Cipla, with a strong track record of consistent growth, has proved the efficacy of its partnership-based model as also diversified presence in RoW markets. The strength of the business model is further validated by the fact that peers too are following in Cipla's steps. Going forward, significant upside possibilities exist through niche product launches in regulated markets, particularly of combination inhalers in the EU. Licensing income would remain strong as some of the partnership projects get commercialized and boost topline growth. Given the favorable product mix, reducing proportion of relatively lower-margin anti-retro virals (ARVs) and better cost control, we expect margins to sustain at 25-26% (H1FY10 levels). Cipla's aggressive capex intensity (Rs30bn spend over FY06-10) will likely ease by FY11, leading to improved return ratios and higher asset turnover. The stock, we believe, is due for re-rating. Upgrade to Outperformer with a 12-month price target of Rs368.

CIPLA: BUILDING ON ITS SUCCESS

Cipla's relatively low-risk partnership model focusing on product development and manufacturing, while leaving sales & marketing activities to partners, has proven its merit through consistent growth over the years. While most Indian peers have primarily focused on the US market and struggled to create front-ends across multiple non-US markets on their own, Cipla has attained critical mass across multiple RoW markets like Africa, Latin America, Middle East and Australia besides India. With most of the global pharma growth expected to emanate from these markets, Cipla is extremely well placed for future growth. In anticipation, Cipla has been on an aggressive capex spree over the last few years.

❑ Formulation exports to RoW markets – a key focus area

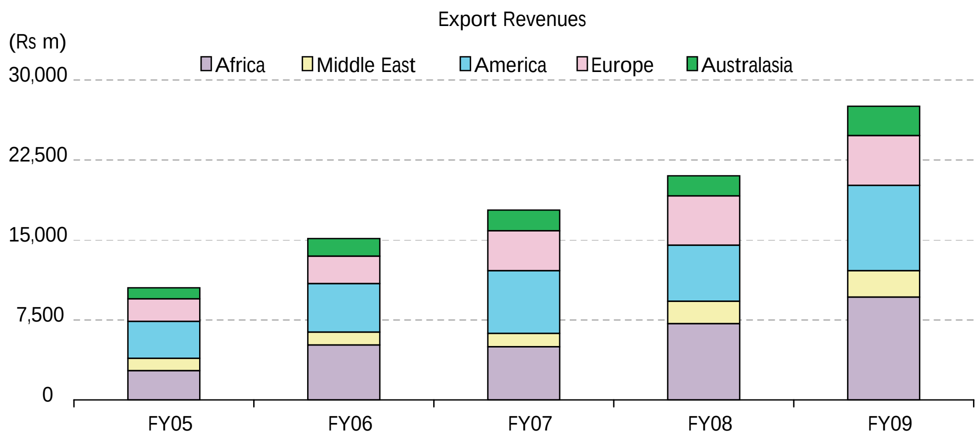
Unlike peers, Cipla has preferred RoW markets over the US geography…

Cipla's formulation export revenues have registered a CAGR of ~38% over the last six years and currently contribute ~43% to its total revenues. Given the relatively muted growth prospects in domestic formulations (likely 13-14% annual growth) as well as API exports, formulation exports would be the key to Cipla's future growth trajectory. Unlike most other Indian pharma companies, USA is not the key focus market for Cipla given the intensity of price competition in that market. The company is more positive on the opportunities provided by RoW geographies including Middle East, Latin America, Africa as well as Australia. These markets accounted for ~70% of Cipla's formulations exports in FY09 and we expect the proportion to increase going forward. CIS and Germany are probably the only notable omissions from Cipla's footprint at present.

…the strategy has allowed it to attain critical mass in these fast growing markets ahead of peers

In our view, Cipla is probably the only company besides Teva with such a diversified footprint. With bulk of the future global pharma market growth likely to accrue from RoW markets, Cipla has created an enviable business model to participate in this opportunity. Cipla has achieved critical mass across fast-growing markets including South Africa, Middle East, Brazil, etc. This, we believe, will lead to steady 10-15% topline growth going forward. Cipla currently has ~8,000 registrations across these markets.

Exhibit 1: Developing markets key drivers for Cipla's export sales



Source: IDFC-SSKI Research

❑ EU – combination inhaler launches to be the primary growth driver

In EU, Cipla has tied up with 60 partners and registered 400+ products. The company has received approvals for 292 products with 51 products launched so far.

