VISIT UPDATE

Akruti Nirman Limited

Not Rated

Price: Rs. 394 | **BSE Index: 14137** | **25th April 2007**

Share Data

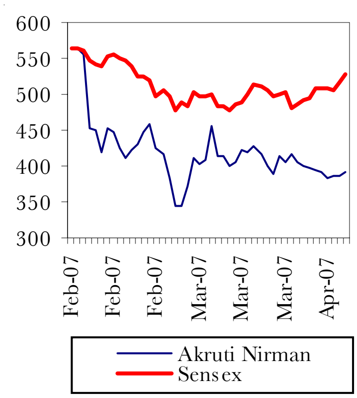
Reuters code	AKRU.BO
Bloomberg code	AKNL IN
Market cap. (US$ mn)	633
2m avg. daily turnover (US$ mn)	5
Issued shares (mn)	66.7

Performance (%)	1m	2m	3m
Absolute	(2)	(13)	–
Relative	(11)	(9)	–

Major shareholders (%)	
Promoters	90
FIIs	4
MFs	1
Institutions	1
Public & Others	4

As on February 2nd, 2007

Relative performance



We recently met the management of Akruti Nirman Limited (ANL). Following are the key takeaways from the meeting.

- Akruti Nirman Ltd. (ANL), the Mumbai based real estate developer has focus on Slum Rehabilitation Scheme (SRS) projects. ANL is currently developing ~3.29 million square feet (msf) of area for slum dwellers in association with various developers. On completion of these slum rehabilitation buildings, ANL would be able to generate ~8.03 msf of land area.
- On total land area of ~11.76 msf (including ~3.73 land bought from third parties), ANL along with Joint venture (JV) partners would develop ~13.35 msf of saleable/lettable area. ANL's effective share in ~13.35 msf stands at 40.6% or 5.42 msf.
- Apart from ~13.35 msf of saleable area under development, there are newly proposed projects to develop another ~3.17 msf of saleable area on the land area of ~1.65 msf. On development of this additional land area ANL would be able to generate ~0.45 msf of TDRs as per zoning regulation norms. In ~3.17 msf proposed developments, ANL's share works out to ~81% of the total saleable area or 2.58 msf.
- ANL's revenues historically have grown at a CAGR of ~50% over FY02- 06, PAT at a CAGR of ~45% and adjusted EPS at a (calculated on weighted number of shares) CAGR of ~(34) % during the same period.
- Increasing activity in slum rehabilitation space, and the company's ability to execute these projects would be the key drivers going forward.
- We have worked out an indicative value of ANL based on Discounted Cash Flow (DCF) approach. Apart from valuing ongoing and planned projects *(for details of projects please refer to Annexure)* on DCF method, we have further incorporated value for first phase of Biotech Park (90 acres), Gujarat and market value of TDRs. Based on this approach, the indicative fair value is Rs. 469 per share. However, we have not rated the stock and will be initiating coverage once the detail financials are available. We have not factored in the proposed theme based township in Panvel spread over ~3,000 acres (already acquired ~700 acres of land for the same), the 134 acres SEZ project in Mumbai and the proposed SEZ projects in Pune (two). At the current market price, the share is trading at 19% discount to the NPV.

Background

Founded and incorporated in the year 1989 by Mr. Hemant M. Shah and Mr. Vyomesh M. Shah, the Mumbai based Akruti Nirman Limited (ANL) has been a major player in the Slum Rehabilitation Scheme (SRS), introduced in 1992 by Government of Maharashtra. (For detailed description of SRS please refer to our IPO Note on Akruti Nirman Limited dated January 16, 2007, page 17 and 18). Originally incorporated as Akruti Nirman Pvt. Ltd., the company was converted into public limited in the year 2002 and subsequently the name was changed to Akruti Nirman Limited. ANL came out with an Initial Public offering of 6.7 mn shares of face value Rs. 10 each (total equity post issue 66.7 mn shares) in January 2007 and raised Rs. 3.62 bn through IPO. Apart from slum rehabilitation, ANL is currently involved in the development of commercial and residential properties on the land acquired through slum rehabilitation scheme or third parties.

Business overview

A. Area currently under development

The company currently has development rights for over 11.76 msf of land area, primarily located in Mumbai (on which it intends to develop saleable area of 13.35 msf). Apart from Mumbai, the company has an IT park project in Hinjewadi, Pune spread over 60 acres of land. Nearly 68% or ~8.03 msf of land area represent slum rehabilitation land held by applicable slum rehabilitation authorities and rest ~3.74 msf land acquired or leased by the company from third parties.

