

## India Update

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### Highlights

Sector/event	Impact
<b>AUTO:</b>	TAMO's Q4FY07 revenues grew in line with our estimates. However, the company recorded lower recurring net profit primarily due to higher-than-estimated rise in raw material cost as a percentage of sales even as the company realised benefits of higher operating leverage. TAMO registered strong revenue growth of 19.2% YoY to Rs82.1bn in Q4FY07 and 33% to Rs274bn in FY07. The company recorded market share gain in the commercial vehicle segment and maintained market share in the passenger vehicles segment at 16.4% despite growing competition and loss of production due to fire in the company's car paint shop. Recurring net profit rose 27.7% YoY to Rs5.8bn in Q4FY07 and 25.6% to Rs19.1bn in FY07. TAMO's group companies recorded a strong performance in FY07, with aggregate revenues rising 52.6% and net profit increasing 71.1%. Maintain BUY.
Tata Motors (TAMO) – Results review	

### News Snippets

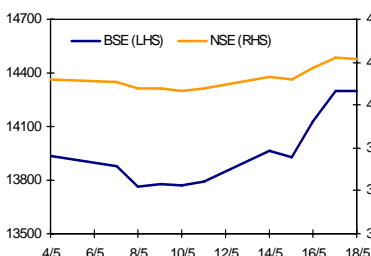
#### Sectoral

- The Centre and states have agreed to rejig duties on foreign liquor, replacing the additional customs duty with special levy imposed by individual states at par with domestically manufactured liquor. (The Economic Times)
- The Associated Chambers of Commerce and Industry has guided for an increase in advertising expenditures in India to 0.55% of the country's gross domestic product by '10 from the current 0.52% on the back of surging branding and marketing activities. (Business Standard)
- Aditya Birla Group has unveiled a US\$2bn investment plan for a nationwide retail chain to compete with Reliance Industries and Wal-Mart ally Bharti. (The Financial Express)

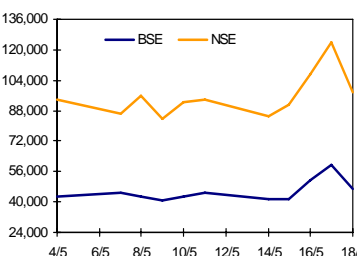
#### Corporate

- Infosys Technologies is planning to invest Rs3.06bn to set up a campus with seating capacity of 8,000 in Thiruvananthapuram. (The Financial Express)

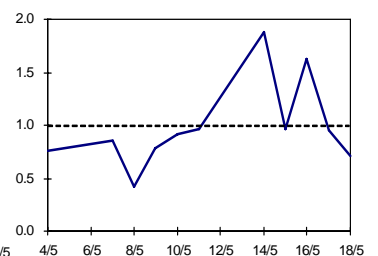
Market movement over last fortnight



Volumes in Rs mn (BSE and NSE)



Advances & Declines ratio (BSE)



#### Market data as on May 18, 2007

INDICES		
		% chg (DoD)
BSE Sensex	14303	0.03
S&P CNX Nifty	4215	(0.12)
BSE 100	7313	(0.02)
BSE 200	1731	0.03
Instanex Skindia DR	2605	0.36
Mindex	5868	(0.13)

#### OVERSEAS MARKETS

		% chg (DoD)
Dow Jones	13557	0.59
Nasdaq Comp.	2558	0.75
S&P 500	1523	0.66
Hang Seng	20905	(0.43)
Nikkei	17400	(0.57)

#### ADVANCES/DECLINES (BSE)

Group	A	B1	B2
Advances	70	267	370
Declines	132	421	442
Unchanged	3	16	27

#### FII TURNOVER (BSE+NSE)\*

(Rs mn)	Bought	Sold	Net
	39660	29053	10607

#### NEW HIGHS AND LOWS (BSE)

Group	A	B1	B2
Highs	16	24	17
Lows	-	3	7

#### CURRENCY

US\$1 = Rs40.72

\* FII turnover (BSE + NSE) as on May 17, 2007

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## Tata Motors (BUY)

AUTO

## Q4FY07 RESULTS REVIEW

## Temperate premise

Rs743

Shilpa Gupta

shilpa\_gupta@isecltd.com

Tata Motors' (TAMO) Q4FY07 revenues grew in line with our estimates. However, the company recorded lower recurring net profit, primarily due to higher-than-estimated rise in raw material cost as a percentage of sales even as the company realised benefits of higher operating leverage. TAMO registered strong revenue growth of 19.2% YoY to Rs82.1bn in Q4FY07 and 33% to Rs274bn in FY07. The company recorded market share gains in the commercial vehicle (CV) segment (up 30bps in M&HCVs to 62.7% and 550bps in LCVs to 65.4%) and maintained market share in the passenger vehicles segment (cars & UVs) at 16.4% despite growing competition and loss of production on account of a fire in the company's car paint shop. Recurring net profit rose 27.7% YoY to Rs5.8bn (i:SEC-Rs6.1bn) in Q4FY07 and 25.6% to Rs19.1bn in FY07. TAMO's group companies recorded a strong performance in FY07, with aggregate revenues rising 52.6% (48.2% excluding TML Financial Services-TMLFSL) and net profit increasing 71.1% (65.6% excluding TMLFSL). Maintain BUY.