Cipla has received approval for 292 products in EU so far

Exhibit 2: Cipla's EU presence

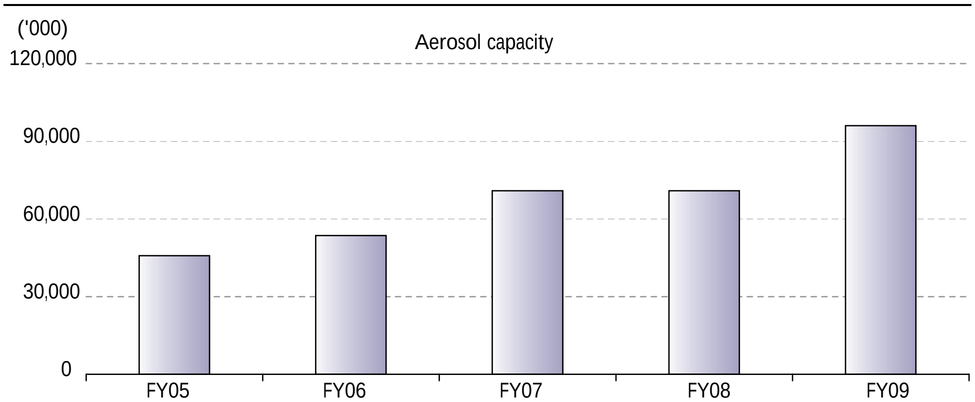
Particulars	(nos.)
Number of partners	60
Existing registered products	410
of which products approved	292
of which products launched	51

Source: IDFC-SSKI Research

Nine inhaler products developed for EU markets and six submitted

The much-awaited launch of inhalers in EU will be the key growth driver for Cipla in this geography. The company has till date developed nine inhaler products, of which six have been submitted. After encountering regulatory hurdles for several years, Cipla management is now more positive on outlook for the launch of inhalers in this market. Notably, Cipla is the among the largest players globally in terms of the number of units sold – and arguably the most competitive in terms of breadth and depth of its inhalers portfolio. The strength is clearly reflected in its dominance (>60% share) in the Indian inhalers market. The company has steadily invested in building capacity in this segment over the past few years as it seeks to expand its footprint in various RoW markets as also to regulated markets like the EU.

Exhibit 3: Aerosols/ Inhalers – aggressive capacity build-up in the last few years



Source: IDFC-SSKI Research

Launch of Salbutamol in UK Q3FY10 onwards to be the first relatively attractive inhaler launch for Cipla

The recent approvals provide clarity on future regulatory pathway

Approval for the initial set of relatively older inhalers like Budesonide and Salbutomol across DPIs and MDI devices has provided Cipla clarity on the regulatory pathway for more complex inhalers in key EU countries going forward. Cipla has received approvals for Budesonide inhaler in Germany and Portugal, and for Salbutamol in UK, Denmark and Portugal. Cipla expects to commence export of Salbutamol inhalers to UK Q3FY10 onwards. This would be the first relatively attractive launch for Cipla in this space. Cipla has encountered limited competition in these initial products, which enhances the attractiveness of this business.

While Salbutomol and Budesonide are interesting generic opportunities given limited competition, combination inhalers (Seretide and Symbicort) account for >70% of the inhaler market and therefore are *the* drugs to target. We estimate Seretide and Symbicort to have generated sales of $3bn+ in EU in 2009.

Cipla likely to launch its first combination inhaler in EU in H2FY11

Cipla will likely enter the lucrative regulated markets combination inhalers space from FY11 onwards

We understand that the Seretide UK market is set to be thrown open to generic competition by 2010 (H2FY11). Simultaneously, revocation of a key Symbicort formulation patent may lead to entry of generic players across multiple EU markets by H2FY11. Cipla expects to secure regulatory approval for its first combination inhaler in the key EU markets by FY11. This, we believe, will open up a potentially large opportunity and mark effective initiation of regulated market opportunity for Cipla's inhalers business. According to the management, Cipla is partnering with large global generic players to ensure faster and deeper penetration of the EU inhaler market as and when it opens up. However, given the maze of patents across device and formulations that protect these products, we await clarity on the specific product and geographies which may open up from H2FY11. We have not built in any contribution from a generic Seretide/ Symbicort EU launch in our estimates.

Additionally, Cipla has started work on filing for two inhalers in the US market. Notably, USA is ~2x the size of the EU inhaler market.

❑ US operations – not *the* focus market; still very attractive

Cipla steadily increasing its base of US partners and product partnerships for future growth

Unlike most other Indian pharma companies, USA is not the key focus market for Cipla given the intensity of price competition in that market. US geography accounts for less than 15% of Cipla's sales. Having said so, Cipla has steadily increased its base of US partners as also product partnerships, which bodes well for future growth. In USA, Cipla currently has 21 partners across 118 product partnerships, of which only 23 products have been commercialized. In addition, the company has 36 ANDA approvals out of 64 filings.

