INDIA

Pharma

CENTRUM

Granules India

Initiating Coverage — 7 July 2014

Buy

Achieving higher altitude in performance

We initiate coverage on Granules India (GIL) with a Buy recommendation. GIL has a unique business model with its presence over the entire pharma value chain and derives over 80% of its revenues from exports. The company is the world's largest producer of PFIs and hence is a preferred supplier to MNC pharma companies. With the recent acquisition of Auctus Pharma (APL), the company has expanded product offerings and added new customers. We expect GIL to achieve 25%CAGR in revenues, 30%CAGR in EBIDTA and 33%CAGR in net profit over the next three years. Our target price of Rs720 is based on 10xJune'16E EPS of Rs71.5. Key risks to our call include quality rejections and failure impact due to large batch size and regulatory risks for its manufacturing facilities.

- **Unique business model:** GIL offers all three components of pharma value chain namely APIs, PFIs and finished dosages thus giving the customer flexibility and choice. The company has the largest PSI facility in the world with 6MT batch size thereby offering economies of scale. GIL offers end-to-end solutions for pharmaceutical manufacturers' requirements. The company has an installed capacity of 20,200tpa for APIs and 14,400tpa for PFIs and 18bn dosage forms per annum. It is among the largest in the world and attracts MNC pharma companies. We expect global pharma companies to immensely benefit from the unique use of PFIs as it will lead to significant savings in cost and time.
- **Substantial cost savings:** GIL offers large capacity and batch size thereby giving price-value proposition and effective supply chain management. The use of PFIs results in substantial cost saving as it forms ~80% of the asset cost in oral dosage manufacturing thereby offering an 'Asset Light Model'. The use of PFIs also reduced process time leading to substantial reduction in working capital and number of vendors. We expect improvement in GIL margins with increased usage of PFIs by MNC pharma companies.
- **Acquisition to widen product basket:** GIL offers five APIs to its customers namely paracetamol, metformin, ibuprofen, guaifenesin and methocarbamol. With the acquisition of APL in February'14, GIL has added 12 new APIs to its product offerings. These products have a potential market size of $37bn (Rs2,220bn). GIL has plans to supply PFIs and finished formulations for these APIs and widen its product offerings. The company offers unique rapid release tablets, bilayer tablets and extended release (ER) tablets, strengthening the customer's competitive advantage. We expect the company to increase the client base with additional offerings of APL products.
- **Valuation and key risks:** GIL has achieved 26%CAGR in revenues, 27%CAGR in EBIDTA and 33%CAGR in net profit over the past 10 years. We expect the company to maintain the growth momentum due to its presence over the entire pharma value chain and additional product offerings from APL. We expect GIL to report 25%CAGR in revenues, 30%CAGR in EBIDTA and 33%CAGR in net profit over FY14-17. We initiate coverage on GIL with a Buy rating with a target price of Rs720 based on 10x June'16E EPS of Rs71.5 with an upside of 32.1% from the CMP. Key risks to our call include quality rejections and failure impact due to large batch size and regulatory risks for its manufacturing facilities.

Target Price	Rs720
CMP*	Rs545
Upside	32.1%

*Price Performance (%)**

	1M	6M	1Yr
GRAN IN	39.7	182.1	318.1
NIFTY	4.7	24.8	32.8

Key Data	
Bloomberg Code	GRAN IN
Curr Shares O/S (mn)	20.3
Diluted Shares O/S(mn)	20.3
Mkt Cap (Rsbn/USDmn)	11.1/185.7
52 Wk H / L (Rs)	569/111.6
5 Year H / L (Rs)	569/53.1
Daily Vol. (3M NSE Avg.)	381951

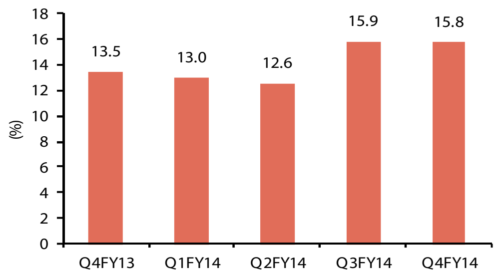
**as on 4 July 2014; Source: Bloomberg, Centrum Research*

Shareholding pattern (%)*

	Mar-14	Dec-13	Sept-13	June-13
Promoter	48.9	48.9	48.9	44.4
FIIs	1.7	1.5	1.5	1.6
DIIs	0.2	0.1	0.1	0.0
Others	49.2	49.5	49.5	54.0

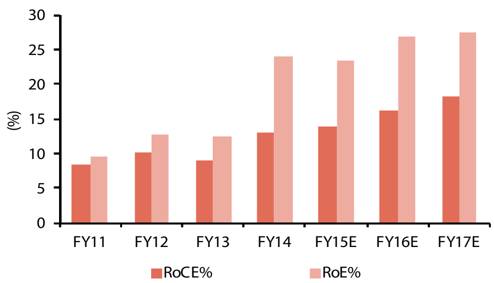
*Source: BSE, *as on 4 July 2014;*

Trend in EBIDTA margin (%)



Source: Company, Centrum Research Estimates

RoCE and RoE %



Source: Company, Centrum Research Estimates

Ranjit Kapadia, *ranjit.kapadia@centrum.co.in; 91 22 4215 9645*

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	DEPS Rs.	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY13	7,644	16.9	851	11.1	326	9.2	16.1	12.6	8.8	33.9	15.5
FY14	10,958	43.4	1,583	14.4	752	130.6	37.1	23.8	13.1	14.7	9.3
FY15E	14,222	29.8	2,130	15.0	935	24.2	46.1	23.5	13.7	11.8	6.9
FY16E	17,440	22.6	2,786	16.0	1,343	43.7	66.2	26.8	16.1	8.2	5.1
FY17E	21,215	21.6	3,506	16.5	1,771	31.9	87.3	27.4	18.3	6.2	3.8

Source: Company, Centrum Research Estimates

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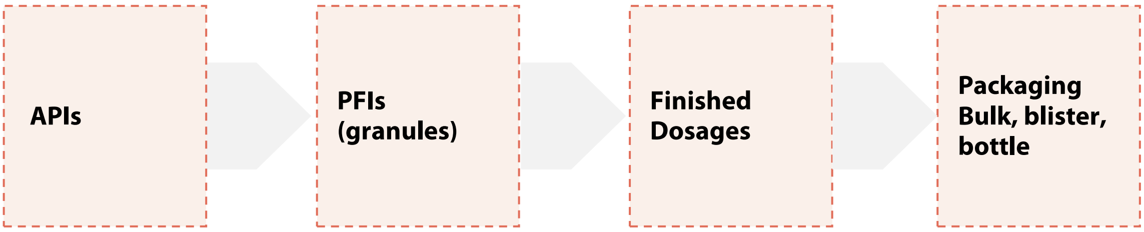
Unique Business Model

Presence over entire pharma value chain

GIL is a vertically integrated pharmaceutical company and offers all three components of value chain namely APIs, Pharmaceutical Formulation Intermediates (PFIs or granules) and finished dosages thus giving the customer flexibility and choice. PFI is an intermediate between API and finished dosage. The company has the largest PFI facility in the world with 6MT batch size located at Gagilapur and Jedimetla near Hyderabad. GIL offers end-to-end solutions to pharmaceutical manufacturers' requirements. By buying PFIs from the company, pharma manufacturers can save time and resources. GIL has developed expertise in regulatory filing and also helps its customers in filing ANDAs and dossiers with US FDA and other regulatory agencies. The company has also developed site transfer capabilities. GIL's manufacturing facilities have regulatory approvals from US FDA, UK MHRA, TGA-Australia, MCC- S. Africa and WHO GMP. We expect global pharma companies to benefit from the use of PFIs as it would lead to significant savings in cost and time.

Detailed offerings by GIL are shown in the following chart:

Exhibit 1: Product offerings



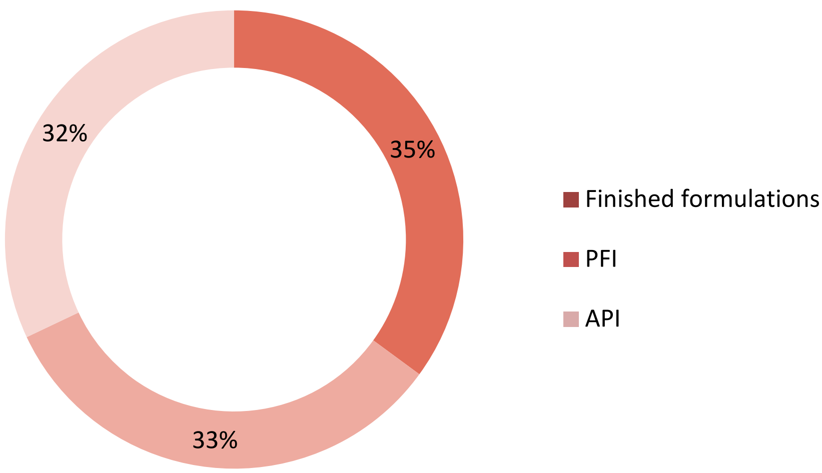
Source: company

GIL has an installed capacity of 20,200tpa for APIs and 14,400tpa for PFIs and 18bn dosage forms per annum. This large capacity helps in the economies of scale for its customers. The company offers bulk, bottle and blister packing for finished products. In February'14, the company acquired API business of Auctus Pharma (APL) thereby adding 12 additional APIs to its existing five. We expect GIL customers to benefit from large capacities and the product offerings namely APIs, PFIs and finished dosages.