Table 1: Valuation summary

		Y/E March	EPS (Rs)	P/E (x)	EV/E (x)		
Price (18/05/07) (Rs)	743	2005	36.6	20.3	10.9	BSE Sensex	14303
52 wk Range (Rs)	997/651	2006	41.6	17.9	9.8	Mkt cap. (Rs bn)	269
Dividend FY08E (Rs/share)	14.6	2007P	53.9	13.8	7.9	Mkt cap (US\$ bn)	6.6
Dividend yield (%)	2.0	2008E	58.2	12.8	6.9	Shares out. (mn)	362
Face value (Rs)	10.0	2009E	64.8	11.5	5.9	Free float (%)	66.3

Source: Company data, i-SEC Research

- Robust revenue growth of 19.2% YoY.** TAMO registered revenue growth of 19.2% YoY to Rs82.1bn in Q4FY07, led by a 16% YoY volume growth – M&HCVs rose 19.5%, LCVs were up 20.6%, UVs grew 21.9% and cars were up 8.6%. In FY07, revenues were up 33%, led by 27.5% volume growth – M&HCVs rose 35.4%, LCVs were up 38.1%, UVs grew 23.9% and cars were up 15.3%. In FY07, the company registered market share gain of 30bps to 62.7% in the CV segment and 550bps to 65.4% in LCVs. In passenger vehicles, despite growing competition and loss of production due to a fire in the company's car paint shop, TAMO maintained market share at 16.4% (marginally down 10bps).
- Input cost pressures led to margin contraction.** Even as TAMO realised benefits of higher operating leverage and cost cutting initiatives, with staff cost-to-sales ratio declining 20bps to 4.4% and other expenses-to-sales ratio falling 60bps to 12.8%, raw material cost as a percentage of sales rose 150bps YoY to 71.3%. This resulted in an 80bps YoY EBITDA margin contraction to 11.4%, which capped the EBITDA growth to 11.6% YoY.
- Recurring net profit up 27.7% YoY.** A 13.6% YoY decline in interest expense, rise in other income and a 330bps YoY lower tax rate to 26% led to recurring net profits rising 27.7% YoY to Rs5,770mn.
- Strong performance by subsidiaries.** TAMO's key subsidiaries witnessed a strong FY07 performance with aggregate revenues rising 52.6% (48.2% excluding TMLFSL) and net profit increasing 71.1% (65.6% excluding TMLFSL). The subsidiaries' performance was led by Telco Construction Equipment (Telcon), which registered 46.5% YoY volume sales growth to 5,359 units and sustained its market leadership (at

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 53% share) in the excavator segment in FY07. Further, Telcon registered 40.1% and 111.9% growth in revenues and recurring net profits respectively. Tata Daewoo CV (TDCV) sold 8,630 units in FY07, registering 46% growth, led by exports rising 46.8%. Further, TDCV registered 47.2% and 42.4% growth in revenues and recurring net profits respectively and increased its capacity utilisation to 42.7% in FY07 from 28.2% in FY06.

**Table 2: Q4FY07 results review***(Rs mn, year ending March 31)*

	Q4FY07	Q4FY06	% chg (YoY)	Q3FY07	% chg (QoQ)	FY07	FY06	% chg (YoY)
Gross Sales	95,408	79,793	19.6	80,474	18.6	317,542	240,041	32.3
Less : Excise duty	13,340	10,965	21.7	10,906	22.3	43,495	34,019	27.9
<b>Net Sales</b>	<b>82,068</b>	<b>68,828</b>	<b>19.2</b>	<b>69,568</b>	<b>18.0</b>	<b>274,048</b>	<b>206,022</b>	<b>33.0</b>
(Inc)/Dec in Stock	2,936	4,137	(29.0)	(1,355)	(316.7)	(3,497)	(2,569)	36.1
Raw Materials	55,618	43,924	26.6	48,976	13.6	193,749	142,639	35.8
Staff Cost	3,647	3,141	16.1	3,581	1.8	13,678	11,431	19.7
Other Expenditure	10,490	9,226	13.7	9,132	14.9	37,830	29,462	28.4
<b>Total Expenses</b>	<b>72,691</b>	<b>60,428</b>	<b>20.3</b>	<b>60,333</b>	<b>20.5</b>	<b>241,761</b>	<b>180,963</b>	<b>33.6</b>
<b>EBITDA</b>	<b>9,377</b>	<b>8,399</b>	<b>11.6</b>	<b>9,236</b>	<b>1.5</b>	<b>32,287</b>	<b>25,059</b>	<b>28.8</b>
Interest	598	692	(13.6)	852	(29.8)	3,131	2,264	38.3
Depreciation	1,583	1,363	16.1	1,435	10.3	5,863	5,209	12.5
Other Income	604	44.2	1,267.4	143	322.1	2,452	2,891.1	(15.2)
EBIT						28,876.0		
<b>Recurring pre-tax income</b>	<b>7,801</b>	<b>6,389.3</b>	<b>22.1</b>	<b>7,092</b>	<b>10.0</b>	<b>25,745</b>	<b>20,477.3</b>	<b>25.7</b>
Ext. Ord Inc/(Exp)	(3.0)	86.8	(103.9)	(5.0)	(26.1)	(14)	56.5	(123.9)
Taxation	2,031	1,895.0	7.2	1,956	3.8	6,597	5,245.0	25.8
<b>Reported Net Income</b>	<b>5,767</b>	<b>4,581</b>	<b>25.9</b>	<b>5,132</b>	<b>12.4</b>	<b>19,135</b>	<b>15,289</b>	<b>25.2</b>
<b>Recurring Net Income</b>	<b>5,770</b>	<b>4,520</b>	<b>27.7</b>	<b>5,135</b>	<b>12.4</b>	<b>19,145</b>	<b>15,247</b>	<b>25.6</b>
<b>Ratios (%)</b>								
RM/Sales	71.3	69.8		68.5		69.4	68.0	
Staff Cost/Sales	4.4	4.6		5.1		5.0	5.5	
Other Expenses/Sales	12.8	13.4		13.1		13.8	14.3	
EBIDTA Margins	11.4	12.2		13.3		11.8	12.2	
Net profit margins	7.0	6.6		7.4		7.0	7.4	
Effective Tax Rate	26.0	29.3		27.6		25.6	25.5	