Exhibit 4: Cipla's US presence

Particulars	(nos.)
Number of partners	21
Existing product partnerships	118
Total ANDAs filed by Cipla with US FDA	**64**
ANDAs approved	*36*
ANDAs commercialized	*23*

Source: IDFC-SSKI Research

These partnerships include a mix of regular Para III as well as complex products (complex APIs, novel delivery systems, Para IV challenges, etc). While Cipla does not share too many details on these partnerships, public disclosures by a few of its partners clearly reflect the quality and potential of drugs being developed.

- MEDA – developing a novel Azelastine and Fluticasone spray. Phase trials are likely to be completed by 2010. Cipla will get an upfront payment of US$5m along with milestone payments amounting to $10m.
- Akorn – development of an organ transplant drug, inhaled drug and complex oral antibiotic.

While we see limited visibility on the specific opportunities, these partnership deals have the ability to generate huge upside opportunities at regular intervals for Cipla.

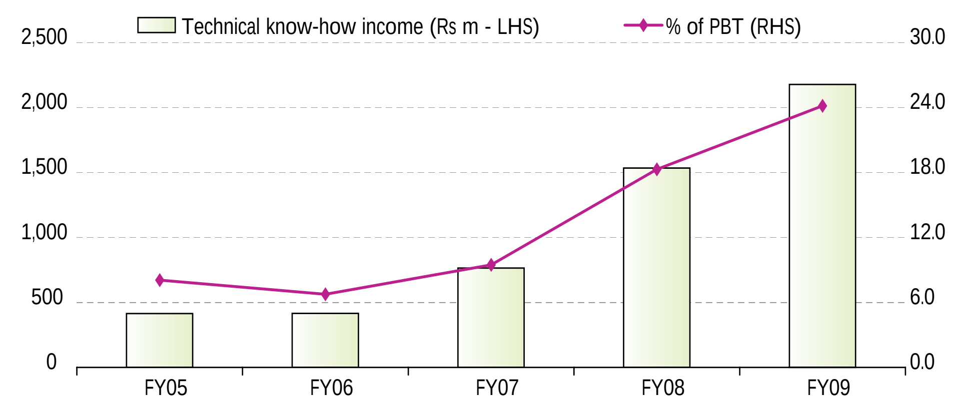
Licensing income – pointer to a better future

A 5x rise in licensing income over FY06-09 indicates achievement of milestones on partnership projects by Cipla

Cipla's licensing income has increased 5x to Rs2.2bn over FY06-09, and has become a significant component of Cipla's business model. In our view, growth in licensing income is indicative of achievement of milestones on partnership projects. We expect licensing income to significantly contribute to topline in the coming quarters as some of these interesting partnership projects get commercialized. Cipla expects the current run-rate of licensing income to be sustained over the next few years.

Cipla expects the current run-rate of licensing income to be sustained over the next few years

Exhibit 5: Licensing income heading north



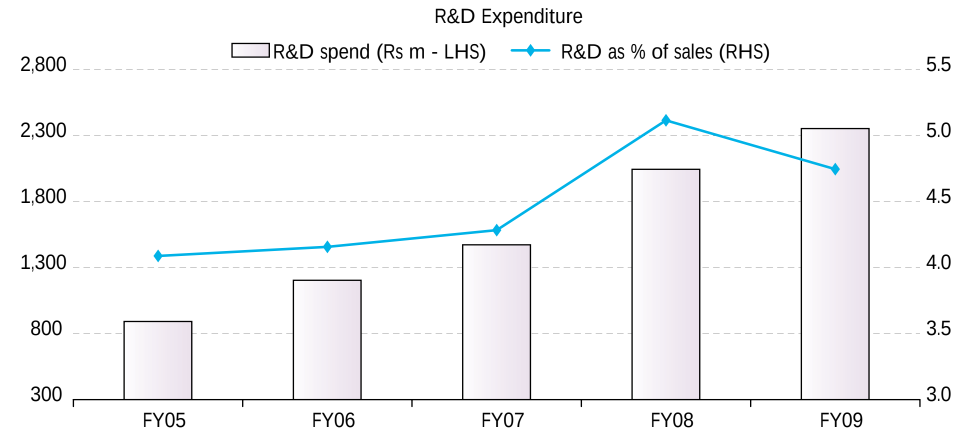
Source: IDFC-SSKI Research

Continuing to invest in R&D

Cipla spends ~5% of revenues on generic R&D, focusing on developing new delivery systems like enhanced inhaler devices

While concerns persist on Cipla's apparent lack of focus on NCE research, the company continues to invest heavily in generic research. Cipla spends ~5% of its revenues on R&D and the absolute spends have grown to Rs2.4bn in FY09, one of the largest generic R&D spends in the Indian industry. Leveraging its strong process capabilities, Cipla has been particularly focusing on developing newer delivery systems like enhanced inhaler devices, etc. We quite like this strategy of aggressive investments in creating future growth engines.