Area under development (including JV developments)

Saleable area (msf)	Key Business Lines						
	Commercial	**Residential**	**Retail**	**Total**	**TDRs**	**Rehabilitation***	**Total**
Self development	0.66	0.49	0.10	1.25	0.04	0.58	1.87
Joint Venture	7.54	2.94	1.62	12.10	0.25	2.71	15.06
Total	**8.20**	**3.43**	**1.72**	**13.35**	**0.29**	**3.29**	**16.93**

*To be given away to slum dwellers for free

Available for sale

Of this ~13.35 msf of saleable area, ~0.09 msf is to given away to third parties as per JV agreements.

ANL's share in area under development

ANL's share in area under development is ~5.4 msf

Saleable area (msf)	Key Business Lines			
	Commercial	**Residential**	**Retail**	**Total**
Self development	0.66	0.49	0.10	1.25
Joint Venture	7.54	2.94	1.62	12.10
Total	**8.20**	**3.43**	**1.72**	**13.35**
Company's effective share in JV (%)	33	29	49	34
Total ANL's share	**3.17**	**1.34**	**0.89**	**5.40**

B. Proposed developments

In addition to the ~11.7 msf of land area, ANL has further ~1.65 msf of land area where it proposes to develop ~3.17 msf of saleable/lettable area. Of this, the company as per the JV agreement, would give away 0.05 msf of saleable area to third parties.

Proposed developments (including JV developments)

Saleable area (msf)	Key Business Lines						
	Commercial	**Residential**	**Retail**	**Total**	**TDRs**	**Rehabilitation***	**Total**
Self development	0.60	1.34	–	1.94	0.38	1.17	3.49
Joint Venture	0.87	0.36	–	1.23	0.07	0.24	1.54
Total	**1.47**	**1.70**	**–**	**3.17**	**0.45**	**1.41**	**5.03**

*To be given away to slum dwellers for free.

Available for sale

ANL's share in proposed developments

Saleable area (msf)	Key Business Lines			
	Commercial	Residential	Retail	Total
Self development	0.60	1.34	–	1.94
Joint Venture	0.87	0.36	–	1.23
Total	**1.47**	**1.70**	**–**	**3.17**
Company's effective share in JV (%)	41	50	–	44
Total ANL's share (msf)	**0.96**	**1.52**	**–**	**2.48**

C. Future plans

ANL has plans to develop theme based township in Panvel spread over 3,000 acres of which it has acquired ~700 acres of land. Besides Panvel, ANL also has plans to develop a 134 acres SEZ project near Eastern Express Highway & Navi Mumbai and is in the process of acquiring 2 more SEZ projects in Pune. However, we have not factored in the future plans of the company in our valuation due to limited information about the theme based township project and proposed SEZ projects due to the SEZs policy in India and apprehensions surrounding land acquisition.

Strengths

Opportunity in slum rehabilitation business

About 1 mn slum families are staying in hutments in Mumbai. Up till now the slum rehabilitation schemes have been approved for creating about 0.12 mn new tenements to house 0.12 mn slum families. There still remains scope for development of about 0.88 mn new hutments for slum developers.

As per Mr. Subhash Dalvi, officer on special duty to implement the Rs. 5.6 bn Dharavi Development project "as many as 55% of the Mumbai's total population resides in 2500 slums. Out of this ~50% slums are on private land, ~25% on state government land, ~20% on municipal land and rest ~5% is on central government and housing board land". As per our estimates this works out to construction of ~198 msf of carpet area (~225 sq.ft. carpet area per rehabilitated dwelling) for slum dwellers and taking a ratio of 1:1, ~198 msf of carpet area would be available for sale. Observing the success of SRS in Mumbai, various other State Governmental authorities in other states are planning to replicate the SRS model from Mumbai.

Access to land at prime locations

Estimated average cost of FSI generated works out to Rs. 900 -1,000 psf

Through participation in SRS, ANL has been able to obtain land at prime locations at relatively low cost. Many prime locations in Mumbai are presently occupied by slums. As compensation for constructing new residential buildings for former slum dwellers, the Maharashtra Government grants the company either the right to develop a portion of the slum-cleared land for its own purpose, or offers transferable development rights (TDRs) which will permit the company to develop land elsewhere in Mumbai or sell such rights. The positive of this model is that the company gets land in prime areas at relatively low cost, which can be used to develop commercial or residential property. In case of slum rehabilitation projects as per our estimates average floor space index (FSI) cost for ANL works out to Rs. 900 - 1,000 per square feet (Assuming FSI of 2.5 for slum rehabilitation projects) while average land cost works out to Rs. 2,250 – 2,500 psf.