Source: Company data, i-SEC Research

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	Q4FY07	Q4FY06	% chg (YoY)	Q3FY07	% chg (QoQ)	FY07	FY06	% chg (YoY)
<b>Sales Volume</b>								
M&HCV	54,683	45,751	19.5	48,079	13.7	185,405	136,963	35.4
LCV	42,248	35,028	20.6	38,448	9.9	149,258	108,084	38.1
UV	16,764	13,756	21.9	11,475	46.1	49,307	39,786	23.9
Cars	58,231	53,620	8.6	43,402	34.2	195,408	169,512	15.3
<b>Total</b>	<b>171,926</b>	<b>148,155</b>	<b>16.0</b>	<b>141,404</b>	<b>21.6</b>	<b>579,378</b>	<b>454,345</b>	<b>27.5</b>
<b>Market shares</b>								
<b>M&amp;HCV–Domestic</b>								
TAMO	51,076	43,060	18.6	44,911	13.7	172,889	128,714	34.3
Industry	83,264	69,193	20.3	69,923	19.1	275,600	206,288	33.6
Market share (%)	61.3	62.2		64.2		62.7	62.4	
<b>LCV–Domestic</b>								
TAMO	36,399	28,417	28.1	32,415	12.3	125,792	86,236	45.9
Industry	57,579	43,432	32.6	50,900	13.1	192,282	144,075	33.5
Market share (%)	63.2	65.4		63.7		65.4	59.9	
<b>PV–Domestic</b>								
TAMO	69,883	61,346	13.9	52,716	32.6	226,893	188,856	20.1
Industry	402,326	333,743	20.5	336,031	19.7	1,379,698	1,143,048	20.7
Market share (%)	17.4	18.4		15.7		16.4	16.5	

Source: Company data, i-SEC Research

**Table 4: Tata Motors' subsidiaries performance***(Rs mn)*

	Revenues			PBT			Recurring PAT		
	FY06	FY07	% Chg (YoY)	FY06	FY07	% Chg (YoY)	FY06	FY07	% Chg (YoY)
Tata Daewoo CV	15,848	23,336	47.2	777	1,133	45.8	583	830	42.4
Telco Construction Equipment	13,050	18,277	40.1	1368	2,804	105.0	868	1,839	111.9
Tata Technologies	5,450	9,605	76.2	194	247	27.3	116	163	40.5
HV Transmission	1,277	1,756	37.6	455	736	61.8	301	450	49.5
HV Axles	1,439	1,967	36.7	693	963	39.0	463	579	25.1
TML Financial Services Ltd		1,602			201			128	
<b>Total</b>	<b>37,064</b>	<b>56,543</b>	<b>52.6</b>	<b>3,487</b>	<b>6,084</b>	<b>74.5</b>	<b>2,331</b>	<b>3,989</b>	<b>71.1</b>

Source: Company data, i-SEC Research

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## Sun Pharma (Buy)

PHARMA

## Q4FY07 RESULTS REVIEW

## A dazzler, yet again

Rs1,013

Rajesh Vora

rajesh\_vora@isecitd.com

Sun Pharma's (SPIL) Q4FY07 consolidated recurring net profit surged 48% YoY to Rs2.1bn, yet again beating Street and our expectations. This was mainly on account of higher-than-expected sales and other income. Gross revenues jumped 33% YoY to Rs5.7bn on the back of impressive 43% YoY growth in domestic sales and healthy 22% YoY rise in exports. As expected, EBITDA margin expanded 605bps to 28.4% on a low base. Post-the de-merger, we expect SPIL – generics business – and Sun Pharma Advanced Research (SPARC) – drug discovery research – to deliver superior performances against peers given SPIL's thorough understanding of businesses, unconventional strategy and impeccable execution. Our fair values are Rs1,291/share for SPIL and Rs149/share for SPARC in the next 12-15 months (refer *Trailblazers* dated April 24). SPIL remains one of our top BUYs among large-caps in the sector.