Exhibit 6: Cipla's R&D expenditure steadily increasing



Source: IDFC-SSKI Research

❑ Biosimiliar – another future growth engine

Clinical and regulatory work related to several products on in Cipla's biosimilars JV

As it has done in ARVs, we believe Cipla is fairly capable of transforming the global biosimilars space with its lower-priced product offerings. Cipla plans to launch biosimilars in the domestic market by H2CY10 and expects biosimilars to be a key opportunity going forward – especially in RoW markets. The company has tied up with a Chinese company to gain access to technology expertise. The JV is currently undertaking clinical and regulatory work related to several products.

FINANCIAL ANALYSIS

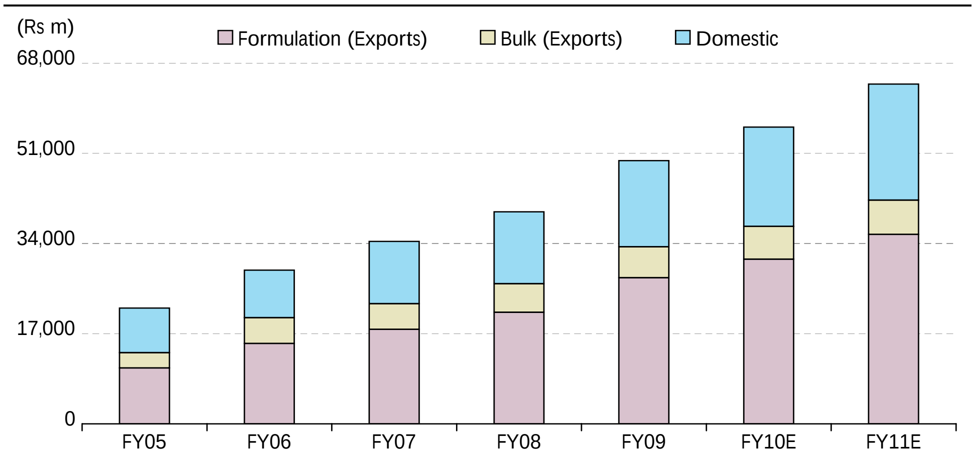
We estimate CAGR of 14% in Cipla's revenues, to Rs64bn, over FY09-11 driven by formulation exports and domestic formulations. Revenue growth has been relatively subdued in H1FY10 due to lower ARV sales as also disruption in domestic sales given shortage of inhalers. EBITDA margins are expected to expand by 260bp yoy and drive 29% CAGR in net profit over FY09-11.

❑ Expect steady uptick in revenues

Over FY09-11, we expect 13% CAGR in domestic formulations, 14% CAGR in exports and 16% CAGR in export formulations

Over FY09-11, we expect 14% CAGR in Cipla's revenues driven by 13% growth in domestic formulations and 14% growth in exports. Export formulations will likely grow faster at 16% CAGR over the period.