Proven expertise in Slum rehabilitation projects

With 15 years of experience in slum rehabilitation, ANL has acquired an extensive knowledge and experience in identifying appropriate slum rehabilitation projects as well as liasoning with the government authorities (who regulate these projects, issue necessary permits and approvals and monitor the quality of replacement housing build for slum dwellers).

Concerns

Saleability of projects may be lower

Proximity to slum rehabilitation building may impact saleability

At the core of the SRS is the requirement to provide better quality accommodation to the slum dwellers and this rehabilitation project comes alongside with the free saleable space (except in case of TDR generated projects). Free sale projects being normally purchased by up-market buyers may (due to difference in social status or standard of living) opt not to purchase property in proximity of areas where lower middle or lower income strata are concentrated. As a result of this, the company may have to sell free saleable space at rates, which are lower than the market rates in the same area. This may affect profitability.

Project execution delays

Slum rehabilitation is a very tedious process wherein the developer is first supposed to evacuate the slum dwellers after obtaining their consent (70% of them in the case of Mumbai) and is required to arrange for alternative accommodation during the construction period. Besides, these projects require constant interaction with the various Government Departments concerned. These issues can delay the projects and as a result, receipt of land as compensation (which is the main source of revenue stream).

Rising interest rates

Rising interest rates to impact affordability

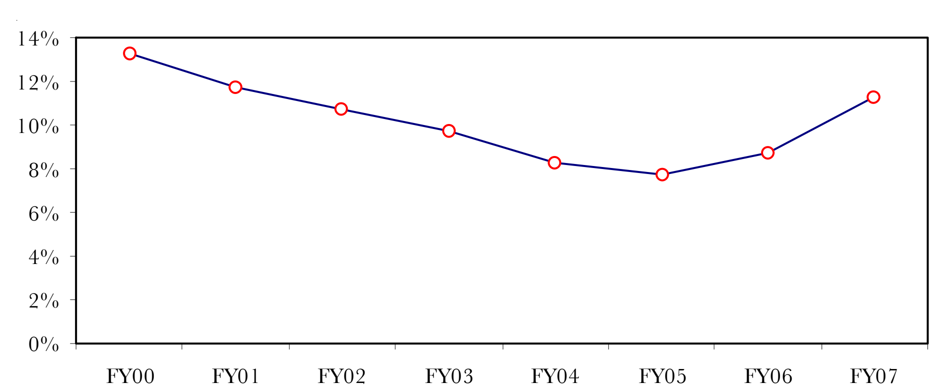
Rising interest rates will be the most significant headwind for the real estate market. Declining rates on housing loans have been one of the key drivers for residential housing in the last 4-6 years. Of late in the last 18-20 months however, mortgage rates have risen approximately by 200 bps. Increasing interest rates would lead to increase EMI and decreased affordability impacting demand for housing units (as seen from the Data below). Coupled with higher property prices affordability levels are going to be adversely impacted.

Interest rate impact on home loans

Interest rate (%)	Tenure (years)		
EMI (in Rs) per Rs 100,000 of loan	10	15	20
9%	1,267	1,014	900
10%	1,322	1,075	965
11%	1,378	1,137	1,032
12%	1,435	1,200	1,101

Source: B&K Research

Nominal home loan rates



Source: HDFC, B&K Research

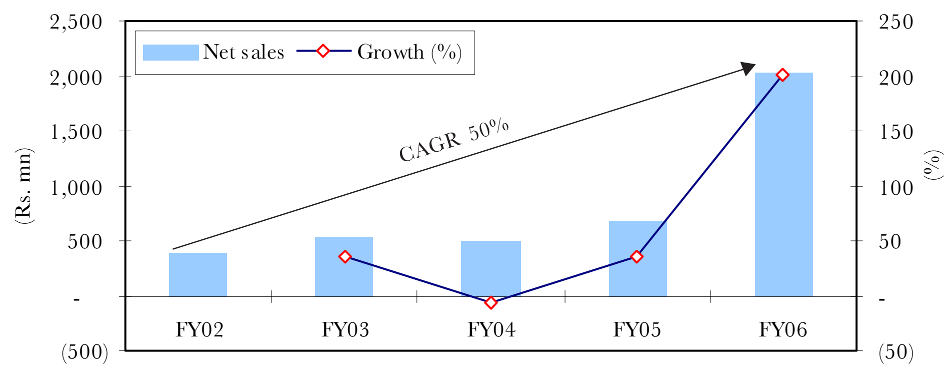
Financial highlights

Revenues

Y-o-y growth of 201% over FY05-06

Growth attributable to revenue recognised on completion of number of sale buildings, income on FSI generated and TDR sales