Table 1: Valuation summary

		Y/E March	EPS* (Rs)	P/E (x)	EV/E (x)		
Price (18/05/07) (Rs)#	1,013	2005	19.5	51.9	45.0	BSE Sensex	14303
52 wk Range (Rs)	1,196/640	2006	25.5	39.7	39.1	Mkt cap. (Rs bn)	192
DPS FY08E (Rs/share)	8.5	2007P	37.3	27.1	27.1	Mkt cap (US\$ bn)	4.7
Dividend yield (%)	0.8	2008E	45.4	22.3	19.9	Shares out. (mn)	190
Face value (Rs)	5.0	2009E	55.2	18.3	15.2	Free float (%)	30.4

\* Consolidated as per Indian GAAP on fully diluted basis; # post de-merger of its discovery arm, SPARC  
Source: Company data, i-SEC Research

- Gross revenues rose 33% YoY to Rs5.7bn.** SPIL's US subsidiary, Caraco Pharma's revenues grew 33% to US\$33mn due to full benefits of products launched in the past few quarters kicking in and healthy market share in eight products (of the 33 in-market products), in which the company ranks third or higher. Caraco has given guidance of 30% revenue growth for FY08, with total 77 ANDAs (of which 29 are Caraco's) pending approval. Powered by Caraco's performance, dosage form exports grew 27% YoY to Rs1.98bn. SPIL's API exports rose only 3% YoY to Rs479mn; consequently, total exports increased 22% YoY to Rs2.45bn. Domestic dosage form sales registered remarkable 47% YoY growth to Rs3.1bn on the back of rise in sales of new products, increasing share of prescription for key old brands and low base effect.
- EBITDA margin expanded 605bps to 28.4%** on the back of: i) better product mix with high-margin dosage form exports contributing 81% to total revenues against 77% a year ago ii) tighter cost control and iii) low base. But the sharp increase in staff costs, up 160bps YoY to 12% of sales, and R&D costs, up 62bps YoY to 13% of sales, limited the margin expansion. Depreciation charges were 9% higher at Rs201mn. Income tax provision, including deferred tax, was negative at Rs18mn, lower than our estimates. Other income (net of interest cost) surged to Rs942mn, up 25% YoY and 48% QoQ, on account of rising surplus free cashflow and forex exchange gain (amount undisclosed by the company). Consequently, recurring consolidated PAT rose 48% YoY to Rs2.1bn, ahead of Street and our expectations.
- FY07 beats expectations yet again.** SPIL continues to exceed investor and analyst expectations with FY07 consolidated PAT rising 35% YoY to Rs7.7bn. Our and Street estimates at the beginning of the year were ~Rs6.7bn, while the actual number is 4% higher. Consequently, we shall revisit our earnings forecast. The company's sales growth guidance was 18-20% YoY versus the actual 30% YoY. Sales growth was

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 powered by 39% rise in exports to Rs9.7bn. This was in turn driven by strong 44% surge in dosage form exports to Rs7.3bn, mainly helped by 41% surge in Caraco Pharma's sales. Revenues from the domestic dosage form business rose an impressive 23% to Rs11.8bn on the back of strong sales of new products and rising share of prescription for its top brands. EBITDA margin expanded 186bps to 31.9% due to 250bps improvement in Caraco's margins, better revenue mix and continued focus on cost efficiencies. The contribution from other income remained high and constant at 27% of PBT due high cash war chest at US\$500mn, forex gain and gain on investments (undisclosed by the company). SPIL has given guidance of 15-18% revenue growth versus our current estimate at 20% – we shall fine-tune after meeting the management.

- **SPIL and SPARC offer unique and profitable plays with low risk, high return.** We expect SPIL to fire on both cylinders – generics (SPIL) and drug discovery research (SPARC, listing likely by end-June '07) in the next 3-5 years. As we have maintained in the past, SPIL should be a core India holding in every portfolio, yielding ~20% RoI for a time horizon in the range of 1-5 years, given its best-in-class operating & cost discipline, unstinted focus on long-term strategy and potential EPS CAGR of ~ 25% through FY10E. The stock currently trades at FY08E P/E of 22x. Reiterate as one of our top BUYs in the sector.