Exhibit 7: Steady growth in revenues



Source: IDFC-SSKI Research

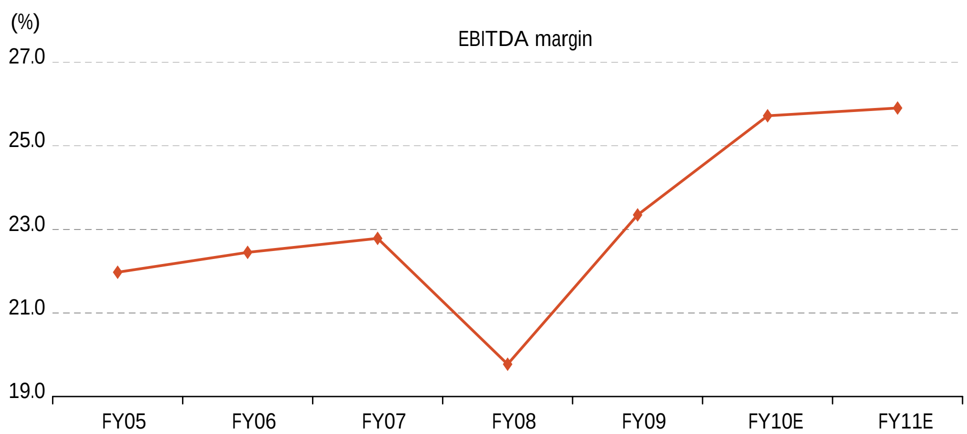
❑ Operating margins to steadily improve

Cipla's operating margins expected to hover between 25-26% over FY09-11

Cipla's operating margins saw a 346bp yoy jump to 26.3% for H1FY10. The management attributes the improvement in operating margins to (i) reduction in overhead costs; (ii) stable raw material costs; (iii) improved utilization levels; (iv) a better product mix; and (v) relatively lower contribution of ARV drugs. The management expects Cipla's operating margins to hover between 25-26% for the next couple of years.

We expect margins to improve by 260bp to 25.9% by FY11. In our view, margin improvement will be driven by (i) ramp-up in sales of higher value products like inhalers (especially to regulated markets); and (ii) benefits of operating leverage with increase in utilization at the formulation manufacturing facilities.

Exhibit 8: Operating margins to improve hereon



Source: IDFC-SSKI Research

❑ Capex to peak in FY11E

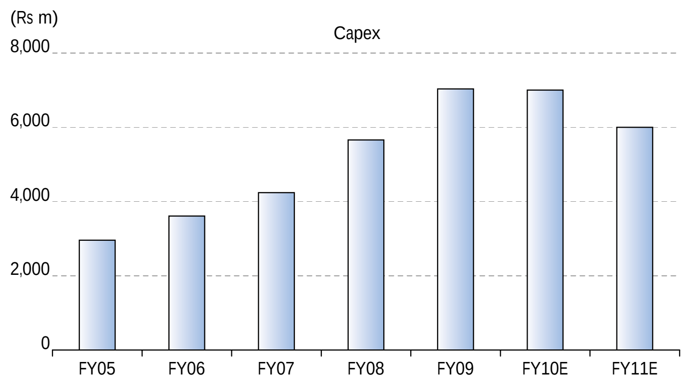
With focus on optimizing utilization at formulation facilities, management expects lower capital expenditure from FY12

Cipla, over FY07-09, has incurred a cumulative capex of Rs17bn, equivalent to 75% of the EBITDA generated over the same duration. Most of this capex has been focused on formulations including significant additions to aerosols/ inhalers capacity. Capex incurred by Cipla over the past few years, we believe, would be among the highest in the industry. This is indicative of the management's confidence on future growth prospects over the near to medium term.

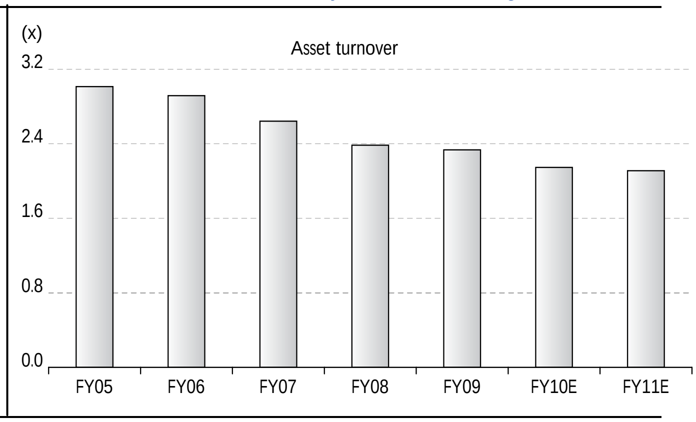
Work on Cipla's Indore SEZ has been progressing swiftly. Of the envisaged investment of Rs7.5bn for Indore SEZ, the company has already invested Rs4.5bn with the remaining expected to be incurred over FY10-11. Upcoming facilities at the SEZ will have capabilities to manufacture aerosols, respules, nasal sprays, eye-drops, pre-filled syringes, large volume parenterals, tablets, capsules, syringes and liquid orals and would cater primarily to export markets.

According to the management, capital expenditure from FY12 would be lower with focus on optimizing utilization levels in the formulation facilities. Going forward, incremental capex will largely be targeted towards strengthening API capabilities. This will drive increased asset utilization of facilities and lead to improved asset turnover ratio hereon.