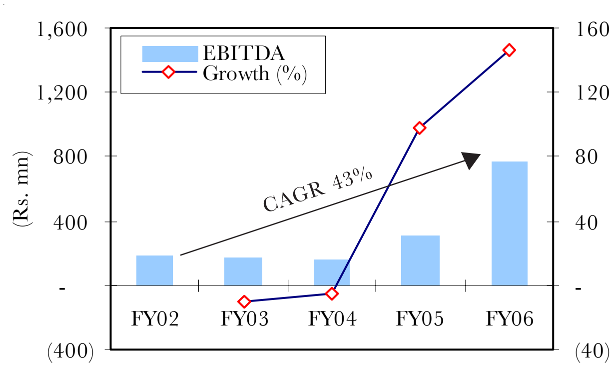
Net sales and growth



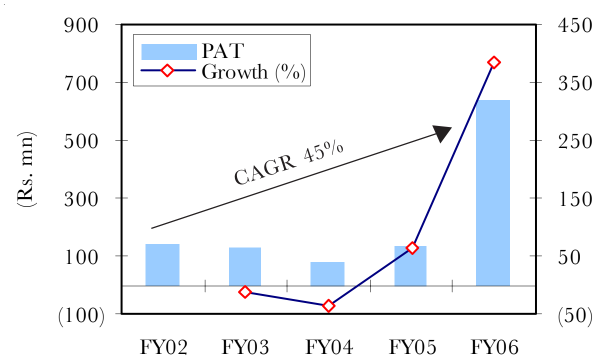
Source: Company, B&K Research

Till FY06 ANL followed the *completed building* method of revenue recognition and in FY06 it had completed number of buildings which led to higher revenue recognition. Apart from completion of sale buildings, it also completed a number of slum rehabilitation buildings during the year FY06, which contributed to increased recognition of FSI sales (notional revenue until the actual revenue is recognised). The Company also booked revenues on sale of TDRs.

EBITDA and growth



PAT and growth



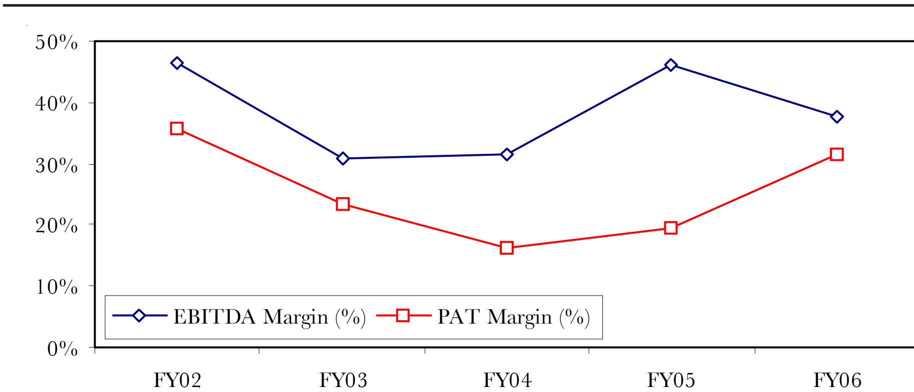
Source: Company, B&K Research

Margins

EBITDA margin dipped by 800 bps y-o-y from FY05 primarily on account of sale of property which saw expensing of inventory against increase in inventory in previous year

Considerable improvement of 1,100 bps in PAT margin on account of lower finance charges and depreciation

Margins (%)



Source: Company, B&K Research

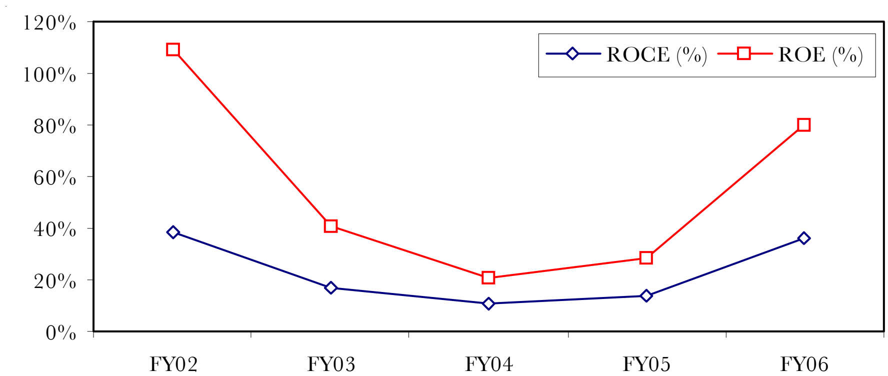
- Inventory decreased by Rs. 150 mn in FY06 (against a Rs. 291 mn increase in FY05).
- Improvement of 1,100 bps in PAT margin primarily on account of reduced finance charges (down from Rs. 99 mn in FY05 to Rs. 66.9 mn) and depreciation Rs. 71 mn to Rs. 48 mn (Sale of commercial property. Reflected in lease rentals coming down to Rs. 105 mn from Rs. 175 mn in FY05).