**Table 2: Q4FY07 results (Consolidated)**

(Rs mn, year ending March 31)

	Q4FY07	Q4FY06	% chg (YoY)	FY07	FY06	% chg (YoY)
<b>Gross sales</b>	<b>5,725</b>	<b>4,301</b>	<b>33.1</b>	<b>22,373</b>	<b>17,371</b>	<b>28.8</b>
Excise duty	283	234	21.1	1,052	1,003	4.9
<b>Net sales</b>	<b>5,442</b>	<b>4,067</b>	<b>33.8</b>	<b>21,321</b>	<b>16,368</b>	<b>30.3</b>
Raw Materials	1,355	1,202	12.7	5,850	4,876	20.0
Personnel Cost	664	432	54.0	2,558	1,722	48.5
Research & Development	716	510	40.4	2,577	1,551	66.2
Other Expenses	1,163	1,016	14.4	3,538	3,306	7.0
<b>Total Expenses</b>	<b>3,897</b>	<b>3,159</b>	<b>23.4</b>	<b>14,523</b>	<b>11,454</b>	<b>26.8</b>
<b>EBITDA</b>	<b>1,545</b>	<b>909</b>	<b>70.1</b>	<b>6,798</b>	<b>4,914</b>	<b>38.3</b>
Depreciation	201	184	9.0	818	610	34.0
Net Interest and Other Income	942	754	24.9	2,253	1,666	35.2
<b>Recurring pre-tax income</b>	<b>2,286</b>	<b>1,478</b>	<b>54.7</b>	<b>8,233</b>	<b>5,969</b>	<b>37.9</b>
Minority interest	183	(65)	(383.7)	559	(3)	NA
Taxation	(18)	113	(115.8)	(67)	239	(128.0)
- Current	5	21	(74.2)	78	83	(5.3)
- Deferred	(23)	93	(125.2)	(145)	157	(192.6)
Extraordinary items	-	-	-	-	-	-
<b>Reported Net Income</b>	<b>2,121</b>	<b>1,429</b>	<b>48.4</b>	<b>7,741</b>	<b>5,733</b>	<b>35.0</b>
<b>Recurring Net Income</b>	<b>2,121</b>	<b>1,429</b>	<b>48.4</b>	<b>7,741</b>	<b>5,733</b>	<b>35.0</b>
<b>Ratios (%)</b>			<b>(bps)</b>			<b>(bps)</b>
EBITDA margins	28.4	22.3	605	31.9	30.0	186
Net profit margins	39.0	35.1	384	36.3	35.0	128

Source: Company data, i-SEC Research

**Table 3: Revenue mix (Consolidated)**

(Rs mn, year ending March 31)

	Q4FY07	Q4FY06	% chg (YoY)	FY07	FY06	% chg (YoY)
<b>Domestic</b>	<b>3,265</b>	<b>2,278</b>	<b>43.4</b>	<b>12,686</b>	<b>10,413</b>	<b>21.8</b>
Formulation	3,127	2,134	46.5	11,814	9,598	23.1
Bulk	139	144	(3.7)	872	815	7.0
<b>Exports</b>	<b>2,459</b>	<b>2,023</b>	<b>21.6</b>	<b>9,687</b>	<b>6,958</b>	<b>39.2</b>
Formulation	1,981	1,559	27.0	7,312	5,070	44.2
Bulk	479	464	3.2	2,375	1,888	25.8
<b>Total Gross Sales</b>	<b>5,725</b>	<b>4,301</b>	<b>33.1</b>	<b>22,373</b>	<b>17,371</b>	<b>28.8</b>

Source: Company data, i-SEC Research

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## Dr. Reddy's Laboratories (Buy)

PHARMA

## Q4FY07 RESULTS REVIEW

## Profits soar to new high

Rs666

Rajesh Vora

rajesh\_vora@isecltd.com

Dr. Reddy's Laboratories' (DRL) Q4FY07 consolidated recurring net profits touched an all-time high of Rs4.38bn versus loss of Rs244mn in Q4FY06 and Rs1.58bn profit in FY06. This is the highest ever PAT posted by an Indian pharma company and significantly ahead of our and Street expectations. The stellar performance was powered by 180-day exclusivity product, generic *Zofran* tablets (17% contribution to sales), acquired businesses (15% of sales) and strong 70% growth in the base business. Based on the company's sketchy guidance for FY08, our quick estimates suggest EPS of Rs32-37, implying 37-46% YoY decline versus our current estimate of 22% dip. Potential monetisation of impressive pipeline & NCEs (69 ANDAs, of 18 which are para IVs) and faster-than-expected growth in the base business could provide an additional kicker. Reiterate BUY.

## Table 1: Valuation summary

		Y/E March	EPS* (Rs)	P/E (x)	EVE (x)		
Price (18/05/07) (Rs)	666	2005	3.4	195.4	74.6	BSE Sensex	14303
52 Week Range (Rs)	840/579	2006	9.4	70.8	41.2	Market Cap. (Rs bn)	112
Dividend FY08E (Rs)	5.0	2007P	57.3	11.6	7.3	Market Cap. (US\$ bn)	2.7
Dividend Yield (%)	0.8	2008E	36.6	18.2	9.9	Shares Out. (mn)	168
Face Value (Rs)	5	2009E	46.9	14.2	7.9	Free float (%)	74.8