Exhibit 9: Cipla's capex likely to plateau by FY11



Asset turnover ratio decline likely to start reversing from FY11

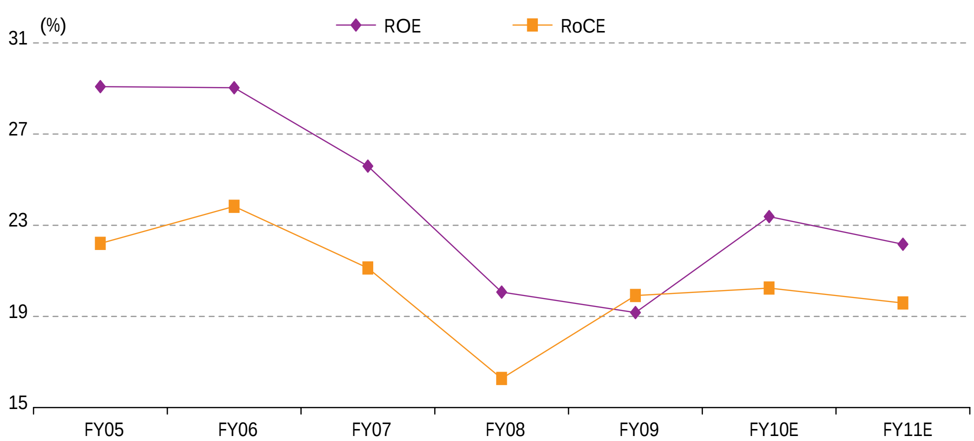


Source: IDFC-SSKI Research

We expect steady improvement in Cipla's return ratios with (i) an expected improvement in product mix (i.e. launch of inhaler products in regulated markets); (ii) benefits of operating leverage with management's renewed focus on higher utilization levels; and (iii) benefits of lower effective tax rate owing to higher production from SEZs.

A better product mix, operating leverage and lower effective tax rate to drive return ratios

Exhibit 10: Expect return ratios to bounce back



Source: IDFC-SSKI Research

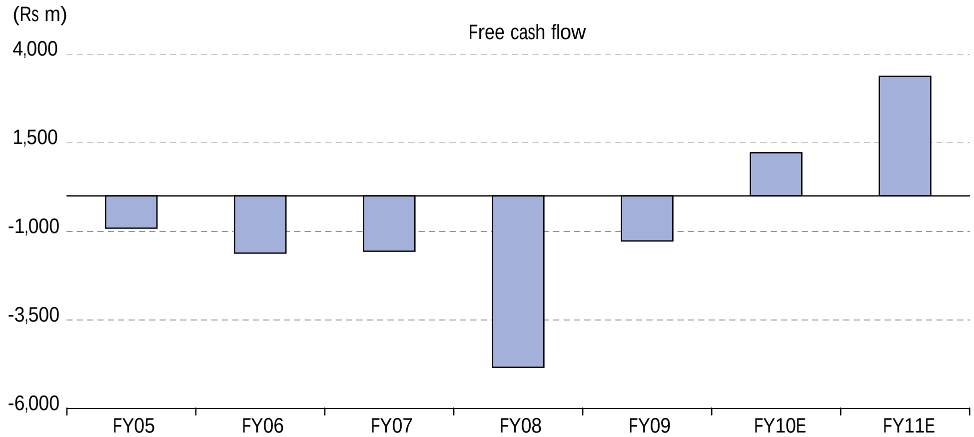
❑ Balance sheet gaining further strength

We expect Cipla to register positive free cash flows over FY09-11 and gearing to decline to 0.2x by FY11

Cipla's gearing has not crossed 0.24x in the last 10 years despite a material increase in working capital requirement and sustained focus on investment-led growth. However, Cipla has registered negative free cash flows in seven of the last eight years due to its growing gross block and increase in working capital. Having said so, as we reduce our capex estimates for FY10 and FY11 (in line with management guidance), we now expect Cipla to register positive free cash flows in the coming years. As we expect the company to utilize part of the proceeds from the recently concluded QIP (US$140m raised at Rs264/share; ~3.3% equity dilution) and positive free cash flows towards deleveraging its balance sheet, we expect Cipla's gearing to decline to 0.2x by FY11.

Cipla's receivables grew from 30% of sales in FY07 to 37% in FY09. Our concerns pertaining to the increase in debtor days (less than six months) are acknowledged by the management. The management states that necessary precautions have been taken on the same and it expects debtor days to gradually decrease going forward.

Exhibit 11: Free cash flows may turn 'positive' FY10 onwards



Source: IDFC-SSSKI Research

Cipla's conservative hedging policy reflects the management's comfort on the inherently strong business model

Cipla continues to hedge all its loans and has forward cover on export billing on monthly basis as against the aggressive hedges it took in FY09. Cipla's outstanding forward contracts stood at US$110m as of Q2FY10 with USD/ INR hedges placed at ~47. We like Cipla's conservative hedging policy as it reflects the management's comfort on the inherently strong business model and its ability to absorb exchange rate volatility.