Unique business model

On a standalone basis for FY14, GIL reported 35% of its revenues from finished formulations, 33% from PFIs and 32% from APIs. With the recent acquisition of APL, we expect the company to move up the value chain with additional product offerings. GIL has a unique business model which offers all three components of pharma value chain, APIs, PFIs and finished formulations. For GIL, the EBIDTA margin is the highest of over 20% for finished products followed by 10-20% for PFIs and below 10% for API business. Hence, the company is striving to move up the value chain by converting its customers from API→PFI→Finished Products thereby improving the overall margin. The detail of sales composition for FY14 is shown in the following chart:

Exhibit 2: Sales Composition-FY14



Source: company

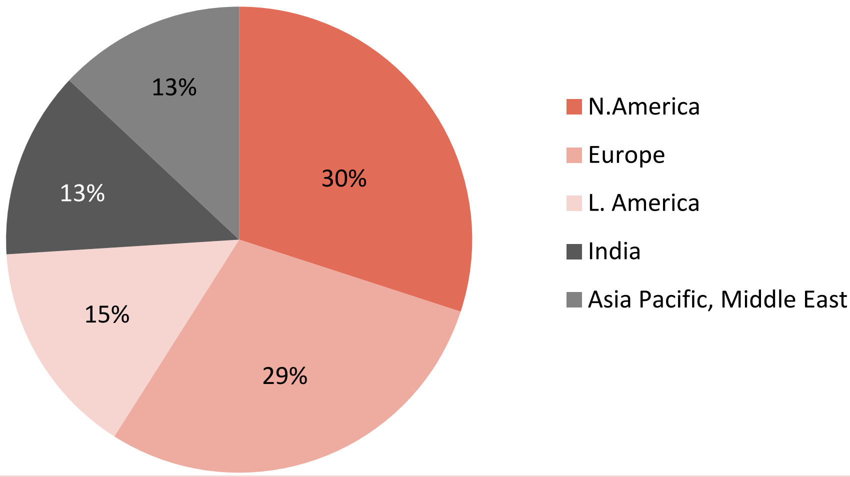
The PFIs have the following advantage for the pharma company:

- Substantial savings in capex as ~80% capex in tablet manufacture pertains to the granulation stage
- Reduction in process time and changeover time due to the use of ready-to-compress PFIs
- Reduction in number of vendors as GIL offers API, PFI and formulations under one roof
- GIL provides formulation development, analytical development and regulatory submission facilities

Strong presence in regulated markets

GIL derives ~75% of its revenues from regulated markets. For FY14, N. America, Europe and L. America contributed 74% to the company's revenues. Hence, the company has a strong presence in regulated markets. We expect this to improve with additional product offerings from APL and increased requirements from its existing customers. The details are in the following chart:

Exhibit 3: Geography wise revenues-FY14



Source: Company

GIL's strong presence in the regulated market over the past three years indicates that revenues from N. America grew to 30% in FY14 from 23% in FY12. However, revenues in Europe declined to 29% in FY14 from 42% in FY12. Revenues from L. America were 15% in FY14 compared to 14% in FY12. Due to the commissioning of the new formulation facility in FY14, formulation sales improved.

GIL has developed customers for formulations in regulated markets and has entered into long-term supply arrangements with them. Moreover, it sells APIs or PFIs to the global formulators to manufacture formulations for the regulated markets. The details for the revenues from the global markets are shown in the following table:

Exhibit 4: Consolidated revenues from regulated market FY12-FY14

Particulars	FY12	FY13	FY14
N. America (%)	*23*	*31*	*30*
Europe (%)	*42*	*34*	*29*
L. America (%)	*14*	*12*	*15*
India (%)	*11*	*15*	*13*
Asia Pacific, Middle East (%)	*10*	*8*	*13*
Total (%)	*100*	*100*	*100*

Source: company

Europe - future growth driver

GIL has over 300 customers spread over 60 countries and has long-term relations with customers. The company receives 29% of its revenues from Europe and hence has high dependence on European pharma companies. The company's top 10 customers contribute ~70% of its revenues. GIL has established international marketing teams with offices in India, US, UK, Colombia and China. The company is the recipient of Outstanding Exports (Europe & CIS) Gold Award 2012-13 from Pharmaceutical Export Promotion Council of India (Pharmexil). GIL has established 50:50 JV Omnichem with Ajinomoto for the supply of high value API to European markets. The company's regulatory filings include 8 European filings, 4 US DMFs, 3 South Korean DMFs, 3 IDLs in China, 2 with Health Canada, 1 in Italy and 1 in Spain. We expect this pipeline to help GIL achieve higher growth in Europe.

Though revenues from Europe declined to 29% in FY14 from 42% in FY12, we expect this to improve in future due to additional 12 API offerings from APL. The commencement of Omnichem JV would increase the supply of high value APIs for the European market. Both these are likely to enhance GIL's business in Europe.

Leading global player in key products

GIL is among leading global manufacturers of guaifenesin, methocarbamol, paracetamol, ibuprofen and metformin. The company is among the lowest cost manufacturers and benefits from economies of scale. With the addition of 12 APIs from the acquired APL, the company will be able to enhance product offerings. The details of manufacturing capacities and market share of key molecules is shown in the following table:

Exhibit 5: Major APIs and their capacities

API	Manufacturers	Capacity-TPA	*% of total*
paracetamol	Mallinckrodt	25,000	*56*
	Granules India	**13,200**	***30***
	Novocel	6,000	*14*
ibuprofen	Shasun Pharma	6,000	*22*
	IOL Chemicals	6,000	*22*
	Albemarle	5,200	*19*
	BASF	5,000	*19*
	Granules Biocause JV	**4,800**	***18***
metformin	USV	10,100	*37*
	Wanbury	9,000	*33*
	Harman	6,000	*22*
	Granules India	**1,800**	***8***
methocarbamol	Synthochem	250	*56*
	Granules India	**200**	***44***
guaifenesin	**Granules India**	**1,200**	***60***
	Synthochem	800	*40*

Source: company

Substantial cost savings

Price-value proposition

GIL offers large capacity and batch size, price-value proposition and effective supply chain management for ready-to-compress mix leading to substantial savings in cost and time. The use of PFIs leads to significant cost saving for customers as ~80% of the asset cost in oral dosage manufacturing is at the granulation stage and hence offers an 'Asset Light Model'. The use of PFIs also helps to reduce process timing, leading to substantial reduction in the working capital and the number of vendors. PFI has transformed the conventional pharmaceutical manufacturing model by offering significant savings, higher efficiency and fewer handling hurdles. GIL's customers are also benefited from economies of scale due to the large batch size and lower frequency of batch changeover. The company has established an Operational Excellence (OE) program which helps its customers in process improvement, six sigma parameters to remove operational bottlenecks, increasing yield, reducing wastage, achieving process standardisation and enhancing quality. We expect improvement in GIL's margins with the increase in production and change in the sales mix by moving up the value chain.

Formula based pricing protects company from forex fluctuations

GIL has entered into formula based pricing contracts for its key customers. These contracts allow GIL to pass on the increase in the raw material cost to customers and also pass on savings when raw material prices fall. GIL has a natural hedge as its 40% cost from imported raw materials and expenses for overseas subsidiaries help to minimise forex fluctuations. The company does not hedge its foreign earnings. High quality material for the regulated market is in short supply and only a handful of suppliers including GIL are present in this segment. We expect GIL to improve its margins over the period due to its supplies to regulated markets.

Paracetamol API facility passes US FDA inspection

In June'14, GIL's API manufacturing facility at Bonthapally for paracetamol passed US FDA inspection without attracting 483 observation. This is the world's largest single API production line by volume. Currently, paracetamol is the highest revenue earner for GIL which contributed 42% to FY14 revenues. However, the company has reduced its dependence on paracetamol over the past four years as its revenues have come down to 42% in FY14 from 53% in FY11. With the recent approval by US FDA, we expect a rise in paracetamol API exports to the US generic market thereby improving the company's margins.

Exhibit 6: Product wise revenues FY11-FY14

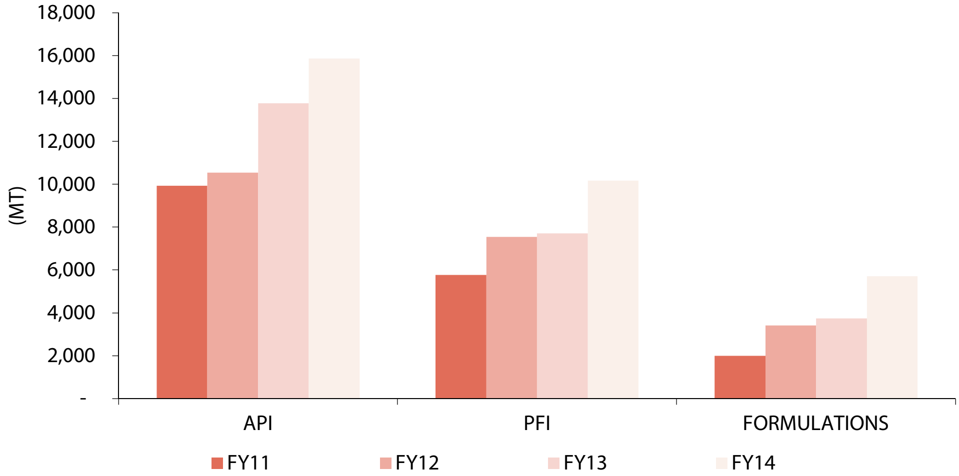
Product	FY11	FY12	FY13	FY14
Paracetamol (%)	*53*	*45*	*48*	*42*
Metformin (%)	*23*	*25*	*22*	*24*
Ibuprofen (%)	*10*	*17*	*21*	*22*
Guaifenesin (%)	*4*	*4*	*5*	*6*
Methocarbamol (%)	*10*	*9*	*4*	*6*
***Total** (%)*	***100***	***100***	***100***	***100***

Source: company

Largest global producer of key APIs

GIL manufactures all three components of pharma value chain – APIs, PFIs and finished dosages. The company is one of the largest producers of APIs and is among global leaders for ibuprofen, paracetamol, metformin, guaifenesin and methocarbamol. GIL has the highest production of APIs followed by PFIs and then by finished formulations. The following chart shows the production levels of APIs, PFIs and finished dosages on a standalone basis from FY11-FY14. As shown in the graph, the company has reported continuous rise in the production levels for all three components over the period FY11-FY14.