ROE/ROCE

ROCE in FY06 stood at 36% as against 14% in FY05. The company has shown a growth of ~166% y-o-y. This growth is primarily attributable to successful completion of number of projects and roll outs in FY06. The company's ROE in FY06 stood at 80% as against 28% in FY05 showing a growth of 184% y-o-y.

ROE in FY06 improved by 5,177 bps due to increase in net margins and better asset turnover

ROE/ROCE



Source: Company, B&K Research

Asset turnover

ANL had asset turnover of 0.8x in FY06 which is in line with the industry standards which in this business is quite low especially during the growth phase. The company over FY05 showed a considerable improvement of 169% in asset turnover ratio.

Peer comparison (for FY06)

Company	Asset turnover ratio	Revenue recognition policy
Akruti Nirman	0.8	Completed building project method
Mahindra Gesco	0.4	Percentage of completion method
Unitech	0.3	Percentage of completion method
Ansal Housing	0.5*	Percentage of completion method
Ansal Properties	0.4	Percentage of completion method
Parsvnath Developers	0.9	Percentage of completion method

*Only for real estate business

Gearing

As at November 30th, 2006 gearing ratio stood at 387%

As on March 31st 2006, the company had gearing ratio of 89%. Going forward, with the increased number of projects under construction, ANL would require huge loan funds to meet development cost of projects, especially in case of projects other than residential projects (as residential projects are normally self financing). As at November 30th, 2006, the gearing ratio of the company stood at 387% due to launch of various new projects. A portion of the Rs. 3.6 bn raised from IPO (post amount used for land purchases) would help ease this pressure to a certain extent.

Finacial highlights for 8MFY07

Particulars	Rs. mn	Margin (%)
Net sales	726	–
EBITDA	337	46.4
PAT	146	20.1

Eight months performance for FY07

For eight months period ended November 30th, 2006, the company reported net sales of Rs. 726 mn and PAT of Rs. 146 mn. EBITDA in absolute terms stood at Rs. 337 mn. However, these figures are not comparable, as the company has changed its revenue recognition policy w.e.f. April 1, 2006.

Revenue recognition policy

Revenue recognition policy changed w.e.f. from April 01, 2006

With effect from April 1, 2006 ANL changed its revenue recognition policy in respect of buildings intended for sale. Prior to April 1, 2006, it followed *completed building* project method of revenue recognition to *percentage of completion* method (only after the work has progressed to the extent of 30% of the total work involved). Further, revenue recognised in the aforesaid manner and related costs are both restricted to 90% until the construction activity and related formalities are substantially completed. Costs of construction/development are charged to the profit and loss account in proportion with the revenue recognised during the year. The balance costs are carried as part of work-in-progress under inventories.

Income on FSI generated through participation in slum rehabilitation

When a developer completes a slum rehabilitation building, the developer is compensated with land development rights that can be used for construction and development of projects at the cleared area referred to as FSI. The company determines notional value of FSI generated on the basis of **"Property Valuation Stamp Duty Reckoner".** The company recognises as income the difference between the cost of generating the FSI (being the cost of slum rehabilitation building) and the value of FSI (as calculated using the annually published Property Valuation Stamp Duty Ready Reckoner).

Peer comparison (Consolidated)

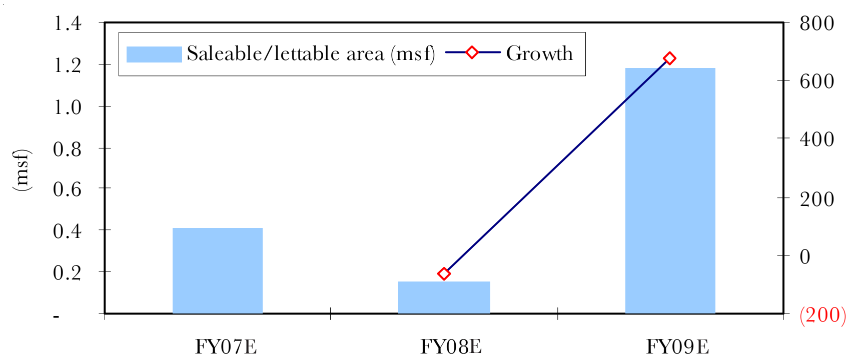
For FY06	Akruti Nirman	Mahindra Gesco	Unitech	Parsvnath	Ansal Housing	Ansal Properties
Net Sales	2,033	2,163	9,322	6,439	1,351	3,743
PAT	633	165	876	1070	211	477
PAT Margin (%)	31.1	7.6	9.4	16.6	15.6	12.7
M cap (Rs. bn)*	26.3	26.1	353.4	59.5	4.4	31.2

*Market capitalisation as on April 24th, 2007.