❑ Key Risks

Contingent liabilities related to overcharging

Contingent liabilities related to overcharging a risk to our numbers while management is confident of a favourable verdict

Significant contingent liabilities related to overcharging remain a potential threat. Cipla has been litigating with the Government of India and NPPA over demand notices worth ~Rs11bn (i.e. 1.2x FY09 EBITDA) issued on account of overcharging in respect of certain drugs including Salbutomol, Theophylline, Ciprofloxacin, Cloxacilllin, Norfloxacin, Cefadroxil, Trimethoprim and Sulphamethoxazole. Cases related to overcharging on drugs are underway across multiple courts in the country. While the Allahabad High Court had declared the prices fixed by the government on these drugs as illegal and void, the Supreme Court had subsequently stayed the Allahabad High Court's judgment. The Supreme Court had also ruled that no prosecution should be launched till Cipla's appeal is decided.

Cipla has challenged the government orders and maintains that it has received legal advice that none of the government demand notices are tenable or sustainable. Accordingly, the company has not made any provisions for the same. Even as we derive comfort from management's confidence pertaining to the legal issues, we believe an unfavorable court decision stays a key risk.

Increased scrutiny by USFDA

Earlier this year, the US FDA had inspected Cipla's Goa and Bangalore facilities and cited some 483 observations in the Bangalore plant. The management has indicated that all the 483 observations have subsequently been cleared by the FDA. Given the heightened scrutiny levels by the USFDA in general, we believe any adverse action by the authority remains a potential risk for the company.

VALUATIONS & VIEW

We had begun to turn bullish on Cipla post its strong H1FY10 performance; and our recent management interaction has further reinforced our positive view. Cipla has been one of the most consistently growing companies in the Indian pharma space with a differentiated partnering-based geographically diversified model.

❑ Steady growth outlook with potential for upsides

Strong presence across multiple high-growth RoW markets; inhalers portfolio now being leveraged in regulated markets

We believe Cipla is well poised to maintain, and even accelerate, this growth trajectory going forward as it continues to leverage its strong presence across multiple high-growth RoW markets and also finally begins to leverage its formidable respiratory (inhalers) portfolio in regulated markets. Additionally, Cipla's partnership deals for niche and complex products in USA with global generics as also opportunities for partnering with global big pharma players can provide additional growth upsides.

❑ Further re-rating expected…

Cipla's aggressive capex spending is also likely to wind down, leading to free cash generation and improvement in return ratios. This, combined with Cipla management's intent to enhance investor interaction through quarterly conference-calls, will likely lead to further re-rating of the stock. Given its phenomenal growth track record consistency, attractive growth outlook and strong balance sheet, we believe Cipla deserves to trade at a premium to peers.

Exhibit 12: Relative peer valuations

		PE (x)			EV/ EBITDA (x)		
Particulars	M Cap (Rs bn)	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Sun Pharma	303.4	16.7	21.1	19.5	14.5	18.0	14.9
Cipla	**256.9**	**32.0**	**22.8**	**20.0**	**21.0**	**17.6**	**15.2**
Dr Reddy's Laboratories	187.6	21.2	21.9	19.3	13.4	13.8	11.8
Ranbaxy Laboratories	180.7	96.5	42.3	15.2	29.9	61.7	15.3
Glaxosmithkline Pharma	138.4	30.9	27.4	23.0	21.5	19.2	16.3

Source: IDFC-SSKI Research

❑ …we upgrade the stock to Outperformer

We like Cipla given its consistent growth, attractive growth outlook and strong balance sheet

We maintain our earnings estimates for Cipla and upgrade the stock to Outperformer with a 12-month price target of Rs368 per share (23x FY11E earnings). We recommend buying into the stock at all declines.

Income statement

Year to Mar 31 (Rs m)	FY07	FY08	FY09	FY10E	FY11E
Net sales	**35,621**	**42,032**	**52,346**	**58,734**	**67,034**
% growth	*19.5*	*18.0*	*24.5*	*12.2*	*14.1*
Operating expenses	27,506	33,721	40,126	43,631	49,672
EBITDA	**8,115**	**8,310**	**12,220**	**15,102**	**17,361**
% change	*21.3*	*2.4*	*47.0*	*23.6*	*15.0*
Other income	1,068	1,349	(1,360)	861	950
Net interest	(70)	(113)	(329)	(400)	(400)
Depreciation	1,034	1,163	1,518	2,015	2,428
Pre-tax profit	8,080	8,384	9,013	13,549	15,483
Deferred tax	147	365	150	-	-
Current tax	1,253	1,004	1,095	2,303	2,632
Profit after tax	6,680	7,014	7,768	11,245	12,851
Net profit after non-recurring items	**6,680**	**7,014**	**7,768**	**11,245**	**12,851**
% change	*9.9*	*5.0*	*10.7*	*44.8*	*14.3*