Exhibit 7: Production of key components



Source: company

Acquisition to widen product basket

Auctus Pharma (APL) acquisition to add value

GIL possesses approved ANDAs for Rx and OTC products namely ibuprofen, metformin and naproxen sodium. The company provides cost competitive products for the US market. GIL offers APIs, PFIs and finished dosages of paracetamol, metformin, ibuprofen, guaifenesin and methocarbamol to its customers. The company is among global leaders in the supply of these APIs. With the acquisition of APL in February'14, the company has added 12 new APIs to its product offerings. These products have a potential market size of $37bn (Rs2,220bn) as shown in the following table:

Exhibit 8: Potential market for APL products

Sr. No.	Product	Market Size ($ bn)	Volume-MT
1	Valsartan	8.7	1,054
2	Clopidogrel	5.2	572
3	Pregabalin	4.8	342
4	Olmesartan	4.5	97
5	Pantoprazole	3.4	338
6	Losartan	3.2	662
7	Telmisartan	3.1	259
8	Cetirizine	1.0	58
9	Fluconazole	1.0	87
10	Rifaximin	0.8	85
11	Levocetirizine	0.6	15
12	Doxylamine	0.6	40
	Total	**36.9**	**3,609**

Source: Company

We expect the company to enhance its revenues with these additional offerings to its existing and new customers.

R & D services for new products

GIL has set up a 5,000 square feet, class 100,000 R & D centre staffed by formulation experts at Pragathi Nagar, Hyderabad. GIL is one of the few global companies to provide rapid release gel capsules. The company has developed proven capabilities in developing instant release (IR), sustained release (SR) and extended release (ER) tablets. GIL has successfully developed taste masking granules. The company's R & D team focuses on cost reduction and quality enhancement. GIL positions itself as a backward extension of customer operations. We expect the company to enhance its client base due to its presence over the entire value chain, large capacities and batch size, enhanced product offerings with the acquisition of APL.

GIL's R & D activity consists of the development of new APIs to widen the product basket. This helps the company to effectively serve existing customers and add new ones. It also works on process optimisation, yield improvement and cost reduction. The company provides end-to-end product development solutions including pre-formulation development, formulation development, analytical development and ANDA/dossier filings. Thus, the entire requirement of the customer is taken care of under one roof.

Volatility in revenues to normalise

GIL's revenues witnessed volatility between FY10-FY14 with the lowest revenue growth of 3% in FY11 to 43% in FY14. This was largely due to additional capacity coming into operation in a particular year as well as new customer/ product approvals. GIL's Gagillapur facility was operational for full year in FY14 and hence made additional contribution to the revenues. We expect the volatility in the revenues to normalise in FY15 onwards due to:

- Increase in volume from existing customers
- Supply of APL products to existing customers
- Increase in supplies to regulated markets
- Moving up the value chain from API→PFI→formulations

- APL to contribute ~Rs1.2bn for full year in FY15
- New customer additions for APL products
- Converting existing customers of APIs of APL to PFIs and finished formulations

Key entry barriers

GIL has an edge over competitors. Key entry barriers for establishing this business are:

- Developing global customers for long-term contracts is time consuming
- Integrated business model with presence over the entire value chain i.e. API→PFI→finished formulations under one roof helps the customer with a wider choice
- Being present over the entire value chain, moving up the value chain is easier
- There is no company in India with similar business model and hence competition is limited
- The economies of scale help to bring down the costs. As against the normal batch size of 400-500kg, the company offers large batch sizes of up to 6,000kg, leading to savings in analytical costs, batch change over time, cleaning and validation time etc.
- There is a gestation period of 12-18m before customers approve a company as a qualified vendor. During this period, capacity utilisation is low, affecting margins

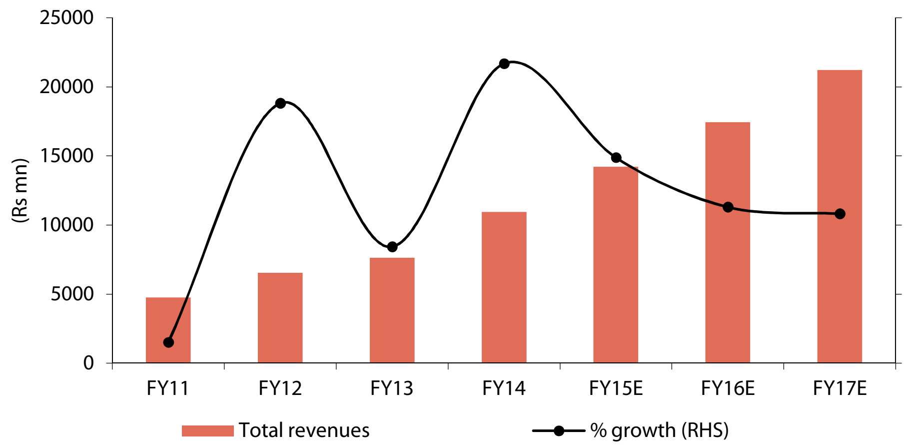
Financial Analysis

Good track record

GIL has achieved 26%CAGR in revenues, 27%CAGR in EBIDTA and 33%CAGR in net profit over the past 10 years and hence has a good track record of revenues and profitability. The company has a presence over the entire pharma value chain and hence is a preferred supplier of APIs, PFIs and pharmaceutical formulations to global pharma companies. With the recent acquisition of APL, the company has expanded its product offerings to existing customers and acquired additional customers of APL.

We expect GIL's revenues to grow by 25%CAGR over FY14-FY17 due to good growth of its existing business and from the acquired APL business. We expect the additional 12 API offerings from APL to drive revenue growth from FY15 onwards. This is indicated in the following graph:

Exhibit 9: Revenue and revenue growth %

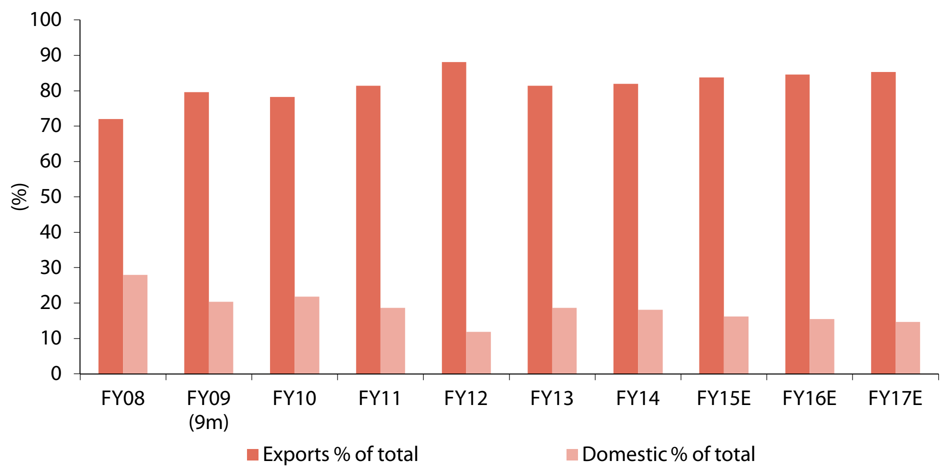


Source: company, Centrum Research

Exports to drive sales

GIL derives over 80% of its revenues from exports and the balance 20% from the domestic market. The company has over 300 customers spread across 60 countries and hence has no major dependence on any customer. The company derives ~70% of its revenues from top 10 customers. With the acquisition of APL in February'14, it has added 12 new APIs to existing 5 APIs thereby expanding the product portfolio. With an increase in exports with additional products, we expect a decline in domestic revenues of the company. GIL's year-wise revenues for exports and domestic markets are indicated in the following chart:

Exhibit 10: Export and domestic revenues



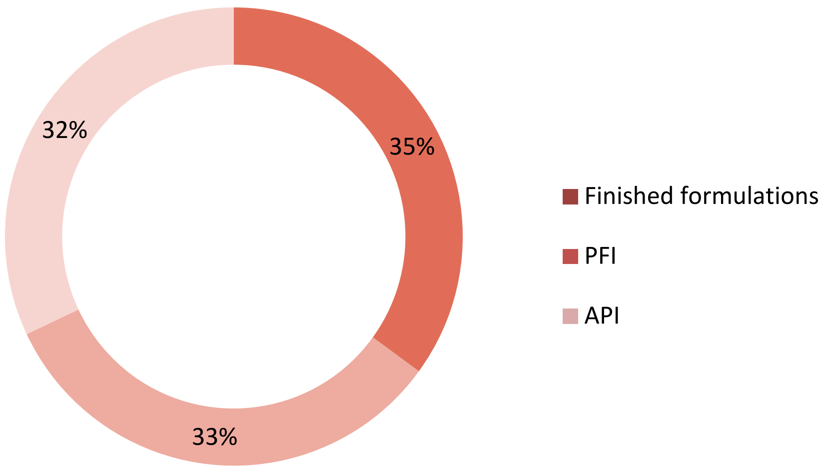
Source: company, Centrum Research

Sales composition

On a standalone basis for FY14, GIL reported 35% revenues from finished formulations, 33% from PFI business and 32% from API business. For FY13, finished formulations accounted for 31%, PFI business 32% and API 37%. GIL's margin improvement of 340bps to 14.5% in FY14 from 11.1% in FY13 was due to higher contribution of high margin formulation business. The company is gradually moving up from API→PFI→finished formulations to improving overall margins.