Delivery schedule

As per our estimates, ANL would be rolling out ~0.4 msf, ~0.2 msf and ~1.2 msf of saleable area in FY07E, FY08E and FY09E, respectively. This is out of ANL's share i.e. ~5.42 msf (total area currently under development ~13.35 msf) of area currently under development.

Delivery schedule



Source: B&K Research

Delivery schedule – Segment-wise

Area (msf)	FY07E	FY08E	FY09E
Residential	0.2	0.2	0.5
Commercial	0.2		-
Retail			0.7
Total	0.4	0.2	1.2
Growth (%)	-	(63.4)	678.1

Source: B&K Research

Valuations

We have worked out an indicative value of the company based on discounted cash flow approach with the following assumptions.

- For sale projects we have computed net present value of estimated future cash flows expected from (a) projects under development and (b) planned projects where land has been acquired post IPO.
- For projects to be leased, we have taken net present value of estimated future lease rentals after deducting cost of developments till FY15E and post FY15E we have taken terminal growth rate of 4% to compute terminal value of the future cash flows.
- For TDRs generated through participation in slum rehabilitation projects, we have considered TDRs sold in the respective year when TDR certificates are expected to be received. We have further discounted the estimated cash flow generated through sale of TDRs.
- We have not incorporated future projects of the company in our valuation due to limited information about whether the company owns or has development rights for these projects. These projects include proposed SEZ of 134 acres, 2 proposed SEZs in Pune and proposed theme based township spread over 3,000 acres in Panvel (ANL has already acquired ~700 acres of land in Panvel).
- We have not given future projections due to limited availability of detailed financial information. We will initiate coverage once the detailed annual reports are available.
- Seeing tedious execution process in slum rehabilitation projects, we have taken average delay of 6 months for all the projects from construction start date envisaged by the company.

Calculation of discounted rate of return

Pre-tax cost of debt	12.8%
Effective tax rate*	25.0%
Post-tax cost of debt	9.6%
Risk free rate	9.0%
Risk Premium	5.0%
Market Return	14.0%
Beta^	1.6
Cost of Equity	17.0%
Target Debt Equity ratio	2:1
WACC	12.0%
Terminal Growth Rate (for lease rentals)	4.0%

* Effective tax rate for the Company

^ Industry Beta taken

PV of estimated future cash flows

Particulars	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Free cash flows	(2,882)	2,70	1,204	2,665	4,729	6,268	4,466	4,381
Terminal Value	–	–	–	–	–	–	–	61,266
PV of cash flows	(2,572)	215	856	1,691	2,678	3,168	2,015	26,435

DCF valuation for ongoing and planned projects

Total Free cash flows (for sale projects and lease rentals)	21,100
Terminal Value (for property on lease)	61,266
Gross Free cash flows	82,366
Discounted cash flows	34,486
Less: Net debt (as of FY07E)	(3,231)
Net Discounted cash flows	31,255
No. of share (mn)	66.7
Value per share (Rs.)	469

Based on the DCF valuation, we estimate the indicative fair value per share of Rs. 469. At the current market price, the stock is trading at 19% discount to its indicative NPV per share.

Sensitivity analysis

(A) For changes in WACC and Terminal Growth Rate

WACC (%)	Terminal Growth rate (%)				
	2	3	4	5	6
10	545	606	687	800	968
11	462	505	562	637	742
12	395	428	**469**	521	591
13	341	366	396	434	483
14	296	316	339	367	403

(B) For project execution delays

Execution delay (months)	NAV per share (Rs.)
(6)	499
0	**469**
6	440

(C) For changes in real estate prices and cost of development

Real estate prices (%)	Cost of development (%)				
	(10)	(5)	0	5	10
(10)	422	414	405	396	388
(5)	454	445	437	428	419
0	486	477	**469**	460	451
5	518	509	500	492	483
10	550	541	532	524	515