Balance sheet

As on Mar 31 (Rs m)	FY07	FY08	FY09	FY10E	FY11E
Paid-up capital	1,555	1,555	1,555	1,555	1,555
Reserves & surplus	30,808	36,004	41,953	51,132	61,728
Total shareholders' equity	32,363	37,558	43,508	52,686	63,283
Total current liabilities	5,311	8,309	10,129	10,865	11,840
Total debt	1,236	5,805	9,402	12,402	12,402
Deferred tax liabilities	1,127	1,492	1,642	1,642	1,642
Other non-current liabilities	4,101	4,168	3,917	4,129	4,290
Total liabilities	11,775	19,774	25,090	29,038	30,173
Total equity & liabilities	**44,137**	**57,332**	**68,597**	**81,724**	**93,456**
Net fixed assets	14,613	18,945	23,588	28,574	32,145
Total current assets	29,525	38,387	45,009	53,150	61,310
Working capital	24,214	30,078	34,880	42,285	49,471
Total assets	**44,137**	**57,332**	**68,597**	**81,724**	**93,456**

Cash flow statement

Year to Mar 31 (Rs m)	FY07	FY08	FY09	FY10E	FY11E
Pre-tax profit	8,080	8,384	9,013	13,549	15,483
Depreciation	1,034	1,163	1,518	2,015	2,428
Chg in working capital	(4,222)	(6,551)	(5,450)	(4,582)	(5,353)
Total tax paid	(1,253)	(1,004)	(1,095)	(2,303)	(2,632)
Ext ord. items	-	-	-	-	-
Operating cash inflow	3,639	1,991	3,986	8,678	9,926
Capital expenditure	(4,193)	(5,620)	(6,247)	(7,000)	(6,000)
Free cash flow (a+b)	(554)	(3,629)	(2,261)	1,678	3,926
Chg in investments	(954)	231	134	-	-
Debt raised/ (repaid)	(3,454)	4,570	3,597	3,000	-
Capital raised/ (repaid)	7,677	(0)	85	(0)	(0)
Dividend (incl. tax)	(1,777)	(1,819)	(1,819)	(2,067)	(2,255)
Misc	(68)	78	-	-	-
Net chg in cash	870	(569)	(263)	2,612	1,672

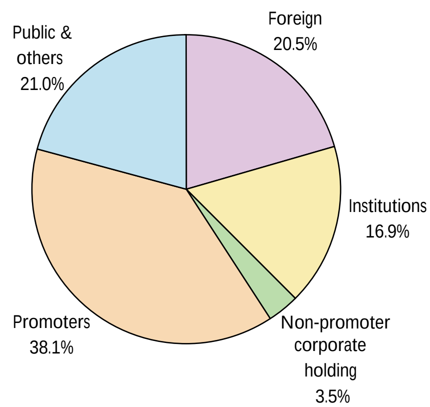
Key ratios

Year to Mar 31	FY07	FY08	FY09	FY10E	FY11E
EBITDA margin (%)	22.8	19.8	23.3	25.7	25.9
EBIT margin (%)	19.9	17.0	20.4	22.3	22.3
PAT margin (%)	18.8	16.7	14.8	19.1	19.2
RoE (%)	25.6	20.1	19.2	23.4	22.2
RoCE (%)	21.1	16.3	19.9	20.2	19.6
Gearing (x)	0.0	0.2	0.2	0.2	0.2

Valuations

Year to Mar 31	FY07	FY08	FY09	FY10E	FY11E
Reported EPS (Rs)	8.6	9.0	10.0	14.0	16.0
Adj. EPS (Rs)	8.6	9.0	10.0	14.0	16.0
PE (x)	37.2	35.5	32.0	22.8	20.0
Price/ Book (x)	7.7	6.6	5.7	4.9	4.1
EV/ Net sales (x)	6.9	6.0	4.9	4.5	3.9
EV/ EBITDA (x)	30.5	30.4	21.0	17.6	15.2
EV/ CE (x)	6.4	5.2	4.4	3.7	3.2

Shareholding pattern



As of September 2009

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Explanation of Ratings:

1. Outperformer: More than 10% to Index
2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

Disclosure of interest:

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