For GIL, finished formulation business generates the highest EBIDTA margin of over 20% followed by 10-20% for PFIs and below 10% for APIs. We expect a shift from APIs to PFIs and then to finished formulations. This is likely to improve the EBIDTA margin for the company. Sales composition for FY14 is shown in the following chart:

Exhibit 11: Sales composition-FY14



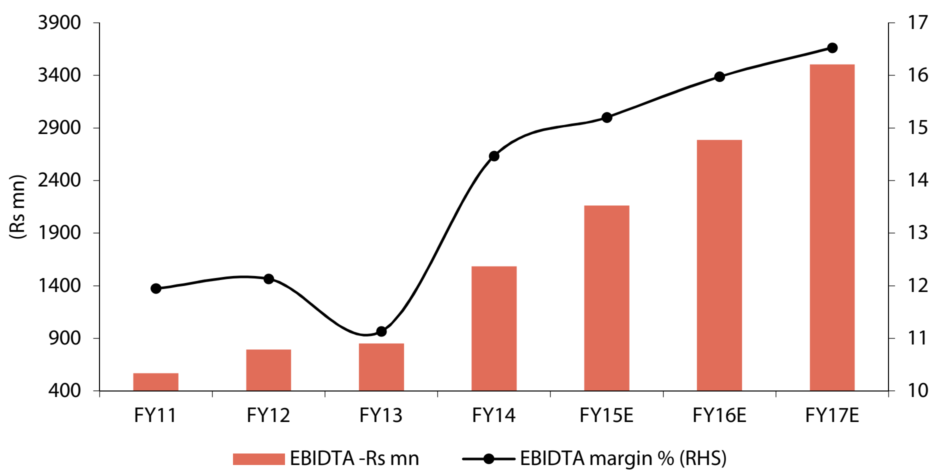
Source: company

We expect GIL's EBIDTA to grow at 30%CAGR over FY14-FY17 due to the following:

- Rise in exports to regulated markets
- Improvement in operational efficiencies
- Additional product offering from APL
- Gradual move over the value chain from API→PFI→finished formulations

We expect the company's EBIDTA margin to improve to 15.2% in FY15 from 14.5% in FY14 and to 16.0% in FY16 and improve further to 16.5% in FY17. This is indicated in the following chart:

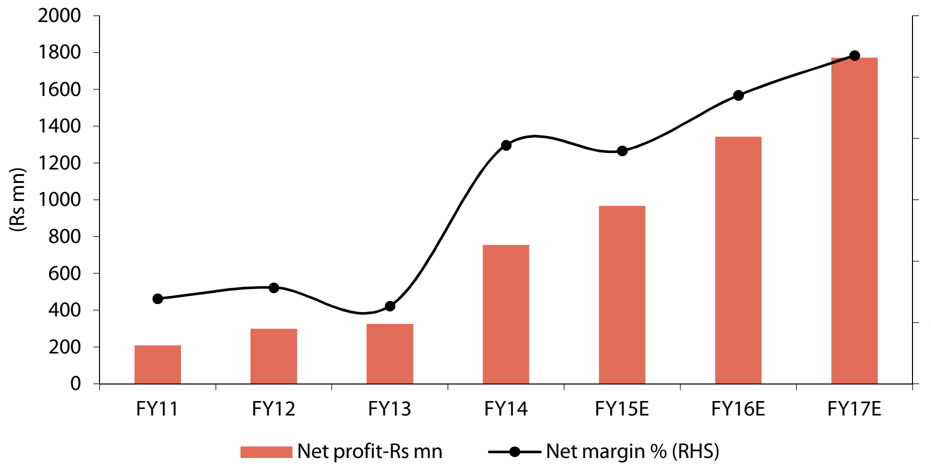
Exhibit 12: EBIDTA and EBIDTA margin



Source: company, Centrum Research

We expect GIL's net profit to grow at 33%CAGR over FY14-FY17 due to margin improvement and higher other income. This is shown in the following chart:

Exhibit 13: Net profit and net margin

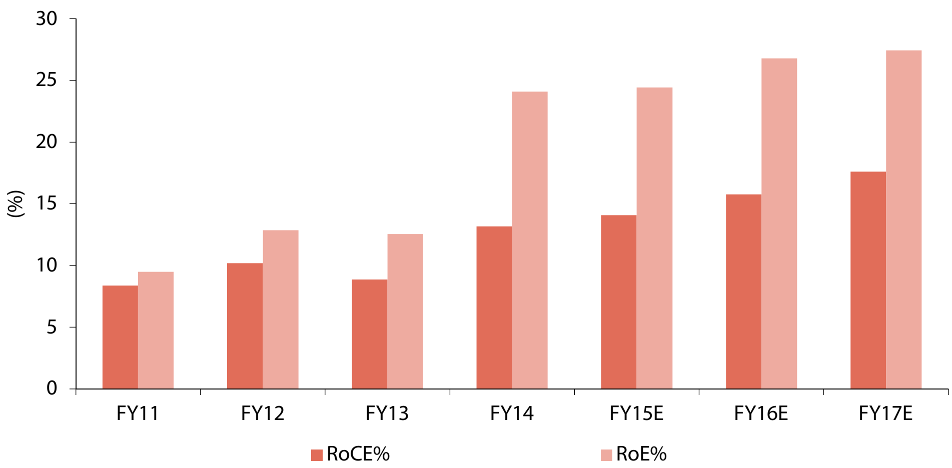


Source: company, Centrum Research

Return ratio set to improve

We expect GIL's RoE to improve to 27.4% in FY17 from 24.0% in FY14 due to higher profitability from increased capacity utilisation and operational efficiencies. We also expect the company's RoCE to improve to 17.6% in FY17 from 13.2% in FY14. The details are shown in the following chart:

Exhibit 14: RoE and RoCE



Source: company, Centrum Research

Foreign currency loans

GIL has raised foreign currency loans of $25mn (Rs1.5bn) at Libor+400bps and is capitalizing MTM charges. These were 3.7% of EBIDTA for FY13 and -4.2% of EBIDTA for FY14. The company has raised 18m euro loan (Rs1.47bn) at Libor+410bps in Omnichem JV. It also has working capital loan of Rs1.75bn at Libor+200bps. GIL has plans to repay the loans from FY16 onwards.

Capex to enhance capacities

GIL has invested over Rs1.0bn in FY12 to increase its finished dosage capacity to 18bn units from 6bn units and its PFI capacity to 14,400tpa from 9,000tpa. The enhanced capacity has helped the company achieve higher revenues from FY12 onwards. With the expansion of manufacturing facilities, the average sales per existing customer increased by 50% during FY12. With the increase in PFI and finished product capacities along with higher capacity utilization, margins are likely to improve as these have higher margins than API. With the offering of additional capacities, new manufacturing facilities and additional products, the company will be able to attract new customers.

The company plans to spend ~Rs900mn per annum on capex for the next 2 years in the following manner: Rs250mn as maintenance capex and Rs650mn for augmenting additional capacities and warehousing facilities to meet the additional demand for products. The nature of GIL's business is such that the company should have a readymade facility with requisite capacities to offer to existing or new customers. Customers cannot wait for 8-12m for creating a facility for them. Simultaneously, the company works on product development along with customers to reduce the launch time for new products.

Financial performance

Subsidiaries' performance

GIL currently has three 100% subsidiaries namely Granules USA Inc., GIL Life Sciences Private Limited and APL. Moreover, it has two 50:50 JVs namely Granules Biocause Pharmaceutical Company and Granules Omnichem Private Limited. GIL liquidated its 100% subsidiary Granules Singapore Pte. Ltd in Q4FY14. The performance of GIL's subsidiaries is not encouraging mainly due to start up and establishment costs. For FY14, subsidiaries reported 11%YoY growth in revenues to Rs942mn from Rs846mn. EBIDTA margin declined by 1160bps YoY to -5.1% from 6.5%. Net loss was Rs58mn against net profit of Rs23mn. We expect improvement in the performance of subsidiaries as the US business is set to improve and the JV with Omnichem is likely to commence production in Q2FY15.