Income Statement

Year ended 31 Mar. (Rs. mn)	FY03	FY04	FY05	FY06	As of Nov 30, 2006
Net sales	540	501	675	2,033	726
Growth (%)	35.8	(7.2)	34.7	201.3	–
Operating expenses	(373)	(343)	(364)	(1,268)	(389)
Operating profit	166	157	311	765	337
EBITDA	**166**	**157**	**311**	**765**	**337**
Growth (%)	(9.8)	(5.4)	97.5	146.0	–
Depreciation	(7)	(29)	(71)	(48)	(41)
Other income	21	25	12	20	14
EBIT	**180**	**154**	**252**	**737**	**310**
Interest paid	(40)	(66)	(99)	(67)	(130)
Pre-tax profit (before non-recurring items)	140	88	153	670	180
Pre-tax profit (after non-recurring items)	140	88	153	670	180
Tax (current + deferred)	(13)	(7)	(21)	(32)	(28)
Net profit	**127**	**81**	**132**	**638**	**153**
Adjusted net profit	127	82	132	636	146
Growth (%)	(11.1)	(35.6)	61.3	381.9	–
Net income	**127**	**82**	**132**	**633**	**146**

Balance Sheet

Year ended 31 Mar. (Rs. mn)	FY03	FY04	FY05	FY06	As on Nov 30, 2006
Current assets	1,453	1,312	1,783	1,592	5,363
Investments	47	71	95	213	283
Net fixed assets	120	708	757	863	888
Total assets	**1,620**	**2,091**	**2,635**	**2,668**	**6,534**
Current liabilities	435	409	598	627	581
Total debt	818	1,257	1,514	957	4,752
Other non-current liabilities	0	0	9	6	3
Total liabilities	**1,254**	**1,667**	**2,121**	**1,590**	**5,336**
Share capital	20	20	20	480	600
Reserves & surplus	344	403	492	593	628
Less: Misc. expenditure	0	0	0	–	(32)
Shareholders' funds	**364**	**423**	**512**	**1,073**	**1,196**
Minorities interests	3	2	2	5	2
Total equity & liabilities	**1,620**	**2,091**	**2,635**	**2,668**	**6,534**

Annexure

Ongoing projects

Projects	Saleable/lettable area (msf)	Company's share (%)	Start date	Est. completion date	Business model
Residential					
Akruti Erica	0.06	100	Sep-05	Jun-07	Sale
Akruti Princess	0.18	100	Dec-07	Sep-10	Sale
Akruti Elegance (B Wing)	0.01	100	Feb-04	Dec-06	Sale
Emperor Towers	2.36	25	Apr-08	Oct-14	Sale
Akruti Emerald	0.14	60	Apr-08	Oct-10	Sale
Akruti Ambience	0.16	75	Mar-08	Sep-11	Sale
Akruti Solitaire	0.05	50	Mar-08	Sep-11	Sale
Akruti Turf view	0.04	33	Oct-07	Jun-09	Sale
Akruti Lake Woods	0.24	100	Dec-06	Sep-10	Sale
Akruti Orchid Park (Wing C to I)	0.19	11	Mar-05	Sep-08	Sale
Commercial					
Akruti Central Square	0.36	100	Sep-07	Jun-11	Lease
Akruti Central Link	0.30	100	Sep-07	Jun-11	Lease
Akruti City	2.49	33	Dec-06	Sep-11	Lease
DLF Akruti Info Park	5.00	33	Mar-06	Sep-12	Lease
Akruti Empire	0.05	55	Apr-08	Mar-10	Sale
Retail					
Akruti One World Mall (Saiwadi Mall)	0.94	50	Oct-06	Apr-11	Lease
Akruti Elegance (B Wing)	0.01	100	Feb-04	Jun-07	Sale
Akruti One World Mall (Shankarwadi Mall)	0.17	50	Aug-06	Nov-08	Lease
Akruti One World Mall (A-Mall)	0.07	100	Mar-07	Sep-10	Lease
Akruti Elite Plaza	0.04	100	Mar-04	Apr-08	Lease
Akruti One World Mall (K-Mall)	0.24	40	May-05	Jun-08	Lease
Akruti One World Mall (S-Mall)	0.27	50	May-06	Nov-08	Lease
Total	**13.35**				

Source: Company, B&K Research

Planned projects

Projects	Saleable/lettable area (msf)	Company's share (%)	Start date	Est. completion date	Business model
Residential					
Golibar	0.65	100	Apr-08	Sep-12	Sale
Hari Nagar	0.40	100	Sep-08	Sep-11	Sale
Mogra Village	0.25	100	Apr-09	Sep-12	Sale
Commercial construction	0.35	50	Apr-08	Sep-10	Sale
Nariman Cottage	0.03	50	Sep-07	Jun-09	Sale
Commercial					
Rachna Sansad	0.03	100	May-07	Jan-10	Lease
H Mill	0.74	40	Oct-07	Mar-11	Lease
Manav Properties	0.52	100	Sep-07	Feb-10	Lease
BKC Slums	0.13	50	Oct-08	Mar-12	Lease
Total	**3.12**				

Source: Company, B&K Research

Completed projects (Yielding lease rentals)