\*Consolidated as per Indian GAAP

Source: Company data, i-SEC Research

- Total revenues more than doubled to Rs15.6bn.** Our revenue mix analysis is as per the US GAAP. Generic *Zofran* tablets, which enjoy 180-day exclusivity in the US, contributed Rs2.7bn or 17% to total sales in Q4FY07. Note that despite its launch in December '06, the impact of generic *Zofran*'s sales has come mainly in Q4FY07. There is a possibility of pipeline filing, which may reduce sales and profits in Q1FY08. The acquisition of betapharm and Roche's Mexico plant together contributed Rs2.3bn revenues or 15% to total sales. Besides, organic sales growth was also impressive at 70% to Rs9.3bn on the back of launches (generic *Allegra*), strong 86% growth in API revenues and impressive 32% rise in the revenues of branded dosage form. The all-round growth across business segments is the key highlight of the results.
- EBITDA margin at record high of 34.8% versus 6.8% in Q4FY06.** This was primarily due to: i) higher-than-normal margins from exclusivity of generic *Zofran*, which contributed 17% to sales ii) consolidation of betapharm, which enjoys significantly higher margins (estimated at ~20-22%) and iii) benefits of operating leverage. Interest cost crashed 73% to Rs141mn due to lower debt and rising free cashflows. Depreciation and amortisation more than doubled to Rs1.1bn due to higher capex and amortisation. Consequently, DRL's recurring net profit soared to an all-time high of Rs4.38bn, significantly ahead of our (higher end of consensus) and consensus estimates. We shall revisit our earning forecast shortly.
- Highest ever net profit at Rs9.6bn in FY07 by any Indian pharma company.** This impressive performance was powered by: i) the launch of AG versions of *Zocor* and *Proscar* (contributing 24% to total revenues) ii) launch of generic *Zofran* with 180-day exclusivity (contributing 4.5% to total revenues) and iii) consolidation of acquired businesses (betapharm & Roche's Mexico plant), which together contributed 21% to total revenues. Excluding these, base generics revenues grew an impressive 45% to Rs33bn on the back of tripling of US generics revenues (excluding AG and generic *Zofran*), 44% growth in API revenues (due to 64% surge in exports) and 24% rise in the revenues of branded dosage. EBITDA margin witnessed a record surge at 24.4%

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 versus 13.1% a year ago on the back of exclusivity products, cost cutting initiatives and benefit of operating leverage. Consequently, consolidated recurring net profit surged 6x to Rs9.6bn. This was significantly ahead of our estimates due to higher-than-expected sales and EBITDA margin and lower excise duty. We shall revisit our earnings forecast shortly. Note that almost half of FY07 PAT was earned in Q4FY07, while one-fourth of sales came in Q4FY07. This implies that margins from generic *Zofran's* exclusivity may be higher than our estimates and/or sales from the product exceeds three months demand of the product (the management did not disclose this). If this is true, sales and profit assumed for Q1FY08E may be lower, thereby impacting FY08E earnings estimates.

- **High base challenges future growth.** We are impressed by the stellar performance of the company – net profits of Rs9.6bn, the highest ever earned by any Indian pharma company. However, this challenges the growth in business in the next two years due to absence of contribution from one-time opportunities and no meaningful growth in betapharm's FY07 EBITDA of €30mn (15% of total EBITDA). The company has given sketchy guidance for FY08 – GPM: 50-52%, sales growth rate: rising market for domestic dosage form business, double-digit growth in Russia, modest growth in the CPS business and 6-8 launches in the US. Based on these, our quick estimates suggest sales decline of 10% YoY (though 22% YoY growth in sustainable business i.e. excluding AG products and generic *Zofran*) and EPS of Rs32-37, implying 37-46% decline versus our current estimate of 22% dip. Reiterate BUY.

**Table 2: Q4FY07 results review (as per Indian GAAP consolidated)**

(Rs mn, year ending March 31)

	Q4FY07	Q4FY06	% chg (YoY)	FY07	FY06	% chg (YoY)
<b>Net Sales</b>	<b>16,704</b>	<b>6,873</b>	<b>143.0</b>	<b>64,229</b>	<b>23,389</b>	<b>174.6</b>
Other operating income	428	114	276.4	910	161	465.3
<b>Total Operating Income</b>	<b>17,131</b>	<b>6,987</b>	<b>145.2</b>	<b>65,139</b>	<b>23,550</b>	<b>176.6</b>
Raw Materials	5,409	2,582	109.5	27,432	8,165	236.0
Personnel Cost	1,691	1,198	41.1	6,433	3,495	84.0
Research & Development cost	789	547	44.3	2,446	1,737	40.8
Other Expenses	2,997	2,080	44.1	12,273	6,921	77.3
<b>Total Expenses</b>	<b>10,887</b>	<b>6,408</b>	<b>69.9</b>	<b>48,584</b>	<b>20,318</b>	<b>139.1</b>
<b>EBITDA</b>	<b>6,245</b>	<b>579</b>	<b>979.1</b>	<b>16,555</b>	<b>3,232</b>	<b>412.2</b>
Interest	141	514	(72.6)	1,526	644	136.9
Depreciation	1,190	536	121.8	3,791	1,617	134.5
Other Income	457	191	139.0	1099	885	24.1
<b>Recurring pre-tax income</b>	<b>5,371</b>	<b>(280)</b>	<b>NM</b>	<b>12,336</b>	<b>1,856</b>	<b>564.5</b>
Taxation	982	58		2,744	546	402.5
<b>Net Income before minority interest</b>	<b>4,389</b>	<b>(338)</b>	<b>NM</b>	<b>9,592</b>	<b>1,310</b>	<b>632.0</b>
Minority Interest	1	7		(4)	0	
Extraordinary item (Net)	0	(41)		63	157	
<b>Reported Net income</b>	<b>4,388</b>	<b>(386)</b>	<b>NM</b>	<b>9,659</b>	<b>1,467</b>	<b>558.3</b>
Recurring Net income	<b>4,388</b>	<b>(244)</b>	<b>NM</b>	<b>9,603</b>	<b>1,578</b>	<b>508.5</b>
<b>Ratios (%)</b>			<b>(bps)</b>			<b>(bps)</b>
EBITDA margins	34.8	6.8	2806	24.4	13.1	1123
Net profit margins	26.3	(3.5)	2982	15.0	6.7	820