Performance of the subsidiaries is shown in the following table:

Exhibit 15: Performance of subsidiaries

Particulars	FY11	FY12	FY13	FY14
Total Sales	**695.0**	**913.0**	**845.8**	**942.0**
Expenditure				
Materials	427.3	592.3	491	604
Personnel expenses	33.1	43.9	93	186
R & D expenses	41.7	25.1	9	11
Other expenses	165.2	196.4	198	188
Total Expenditure	667.3	857.7	791.2	989.6
EBIDTA	**27.7**	**55.3**	**54.6**	**(47.6)**
Other income	0.9	2.6	3	7
PBDIT	**28.6**	**57.9**	**57.6**	**(40.8)**
Depreciation	24.4	25	23	34
Interest	12.3	14.9	12	15
Forex exchange gain / (loss)	2.1	9	0	0
PBT	**(6.0)**	**27.0**	**22.2**	**(90.0)**
Tax	0.1	0.7	(1.2)	(32)
Tax rate	(1.7)	2.6	(5.4)	35.7
PAT	(6.1)	26.3	23.4	(57.9)
Equity Capital	200.6	200.6	200.7	201.5
Face Value	10	10	10	10
EPS	**(0.3)**	**1.3**	**1.2**	**(2.9)**

RATIOS	FY11	FY12	FY13	FY14
Sales Growth % YoY		*31.4*	*(7.4)*	*11.4*
EBIDTA margin %	***4.0***	***6.1***	***6.5***	***(5.1)***
EBIDTA growth %YoY		*99.6*	*(1.3)*	*(187.2)*
Tax rate % of PBT	*(1.7)*	*2.6*	*(5.4)*	*35.7*

Source: Company, Centrum Research

For FY14, subsidiaries contributed 9% to consolidated revenues but the contribution to consolidated EBIDTA and net profit were -3% and -8% respectively. Revenue contribution of subsidiaries has come down to 9% in FY14 from 14.6% in FY11 indicating faster growth of the standalone entity. Lower contribution to net profit in FY14 is attributed to higher tax rate of 36%.

Exhibit 16: Subsidiaries' contribution

RATIOS	FY11	FY12	FY13	FY14
Sales as % of cons. Revenues	*14.6*	*14.0*	*11.1*	*8.6*
EBIDTA as % of cons. EBIDTA	*4.9*	*7.0*	*6.4*	*(3.0)*
Net profit as % of cons. Net profit	*(2.9)*	*8.8*	*7.2*	*(7.7)*

Source: Company, Centrum Research

Good performance for Q4FY14

For Q4FY14, on a consolidated basis, GIL reported 55%YoY growth in revenues to Rs3.18bn from Rs2.04bn. Growth was driven by strong performance across all its manufacturing facilities. However, the results are not comparable due to the acquisition of APL during the quarter, which was integrated on14th February'14. The company's EBIDTA margin improved by 230bps YoY to 15.8% from 13.5% due to operational efficiencies and sales mix shifting to formulations.

GIL's material cost grew by 350bps to 60.5% from 57.0% due to the change in product mix. Personnel expenses declined marginally by 10bps to 7.4% from 7.5%. Other expenses declined by 610bps to 15.3% from 21.4%. R & D expenses grew by 40bps to 0.9% from 0.5% of revenues. GIL's other income grew by 48%YoY to Rs15mn from Rs10mn. The company's depreciation and interest cost went up by 71% and 82% respectively due to the acquisition of APL. GIL's tax rate came down to 28.9% from 31.4% due to higher R & D deductions. Net profit grew by 90%YoY to Rs236mn from Rs124mn. The details are shown in the following table:

Exhibit 17: Q4FY14 results-consolidated

PARTICULARS (Rs mn)	Q4FY14	Q4FY13	*YoY Gr%*	Q3FY14	*QoQ Gr%*
Total income	3,175	2,044	*55.3*	2,841	*11.8*
Expenditure					
Raw materials	1,922	1,165	*65.0*	1,598	*20.3*
as % of total income	*60.5*	*57.0*		*56.2*	
Personnel expenses	235	154	*52.6*	224	*5.0*
as % of total income	*7.4*	*7.5*		*7.9*	
R & D expenses	30	11	*173.6*	12	*146.7*
as % of total income	*0.9*	*0.5*		*0.4*	
Other expenses	486	438	*11.1*	556	*(12.5)*
as % of total income	*15.3*	*21.4*		*19.6*	
Total Expenditure	2,674	*1,768*	*51.2*	*2,390*	*11.9*
EBIDTA	**501**	**275**	***81.8***	**451**	***11.1***
EBIDTA Margin (%)	*15.8*	*13.5*		*15.9*	
Other income	15	10	*47.5*	5	
PBDIT	**516**	**286**	***80.6***	**456**	***13.2***
Depreciation	106	62	*71.2*	74	*42.5*
Interest	78	43	*82.0*	46	*71.2*
PBT	332	181	*83.5*	336	*(1.1)*
Prov. For tax	96	57	*68.5*	118	*(18.5)*
% of PBT	*28.9*	*31.4*		*35.0*	
PAT	236	124	*90.3*	218	*8.2*
Equity capital	203	203	*(0.1)*	203	*0.0*
EPS Rs.(Rs. 10 Paid up)	11.6	6.1	*90.5*	10.8	*8.2*

Source: Company, Centrum Research

Normal tax rate

GIL's tax rate for FY14 was 33% and this is likely to remain ~33% in future as there are no tax benefits except 200% weighted average deduction on R & D expenses. GIL spends <1% of revenues on R & D and hence the deduction is marginal. The lower tax rates of 19.3% in FY10 and 21.9% in FY11 were due to EOU benefits for its manufacturing units. Two of its three units were EOU units leading to lower tax rate in FY10 and FY11. However, EOU benefits expired in FY12.

Q1FY15 estimates

- For Q1FY15, we expect GIL to report 41%YoY and 1%QoQ revenue growth due to the acquisition of APL in Q4FY14.
- We expect GIL's EBIDTA margin to improve by 290bps to 15.9% from 13.0% due to the expected reduction in personnel cost and other expenses.
- We expect GIL's depreciation and interest expenses to go up by 94%YoY and 171%YoY respectively due to the acquisition of APL.
- We expect GIL's net profit to grow by 50%YoY to Rs220mn from Rs147mn.
- Our target price of Rs720 is based on 10xJune'16E EPS of Rs71.5.

Exhibit 18: Q1FY15 estimates

Particulars (Rs mn)	Q1FY15E	Q1FY14	*YoY Gr%*	Q4FY14	*QoQ Gr %*	FY15E
Total income	**3,210**	**2,283**	***40.6***	**3,175**	***1.1***	**14,222**
EBIDTA	**510**	**297**	***71.7***	**501**	***1.9***	**2,130**
EBIDTA Margin (%)	*15.9*	*13.0*		*15.8*		*15.0*
Net profit	**220**	**147**	***49.8***	**236**	***(6.9)***	**935**
Net margin (%)	*6.9*	*6.4*		*7.4*		*6.6*

Source: Centrum estimates

Quarterly Financials

Exhibit 19: Quarterly financials-standalone

Particulars (Rs mn)	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14	Q4FY14
P & L								
Total Sales	1,591	1,678	1,740	1,790	2,087	2,390	2,621	2,918
Materials Cost	1,022	1,040	1,106	1,011	1,281	1380	1,471	1,717
Personnel expenses	122	128	132	122	164	173	172	183
R & D expenses	16	9	12	8	10	11	9	28
Other expenses	255	299	322	397	344	474	519	451
Total Expenditure	1,415	1,476	1,572	1,538	1,798	2,038	2,171	2,379
EBIDTA	**176**	**202**	**168**	**252**	**289**	**352**	**450**	**539**
Other income	1	2	4	10	17	4	3	12
PBDIT	**177**	**204**	**171**	**262**	**306**	**356**	**453**	**552**
Depreciation	50	54	49	55	50	54	67	93
Interest	40	41	45	40	34	41	43	71
Forex exchange gain / (loss)	0	0	0	0	0	0	0	0
PBT	**87**	**109**	**78**	**167**	**222**	**261**	**344**	**388**
Tax	27	33	24	56	74	88	114	127
PAT	60	77	54	111	147	173	230	260
Growth (%)								
Sales	*56.5*	*19.8*	*11.8*	*8.2*	*31.2*	*42.4*	*50.7*	*63.1*
EBIDTA	*55.6*	*25.2*	*(26.0)*	*10.4*	*64.2*	*74.2*	*168.6*	*114.4*
Net profit	*96.1*	*119.1*	*(9.2)*	*(24.8)*	*144.9*	*124.9*	*324.4*	*134.4*
Margin (%)								
EBIDTA margin	*11.1*	*12.0*	*9.6*	*14.1*	*13.8*	*14.7*	*17.2*	*18.5*
PBT margin	*5.5*	*6.5*	*4.5*	*9.3*	*10.6*	*10.9*	*13.1*	*13.3*
Net margin	*3.8*	*4.6*	*3.1*	*6.2*	*7.1*	*7.2*	*8.8*	*8.9*

Source: Company, Centrum Research

Exhibit 20: Quarterly financials-consolidated

Particulars (Rs mn)	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14	Q4FY14
P & L								
Total Sales	1,893	1,755	1,952	2,044	2,283	2,661	2,841	3,175
Materials Cost	1,239	1,039	1,226	1,165	1,367	1,567	1,598	1,922
Personnel expenses	145	144	154	154	211	208	224	235
R & D expenses	18	12	14	11	12	14	12	30
Other expenses	310	349	374	438	396	537	556	486
Total Expenditure	1,713	1,544	1,767	1,768	1,986	2,326	2,390	2,674
EBIDTA	**180**	**211**	**185**	**275**	**297**	**334**	**451**	**501**
Other income	2	2	5	10	19	5	5	15
PBDIT	**182**	**214**	**190**	**286**	**316**	**339**	**456**	**516**
Depreciation	55	58	56	62	57	62	74	106
Interest	43	43	47	43	37	44	46	78
Forex exchange gain / (loss)	(0)	-	-	-	-	-	-	-
PBT	83	113	87	181	222	234	336	332
Tax	21	32	28	57	75	83	118	96
PAT before Minority Interest	63	81	58	124	147	151	218	236
Growth (%)								
Sales	*59.4*	*8.7*	*5.1*	*8.7*	*20.6*	*51.6*	*45.5*	*55.3*
EBIDTA	*48.7*	*38.6*	*(26.8)*	*6.7*	*64.9*	*58.2*	*143.9*	*81.8*
Net profit	*98.7*	*229.4*	*(27.3)*	*(24.1)*	*134.7*	*87.2*	*274.9*	*90.3*
Margin (%)								
EBIDTA margin	*9.5*	*12.0*	*9.5*	*13.5*	*13.0*	*12.6*	*15.9*	*15.8*
PBT margin	*4.4*	*6.4*	*4.4*	*8.9*	*9.7*	*8.8*	*11.8*	*10.5*
Net margin	*3.3*	*4.6*	*3.0*	*6.1*	*6.4*	*5.7*	*7.7*	*7.4*