Commercial	Saleable/lettable area (msf)	Company's share (%)
Akruti Trade Centre	0.14	100
Akruti Softech Park	0.02	100
Akruti Centre Point	0.18	100
Total	**0.34**	–

Source: Company, B&K Research

Income Statement

Yr. ended 31 Mar. (Rs. m)	FY04	FY05	FY06	8MFY07
Net Sales	501	675	2,033	726
Growth (%)	(7.2)	34.7	201.3	–
Operating expenses	(343)	(364)	(1,268)	(389)
Operating profit	157	311	765	337
EBITDA	**157**	**311**	**765**	**337**
Growth (%)	(5.36)	97.48	145.96	–
Depreciation	(29)	(71)	(48)	(41)
Other income	25	12	20	14
EBIT	**154**	**252**	**737**	**310**
Interest paid	(66)	(99)	(67)	(130)
Pre-tax profit	88	153	670	180
(before non-recurring)				
Pre-tax profit	88	153	670	180
(after non-recurring)				
Tax (current + deferred)	(7)	(21)	(32)	(28)
Net profit	**81**	**132**	**638**	**153**
Net income	**82**	**132**	**633**	**146**
Adjusted net profit	82	132	636	146
Growth (%)	(35.6)	61.3	381.9	–

Balance Sheet

Yr. ended 31 Mar. (Rs. m)	FY04	FY05	FY06	8MFY07
Cash and Marketable securities	68	203	57	896
Inventory	987	1281	1157	1,591
Other current assets	257	96	321	1,980
Investments	71	95	213	283
Net Fixed assets	708	757	863	888
Total assets	**2,091**	**2,635**	**2,668**	**6,534**
Current liabilities	409	598	627	627
Total debt	1,257	1,514	957	4,752
Other non-current liabilities	0	9	6	3
Total liabilities	**1,667**	**2,121**	**1,590**	**5,336**
Share capital	20	20	480	600
Reserves & surplus	403	492	593	628
Less: Misc. expenditure	0	0		(32)
Shareholders' funds	**423**	**512**	**1,073**	**1,196**
Minority interests	2	2	5	2
Total equity & liabilities	**2,091**	**2,635**	**2,668**	**6,534**

Cash Flow Statement

Yr. ended 31 Mar. (Rs. m)	FY04	FY05	FY06	8MFY07
Pre-tax profit	88	153	670	180
Depreciation	29	70	44	(3)
Chg in working capital	170	(147)	74	(2,977)
Total tax paid	(7)	(12)	(34)	(31)
Cash flow from oper. (a)	**280**	**64**	**753**	**(2,831)**
Capital expenditure	(617)	(119)	(150)	(21)
Chg in investments	(23)	(24)	(118)	(71)
Cash flow from inv. (b)	**(640)**	**(143)**	**(268)**	**(92)**
Free cash flow (a+b)	**(360)**	**(79)**	**485**	**(2739)**
Equity raised/(repaid)	0	0	460	88
Debt raised/(repaid)	439	256	(557)	3,795
Dividend (incl. tax)	(23)	(45)	(82)	–
Chg. in minorities	1	0	1	(10)
Other financing activities	0	3	(450)	(111)
Cash flow from fin. (c)	**417**	**214**	**(628)**	**3,762**
Net chg in cash (a+b+c)	**56**	**134**	**(143)**	**839**

Key Ratios

Yr. ended 31 Mar. (%)	FY04	FY05	FY06	8MFY07
Adjusted EPS (Rs.)	40.9	66.0	67.1	2.5
Growth	(59.5)	61.3	1.7	–
EBITDA margin	31.4	46.1	37.6	46.4
EBIT margin	30.7	37.4	36.2	42.7
ROCE	10.7	13.6	36.1	7.8
Net debt/Equity	279.9	254.8	83.5	321.9

Valuations

Yr. ended 31 Mar. (x)	FY04	FY05	FY06	8MFY07
PER	9.6	6.0	5.9	–
PCE	7.1	3.9	5.5	–
Price/Book	1.9	1.5	3.5	19.5
Yield (%)	2.5	5.1	1.9	–
EV/Net sales	40.2	30.0	9.8	31.4
EV/EBITDA	127.8	65.1	25.9	67.5

Du Pont Analysis – ROE

Yr. ended 31 Mar. (x)	FY04	FY05	FY06	8MFY07
Net margin (%)	16.3	19.6	31.3	20.1
Asset turnover	0.3	0.3	0.8	0.2
Leverage factor	4.7	5.0	3.3	4.0
Return on equity (%)	20.7	28.1	79.9	12.8

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Analyst Certification

We, Chockalingam Narayanan & Prem Khurana, hereby certify that the views expressed in this report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

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