Source: Company data, i-SEC Research NM Not meaningful



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(Rs mn, year ending March 31)

	Q4FY07	Q4FY06	% chg (YoY)	FY07	FY06	% chg (YoY)
<b>API:</b>	<b>3,891</b>	<b>2,090</b>	<b>86.2</b>	<b>11,827</b>	<b>8,238</b>	<b>43.6</b>
India	466	546	(14.7)	2,075	2,296	(9.6)
International:	3,425	1,544	121.8	9,752	5,942	64.1
in USA	646	451	43.2	2,030	1,656	22.6
in Europe	599	337	77.7	2,089	1,421	47.0
in Others	2,180	756	188.4	5,633	2,865	96.6
<b>Branded Formulation</b>	<b>2,743</b>	<b>2,080</b>	<b>31.9</b>	<b>12,319</b>	<b>9,926</b>	<b>24.1</b>
India	1,480	1,269	16.6	6,415	5,525	16.1
International:	1,263	811	55.7	5,904	4,401	34.2
Russia	691	382	80.9	3,494	2,583	35.3
Others	572	429	33.3	2,410	1,818	32.6
<b>Generics:</b>	<b>6,692</b>	<b>1,574</b>	<b>325.2</b>	<b>33,224</b>	<b>4,056</b>	<b>719.1</b>
North America	5,594	544	928.3	23,589	1,635	1343.0
Zocor & Proscar	1,261	-	-	15,800	-	-
Allegra	611	-	-	2,400	-	-
Zofran	2,677	-	-	2,900	-	-
Others	1,045	-	-	2,489	1,635	52.3
Europe	1,098	1,030	6.6	9,635	2,421	297.9
betapharm	788	705	11.8	8,004	705	1035.3
others	310	325	(4.6)	1,631	1,716	(5.0)
<b>Emerging business</b>	<b>195</b>	<b>164</b>	<b>18.9</b>	<b>824</b>	<b>691</b>	<b>19.2</b>
<b>Custom Chemical Business</b>	<b>1,945</b>	<b>1,037</b>	<b>87.6</b>	<b>6,600</b>	<b>1,327</b>	<b>397.4</b>
Mexico	1,552	804	-	5,397	804	-
Others	393	233	68.7	1,203	523	130.0
<b>Others</b>	<b>107</b>	<b>29</b>	<b>269.0</b>	<b>301</b>	<b>29</b>	<b>937.9</b>
<b>Total</b>	<b>15,573</b>	<b>6,974</b>	<b>123.3</b>	<b>65,095</b>	<b>24,267</b>	<b>168.2</b>

Source: Company data, i-SEC Research

**Bharat Forge (Buy)****AUTO****Q4FY07 RESULTS PREVIEW****Rs336**

Shilpa Gupta

shilpa\_gupta@isecltd.com

- We expect BFL to record 19.6% YoY revenue growth, driven by 26.4% YoY growth in the domestic market and 12.1% YoY growth in exports.
- We expect 230bps YoY margin expansion to 26.3% to drive the 30.8% YoY growth in EBITDA on the back of benefits from higher operating leverage.
- However, increase in interest and depreciation expenses would cap net profit growth at 29.8% at Rs688mn.

**Table 1: Valuation summary**

		Y/E March	EPS (Rs)	P/E (x)	EV/E (x)		
Price (18/05/07) (Rs)	336	2003	4.1	81.1	37.2	BSE Sensex	14303
52 Week Range (Rs)	396/221	2004	6.5	51.9	28.9	Market Cap. (Rs bn)	66.4
Dividend FY07E (Rs)	3.8	2005	10.2	33.1	17.0	Market Cap. (US\$ bn)	1.6
Dividend Yield (%)	1.1	2006	11.5	29.2	13.4	Shares Out. (mn)	198
Face Value (Rs)	2.0	2007E	16.0	20.9	9.2	Free float (%)	64.2

Source: Company data, i-SEC Research

**Table 2: Quarterly estimates**

(Rs mn, year ending March 31)