Source: Company, Centrum Research

Exhibit 21: Sensitivity to key variables

Sensitivity to key variables-FY15E	% change	% impact *on EBIDTA*	% impact *on EPS*
Sales	*1*	*6.6*	*14.7*
Material cost	*1*	*(3.8)*	*(8.6)*

Source: Centrum Research Estimates

Exhibit 22: Key performance indicators

Key performance indicator	FY13	FY14	FY15E	FY16E	FY17E
API sales Growth %	*24.7*	*27.2*	*26.0*	*21.0*	*20.0*
PFI sales growth %	*10.7*	*48.9*	*27.0*	*22.0*	*21.0*
Finished products sales growth %	*12.0*	*63.4*	*37.0*	*25.0*	*24.0*
Material cost %	*61.1*	*58.9*	*58.7*	*58.4*	*58.2*

Source: Company, Centrum Research Estimates

Assumptions

We have assumed the following sales growth for its three segments as follows:

Particulars (Rs. mn)	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E
Growth rate %							
API	*(5.9)*	*22.5*	*24.7*	*27.2*	*26.0*	*21.0*	*20.0*
PFIs	*(18.3)*	*25.8*	*10.7*	*48.9*	*27.0*	*22.0*	*21.0*
Finished Dosages	*167.2*	*89.2*	*12.0*	*63.4*	*37.0*	*25.0*	*24.0*
Total	***3.1***	***37.6***	***16.9***	***43.4***	***29.8***	***22.6***	***21.6***

Source: Company, Centrum Research

Valuation and Recommendations

Attractive Valuations

GIL is poised for a strong growth. We expect the company to report 25% CAGR in revenues, 30%CAGR in EBIDTA and 33%CAGR in net profit over the next three years due to growth in own products and acquired products of APL. We expect the company's EBIDTA margin to improve to 15.2% in FY15 from 14.5% in FY14 due to operational efficiencies and change in the product mix and expect EBIDTA margin to improve to 16.0% in FY16 and further to 16.5% in FY17.

Good return ratios

We expect GIL's RoE to improve to 24.4% in FY15 from 24.0% in FY14 due to margin improvement leading to higher profitability. This is likely to improve to 26.8% in FY16 and to 27.4% in FY17. We expect GIL's RoCE to improve to 14.1% in FY15 from 13.2% in FY14 and to 15.8% in FY16. We expect this to improve further to 17.6% in FY17 indicating that GIL would have attractive return ratios. RoCE is lower due to the borrowing of Rs1.5bn in JV with Omnichem, which is yet to commence production.

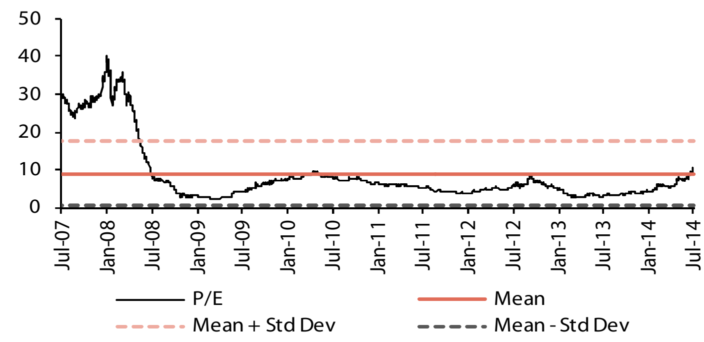
Upside of 32% over CMP

At the CMP of Rs545, the stock trades at 11.8xFY15E EPS of Rs46.1 and 8.2x FY16E EPS of Rs66.2 and 6.2x FY17E EPS of Rs87.3. We have valued the stock at 10x June'16E EPS of Rs71.5 with a target price of Rs720. This will give an upside of 32% over the CMP. Our target price is based on the current P/E of 10.6 and average P/E of 5.7 for the past five years. As there is no listed company with a similar business model, we feel that the 10x June'16 valuation is justified for the company. GIL is a profit making, dividend paying company and is poised for good growth with the acquisition of APL.

Upside possibilities

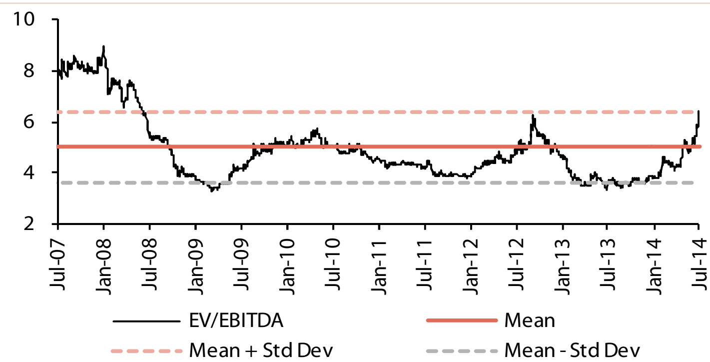
- The acquisition of APL has strengthened GIL's API portfolio and opens up new growth opportunities in the integrated generic space. APL's portfolio of 12 APIs have a potential market of $37bn (Rs2,220bn) that is likely to drive future growth. GIL has plans to add PFIs and finished formulations for APL products.
- APL's regulatory filings include 8 European filings, 4 US DMFs, 3 South Korean DMFs, 3 IDLs China, 2 Health Canada, 1 Italy and 1 Spain. We expect these filings to drive future growth.
- The 50:50 JV with Hubei Biocause is among the premiers in Ibuprofen manufacture in China with an installed capacity of 4,800tpa. The JV is currently profitable.
- The 50:50 JV Omnichem with Ajinomoto would commence operations in the second half of FY15 and supply high end APIs to global customers in CVS, CNS and oncology segments. The JV will transfer some products from Belgium to Vizag to gain cost advantage. We expect the JV to contribute significant revenues from FY17 onwards.
- Some of the existing customers have shut their manufacturing facilities and are now outsourcing from GIL.

Exhibit 23: 1 year forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 24: 1 year forward EV/EBIDTA chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 25: Peer comparison

Company	Mkt Cap Rs mn.	CAGR FY14-16E%			EBIDTA margin (%)			P/E(x)			EV/EBIDTA(x)			RoE(%)			Div. Yield (%)		
		Revenue	EBIDTA	PAT	FY14	FY15E	FY16E	FY14	FY15E	FY16E	FY14	FY15E	FY16E	FY14	FY15E	FY16E	FY14	FY15E	FY16E
Granules India	11,093	26.2	32.6	33.5	14.4	15.0	16.0	14.7	11.8	8.2	9.3	6.9	5.1	23.8	23.5	26.8	0.6	0.7	0.8
Shasun Pharma	9,080	NA	NA	NA	9.6	NA	NA	30.0	12.3	10.5	9.1	NA	NA	10.5	21.0	21.0	0.9	1.6	NA
Marksans Pharma	11,887	NA	NA	NA	19.2	NA	NA	16.5	NA	NA	8.3	NA	NA	66.8	NA	NA	0.0	NA	NA
IOL	1,389	NA	NA	NA	NA	NA	NA	42.1	NA	NA	NA	NA	NA	NA	NA	NA	0.0	NA	NA

Source: Company, Centrum Research Prices as on 4th July ' 14

Business Risks

- GIL derives over 80% of its revenues from exports and hence is subjected to currency fluctuations. Any appreciation of rupee against the dollar would adversely hit the revenues and profitability of the company. However, the company has entered into long-term contracts with key customers to protect itself from a rise in raw material costs due to currency fluctuations as this is passed on to customers. If material cost comes down, the company passes the benefit to the customer. Moreover, GIL has a natural hedge as about 40% of its materials are imported.
- Since GIL derives ~60% of its revenues from US and Europe it is subject to high level of regulatory controls. Any non-compliance of its manufacturing facility would result in sharp decline in revenues and profits.
- The acquired company APL reported revenues of Rs1.08bn and a loss of Rs64mn for FY14 due to manufacturing and procurement inefficiencies. The main challenge for GIL is to turn around APL. The company has plans to supply PFIs and finished formulations of APL products to its existing clients and new customers.

Exhibit 26: Shareholding pattern *(%)*

% Holding	Mar-14	Dec'13	Sept'13	June'13
Promoters	*48.9*	*48.9*	*48.9*	*44.4*
FIIs	*1.7*	*1.5*	*1.5*	*1.6*
DIIs	*0.2*	*0.1*	*0.1*	*0.0*
Public	*49.2*	*49.5*	*49.5*	*54.0*

Source: BSE

Company Background

GIL is a fast growing pharma company and has a presence over the entire pharma value chain – APIs, PFIs and finished dosages – for quality conscious customers for regulated and semi-regulated markets. It has an extensive product range and provides customised solutions. It has over 300 customers spread over 60 countries. GIL has over 1,250 employees.

About GIL

GIL commenced operations in April'91 as merchant exporter of API like paracetamol, guaifenesin and chlorpheniramine maleate. The company came out with a public issue in Sept 1995 to part finance the folic acid project. GIL exports its products to US, Europe, Mexico and Hong Kong. The company took over Triton Laboratories, a group company in August'94 and started manufacture of additional APIs including folic acid, salbutamol sulphate, brompheniramine maleate and direct compression blends of paracetamol through the process of granulation.

The company expanded its guaifenesin capacity from 100 to 240tpa. It set up a 100% subsidiary in the US to make an entry into the world's largest pharma market. GIL is the global leader in paracetamol, metformin, ibuprofen and guaifenesin.

GIL acquired Auctus Pharma (APL) - a leading API manufacturer in February'14 for Rs1.2bn. APL has a manufacturing facility at Vizag and an intermediate facility in Hyderabad. The API's manufacturing facility at Vizag has six production blocks. These facilities are approved by US FDA, EDQM, Health Canada and WHO GMP. APL manufactures 12 APIs and their intermediates. APL has received approvals from Korean FDA, EU and US FDA for its products. These products have a potential market size of $37bn (Rs2,220bn). APL was a loss-making company and reported revenues and losses as follows: FY13: Revenues Rs1.20bn and net loss of Rs40mn, FY14: revenues Rs1.08bn and net loss of Rs67mn. The company has an accumulated loss of Rs15mn which will be adjusted against the profits of GIL.

GIL has entered into high margin CRAMS business through 50:50 JV with Ajinomoto Omnichem. The JV manufacturing facility at Vizag is expected to commence production in second half of FY15. The company has established a 50:50 JV with Hubei Biocause, China in 2007 which manufactures ibuprofen at a plant located in central China.

Promoters have pledged 2.45mn shares (24.7% of promoter holding) out of their holding of 9.91mn shares at the end of Q4FY14. At the end of Q1FY14, pledged shares were1.95mn (21.8% of promoter holding) of 8.94mn shares. Promoters pledged the shares to increase their holding in GIL to 48.9% in Q2FY14 from 44.4% in Q1FY14. Subsequently, promoters have reduced the pledged shares by 0.48mn in Q3FY14. The details are as follows:

Exhibit 27: Promoter's holding and pledged shares

No. of shares (in mn)	Q4FY14	Q3FY14	Q2FY14	Q1FY14
Promoter's holding	9.91	9.91	9.91	8.94
Pleadged shares	2.45	2.45	2.93	1.95
Pleadged shares % of holding	*24.7*	*24.7*	*29.6*	*21.8*

Source: BSE

The details of the company's manufacturing facilities and the products manufactured at each facility is indicated in the following table:

Exhibit 28: Manufacturing facilities and products manufactured

Sr. No.	Location	products manufactured
1	Gagillapur	PFI and finished dosage
2	Bonthapally	paracetamol API
3	Jeedimetla	multi product API, PFI
4	Bonthapally (Auctus)	intermediate
5	Vizag (Auctus)	multi product API
6	Jingmen, China	Granules Biocause 50: 50 JV
7	Vizag	Granules Omnichem 50:50 JV

Source: company

Exhibit 29: Key management personnel

Name	Position	Profile
C. Krishna Prasad	Managing Director	Mr. Krishna Prasad is the founder of GIL and has more than 30 years of experience in the pharma industry. In 1984, he set up a paracetamol manufacturing facility. He has pioneered and popularised the concept of Pharmaceutical Formulation Intermediates (PFI) as cost efficient product for global formulation manufacturers. He is responsible for the company's growth and long-term strategy.
L S Sarma	Director	Mr. Sarma is a retired bank executive. He was general manager at IDBI and Director of ECGC and Dena Bank. He has worked for International Trade Centre, Geneva as an export credit consultant. He is the board member of Hexaware Technologies.
A P Kurian	Director	Mr. Kurian was the Chairman of Association of Mutual Funds of India and has over 40 years of experience in the financial sector. He was the Director of Investments at UTI. He is on the Board of NSE and on Executive Committee of NSDL.
C Parthasarathy	Director	Mr. Parthasarathy is the founder and Chairman of Karvy. He is responsible for Karvy's operations, vision, business direction. Karvy has 583 offices across India which provides complete financial solutions. He is a chartered accountant and company secretary by profession.
Dr. Krishna Murthy Ella	Director	Dr. Ella is the founder of Bharat Biotech engaged in the manufacture and marketing of vaccines and biopharmaceuticals. He holds doctorate from University of Wisconsin in molecular biology. He was a Research faculty at Medical University of South Carolina.
Dr. Arun Rao Akinepally	Director	Dr. Arun Rao is the Executive Director of Akin Laboratories Private Limited, a formulation manufacturing company. He is on the board of ESPI Industries & Chemicals a leading manufacturer of antacids. He is the member of Central Executive Council of Indian Pharmaceutical Alliance (IPA).
Harsha Chigurupati	Executive Director	Mr. Chigurupati has been with GIL since 2005 and served as CMO from 2006-10. He is instrumental in commercialising company's finished dosage division in the regulated markets. He is responsible for GIL's growth opportunities and evaluating strategic business diversification. He holds Bachelor of Science in Business Management from Boston University. He has earlier worked with Orchid Pharmaceuticals and Dr. Reddy's Laboratories.
Ms. Uma Chigurupati	Executive Director	Ms. Uma is the Director of KRSMA Estates Private Limited, one of India's premier boutique wineries. She has established a vineyard in Karnataka. She is the Chairman of Hyderabad 10K foundation which promotes health awareness campaigns. She holds post graduate degree in soil microbiology from Nagarjuna University.

Source: Company

Appendix-1

API product portfolio

Sr. No.	API	Th. Category
1	Paracetamol	analgesic, antipyretic
2	Metformin HCl	anti-diabetic
3	Ibuprofen	NSAIDs
4	Guaifenesin	expectorant
5	Methocarbamol	pain management
6	Cetirizine dihydrochloride	anti allergic
7	Clopidogrel bisulphate	blood thinner
8	Doxylamine succinate	anti histamine
9	Fluconazole	anti fungal
10	Levocetirizine dihydrochloride	anti allergic
11	Losartan potassium	anti hypertensive
12	Olmesartan medoximil	anti hypertensive
13	Pantoprazole sodium	anti ulcerant
14	Pregabalin	anti convulsant
15	Rifaximin	anti-infective
16	Telmisartan	anti hypertensive
17	Valsartan	anti hypertensive

Source: Company Website, Centrum Research

Appendix-2

PFI product portfolio

Sr. No.	PFI
	Single ingredients
1	paracetamol
2	metformin HCl
3	ibuprofen
4	guaifenesin
5	methocarbamol
6	ciprofloxacin
	Combinations
7	paracetamol+chlorpheniramine maleate
8	paracetamol+diphenhydramine HCl
9	paracetamol+chlorpheniramine maleate + phenylephrine
10	Guaifenesin+Ephedrine HCl
11	ibuprofen +pseudoephedrine HCl
12	paracetamol + caffeine

Source: Company

Financials -consolidated

Exhibit 30: Income Statement

Y/E Mar (Rs mn)	FY13	FY 14	FY 15E	FY 16E	FY 17E
Net Sales	7,644	10,959	14,222	17,440	21,215
Material Cost	4,669	6,452	8,346	10,190	12,350
% of sales	*61.1*	*58.9*	*58.7*	*58.4*	*58.2*
Personnel Expenses	597	879	1,110	1,300	1,560
% of sales	*7.8*	*8.0*	*7.8*	*7.5*	*7.4*
Other Expenses	1,527	2,043	2,604	3,164	3,799
% of sales	20.0	18.6	18.3	18.1	17.9
Operating Expenses	6,793	9,374	12,060	14,654	17,709
% of sales	*88.9*	*85.5*	*84.8*	*84.0*	*83.5*
EBIDTA	851	1,585	2,162	2,786	3,506
Depreciation	231	298	418	507	574
EBIT	620	1,287	1,744	2,279	2,932
Interest Income/(expenses)	(177)	(204)	(355)	(340)	(335)
PBT from operations	443	1,083	1,389	1,939	2,597
Other non operating income	21	43	58	70	75
PBT	464	1,126	14,15	2,009	2,672
-PBT margin (%)	*6.1*	*10.3*	*9.9*	*11.5*	*12.6*
Provision for tax	138	371	480	665	900
Effective tax rate (%)	*29.7*	*32.9*	*33.2*	*33.1*	*33.7*
Net profit	326	755	935	1,344	1,772
Adj. PAT	326	755	935	1,344	1,772