	Q4FY07E	Q4FY06	YoY (%)	QoQ (%)	YTD FY07*	YTD FY06*	YoY (%)
Revenues	5,245	4,384	19.6	9.9	13,484	11,395	18.3
EBITDA	1,378	1,053	30.8	11.2	3,433	2,843	20.7
PBT	1,043	828	25.9	11.8	2,701	2,321	16.4
PAT	688	530	29.8	9.3	1,812	1,540	17.7

Source: Company data, i-SEC Research; \* April - December

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## Quarterly results date reckoner

No.	Nifty companies	Date of result	No.	Other companies	Date of result
1	ABB India	April 26	1	Adlabs Films	April 26
2	ACC	April 19	2	Alembic Limited	-
3	Bajaj Auto	May 17	3	Apollo Hospitals Enterprise	-
4	Bharat Heavy Electricals	-	4	Arvind Mills	May 12
5	Bharat Petroleum Corporation	-	5	Ashok Leyland	May 4
6	Bharti Airtel	April 27	6	Asian Paints	May 10
7	Cipla	April 26	7	Aventis Pharma	April 16
8	Dabur India	May 8	8	Balaji Telefilms	May 16
9	Dr. Reddy's Laboratories	May 18	9	Bank of Baroda	April 28
10	GAIL (India)	May 8	10	Bharat Forge	May 22
11	GlaxoSmithKline Pharmaceuticals	April 27	11	Britannia Industries	-
12	Grasim Industries	April 25	12	Cadila Healthcare	April 26
13	Gujarat Ambuja Cements	April 20	13	Canara Bank	May 2
14	HCL Technologies	April 17	14	Colgate-Palmolive	May 3
15	HDFC Bank	April 24	15	Corporation Bank	April 28
16	Hero Honda Motors	May 11	16	GlaxoSmithKline Consumer	-
17	Hindalco Industries	May 4	17	Glenmark Pharma	April 25
18	Hindustan Lever	April 30	18	Godrej Consumer Products	April 25
19	Hindustan Petroleum Corporation	-	19	Gujarat Gas Company	April 30
20	Housing Development Finance Corporation	May 3	20	IDBI	April 20
21	ITC	-	21	Indian Hotels Co.	-
22	ICICI Bank	April 28	22	Indraprastha Gas	-
23	Indian Petrochemicals Corporation	-	23	Info Edge (India)	May 3
24	Infosys Technologies	April 13	24	Infotech Enterprises	-
25	Larsen & Toubro	-	25	Jammu & Kashmir Bank	May 7
26	Mahanagar Telephone Nigam	April 24	26	Jet Airways	-
27	Mahindra & Mahindra	May 28	27	JSW Steel	April 30
28	Maruti Udyog	April 24	28	Kansai Nerolac Paints	May 3
29	National Aluminium Company	April 25	29	Madras Cements	May 30
30	Oil & Natural Gas Corporation	-	30	Marico	April 26
31	Punjab National Bank	May 23	31	Mphasis	April 30
32	Ranbaxy Laboratories	April 27	32	National Thermal Power Corp.	-
33	Reliance Communications	April 30	33	Nestle India	April 30
34	Reliance Energy	April 25	34	Oriental Bank of Commerce	April 28
35	Reliance Industries	April 26	35	Patni Computer Systems	April 25
36	Reliance Petroleum	April 25	36	Polaris Software Lab	April 27
37	Satyam Computer Services	April 20	37	Procter & Gamble	April 30
38	Siemens	April 23	38	Punjab Tractors	-
39	State Bank of India	May 12	39	Raymond	April 26
40	Steel Authority of India	May 21	40	Sasken Communication Technologies	-
41	Sterlite Industries (India)	May 3	41	SpiceJet	-
42	Sun Pharmaceutical Industries	May 15	42	Tata Tea	-
43	Suzlon Energy	May 14	43	TVS Motor Company	-
44	Tata Consultancy Services	April 16	44	Union Bank of India	May 7
45	Tata Motors	May 18	45	UTI Bank	April 17
46	Tata Power Co.	May 30	46	Wockhardt	April 26
47	Tata Steel	May 17			
48	Videsh Sanchar Nigam	May 26			
49	Wipro	-			
50	Zee Entertainment	April 21			

Note: Result dates in calendar format on Page 12

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## Quarterly results date reckoner

## MAY 2007

Sun	Mon	Tue	Wed	Thu	Fri	Sat
	.	1 .	2 .	3 Kansai Nerolac, Info Edge, Colgate-Palmolive	4 Ashok Leyland	5 .
6 .	7 Union Bank of India, J&K	8 GAIL	9 .	10 Asian Paints	11 Hero Honda	12 SBI
13	14 .	15 Sun Pharma	16 Balaji Telefilms	17 Bajaj Auto	18 Tata Motors, DRL	19 .
20	21 .	22 Bharat Forge	23 PNB	24 .	25 .	26 VSNL
27	28 M&M	29 .	30 Madras Cement, Tata Power	31 .		

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**ANALYST CERTIFICATION**

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