Source: Company, Centrum Research Estimates

Exhibit 31: Key Ratios

Y/E Mar (Rs mn)	FY13	FY 14	FY 15E	FY 16E	FY 17E
Growth Matrices (%)					
Net sales	*16.9*	*43.4*	*29.8*	*22.6*	*21.6*
EBIDTA	*7.3*	*86.1*	*34.5*	*30.8*	*25.8*
Adjusted PAT	*9.2*	*130.6*	*24.2*	*43.7*	*31.9*
Profitability Matrices (%)					
EBIDTA margin	*11.1*	*14.4*	*15.0*	*16.0*	*16.5*
EBIT margin	*8.4*	*12.1*	*12.4*	*13.5*	*14.2*
PAT margin	*4.3*	*6.9*	*6.6*	*7.7*	*8.3*
Return ratios (%)					
ROE	*12.6*	*23.8*	*23.5*	*26.8*	*27.4*
ROCE	*8.8*	*13.1*	*13.7*	*16.1*	*18.3*
ROIC	*13.7*	*20.8*	*22.5*	*28.0*	*32.3*
Turnover Ratios (days)					
Inventory	58.8	51.7	51.0	51.7	51.6
Debtors	39.6	30.3	30.7	31.0	30.5
Creditors	59.8	58.2	54.7	50.8	49.4
Solvency Ratio (X)					
Debt-equity	0.9	1.2	1.0	0.8	0.5
Net Debt -equity	0.8	1.0	0.8	0.5	0.3
Liquidity ratio	2.5	2.0	2.6	2.7	2.9
Interest coverage	3.6	6.5	5.0	6.9	9.0
Dividend					
DPS Rs.	2.0	3.5	4.0	4.5	5.0
Dividend Yield (%)	*0.4*	*0.6*	*0.7*	*0.8*	*0.9*
Dividend Payout (%)	*12.4*	*9.4*	*8.7*	*6.8*	*5.7*
Per share (Rs)					
Basic EPS (reported)	16.2	37.1	46.1	66.2	87.3
FDEPS (reported)	16.1	37.1	46.1	66.2	87.3
FDEPS(adjusted)	16.1	37.1	46.1	66.2	87.3
BVPS	136.5	175.6	217.0	278.0	359.5
CEPS	27.5	51.8	66.7	91.3	115.7
Valuation metrices (x)					
P/E	33.9	14.7	11.8	8.2	6.2
P/BV	4.0	3.1	2.5	2.0	1.5
EV/EBIDTA	15.5	9.3	6.9	5.1	3.8
EV/Sales	1.7	1.3	1.0	0.8	0.6

Source: Company, Centrum Research Estimates

Exhibit 32: Balance Sheet

Y/E Mar (Rs mn)	FY13	FY 14	FY 15E	FY 16E	FY 17E
Share capital	201	203	203	203	203
Reserves & surplus	2,544	3,357	4,196	5,432	7,085
Total shareholder's fund	2,746	3,560	4,399	5,635	7,288
Loan fund	2,610	4,101	4,347	4,440	3,783
share app. Money	3	3	3	3	3
Deferred tax liability	245	303	316	323	331
Total capital employed	**5,603**	**7,966**	**9,064**	**10,401**	**11,404**
Gross block	3,874	6,539	6,935	7,475	8,005
Accumulated depreciation	(1,239)	(1,714)	(2,133)	(2,641)	(3,215)
Net Block	2,635	4,825	4,802	4,834	4,790
Capital WIP	1,087	1,246	1,250	1,300	1,400
Net fixed assets	3,722	6,070	6,052	6,134	6,190
Investments	97	2	2	2	2
Cash and bank	418	420	693	1,384	1,620
Inventories	1,365	1,742	2,230	2,710	3,290
Debtors	710	1,109	1,285	1,675	1,870
Other current assets and loans and advances	516	580	738	956	1,140
Total current assets and loans and advances	3,106	3,852	4,948	6,727	7,922
Current liabilities and provisions	1,225	1,956	1,936	2,460	2,708
Net current assets	1,881	1,896	3,012	4,267	5,214
Total assets	**5,603**	**7,966**	**9,064**	**10,401**	**11,404**

Source: Company, Centrum Research Estimates

Exhibit 33: Cash Flow

Y/E Mar (Rs mn)	FY13	FY 14	FY 15E	FY 16E	FY 17E
Cash flow from operations					
Net Profit	326	752	935	1,343	1,771
Depreciation and amortization	231	298	419	508	575
Change in working capital	97	(108)	(843)	(564)	(711)
Deferred tax liability	15	58	13	8	8
Foreign Exchange Retranslation Reserve Account	13	-	-	-	-
Cash flow from operations	**681**	**1,001**	**523**	**1,294**	**1,642**
Cash flow from investments					
Capex	(1,156)	(2,646)	(401)	(590)	(630)
Other investing activities	(95)	95	-	-	-
Cash flow from investments	(1,250)	(2,552)	(401)	(590)	(630)
Cash flow from financing					
Inc / (dec) in long term debt	708	1,492	246	93	(657)
Dividends paid	(47)	(83)	(95)	(107)	(119)
Share issuance / (repurchase)	1	2	-	-	-
Cash flow from financing	**662**	**1,410**	**151**	**(14)**	**(776)**
Net Cash Flow	**93**	**(140)**	**273**	**691**	**237**

Source: Company, Centrum Research Estimates

Financials –consolidated-historical

Exhibit 34: Income Statement

Y/E June/Mar (Rs mn)	FY08*	FY09 (9m)	FY10	FY11	FY12
Net Sales	2,564	2,893	4,611	4,752	6,540
Material Cost	1,536	1,765	2,862	2,956	4,144
% of sales	*59.9*	*61.0*	*62.1*	*62.2*	*63.4*
Personnel Expenses	173	178	279	334	455
% of sales	*6.7*	*6.1*	*6.1*	*7.0*	*6.9*
Other Expenses	496	523	856	894	1,149
% of sales	*19.3*	*18.1*	*18.6*	*18.8*	*17.6*
Operating Expenses	2,205	2,465	3,997	4,184	5,747
% of sales	*86.0*	*85.2*	*86.7*	*88.1*	*87.9*
EBIDTA	360	428	614	568	793
Depreciation	117	118	186	189	208
EBIT	243	310	428	379	585
Interest Income/(expenses)	(125)	(249)	(64)	(120)	(170)
PBT from operations	118	61	365	259	415
Other non operating income	8	10	11	8	14
PBT	126	71	376	267	429
-PBT margin (%)	*4.9*	*2.4*	*8.1*	*5.6*	*6.6*
Provision for tax	36	28	72	59	130
Effective tax rate (%)	*28.6*	*39.3*	*19.3*	*21.9*	*30.4*
Net profit	90	43	303	209	299
Adj. PAT	90	43	303	209	299

*Source: Company, Centrum Research Estimates, *Year end June*

Exhibit 35: Key Ratios

Y/E June/Mar (Rs mn)	FY08*	FY09 (9m)	FY10	FY11	FY12
Growth Matrices (%)					
Net sales	*NA*	*50.4*	*19.6*	*3.0*	*37.6*
EBIDTA	*NA*	*58.4*	*7.7*	*(7.5)*	*39.7*
Adjusted PAT	*NA*	*(36.5)*	*431.5*	*(31.2)*	*43.2*
Profitability Matrices (%)					
EBIDTA margin	*14.0*	*14.8*	*13.3*	*11.9*	*12.1*
EBIT margin	*9.8*	*11.0*	*9.5*	*8.1*	*9.2*
PAT margin	*3.5*	*1.5*	*6.6*	*4.4*	*4.6*
Return ratios (%)					
ROE	*5.2*	*3.3*	*15.0*	*9.5*	*12.9*
ROCE	*5.5*	*7.0*	*9.7*	*8.4*	*10.2*
ROIC	*7.9*	*11.9*	*12.4*	*11.1*	*15.8*
Turnover Ratios (days)					
Inventory	75.3	53.2	50.7	55.2	51.6
Debtors	53.4	47.6	51.0	52.8	46.5
Creditors	65.2	39.0	35.2	50.9	56.3
Solvency Ratio (X)					
Debt-equity	0.8	1.0	0.7	0.6	0.8
Net Debt -equity	0.8	1.0	0.7	0.5	0.6
Liquidity ratio	2.8	4.7	3.6	2.5	2.6
Interest coverage	2.0	1.3	6.9	3.2	3.5
Dividend					
DPS Rs.	1.3	1.3	1.3	1.5	2.0
Dividend Yield (%)	*0.2*	*0.2*	*0.2*	*0.3*	*0.4*
Dividend Payout (%)	*28.3*	*59.3*	*8.4*	*14.6*	*13.6*
Per share (Rs)					
Basic EPS (reported)	4.5	2.1	15.1	10.4	14.9
FDEPS (reported)	4.4	2.1	15.0	10.3	14.7
FDEPS(adjusted)	4.4	2.1	15.0	10.3	14.7
BVPS	86.6	87.2	100.9	109.6	122.1
CEPS	10.2	7.9	24.1	19.6	25.0
Valuation metrices (x)					
P/E	123.1	193.7	36.4	53.0	37.0
P/BV	6.3	6.2	5.4	5.0	4.5
EV/EBIDTA	34.1	29.6	20.0	21.2	15.8
EV/Sales	4.8	3.3	2.7	2.5	1.9

*Source: Company, Centrum Research Estimates, *Year end June*

Exhibit 36: Balance Sheet

Y/E June/Mar (Rs mn)	FY08*	FY09 (9m)	FY10	FY11	FY12
Share capital	201	201	201	201	201
Reserves & surplus	1,519	1,532	1,807	1,997	2,250
Total shareholder's fund	1,720	1,733	2,007	2,198	2,450
Loan fund	1,447	1,834	1,467	1,210	1,901
share app. Money	17	17	17	-	-
Deferred tax liability	105	123	170	199	230
Total capital employed	**3,288**	**3,706**	**3,662**	**3,606**	**4,582**
Gross block	1,974	2,908	3,028	3,226	3,545
Accumulated depreciation	(412)	(476)	(660)	(840)	(1,041)
Net Block	1,562	2,431	2,368	2,386	2,504
Capital WIP	926	20	25	69	293
Net fixed assets	2,488	2,451	2,392	2,455	2,797
Deferred tax asset	-	-	-	-	-
Intangible assets	-	-	-	-	-
Investments	3	3	3	3	2
Cash and bank	109	128	135	120	319
Inventories	529	595	687	751	1,099
Debtors	375	631	659	716	950
Other current assets and loans and advances	217	239	279	313	545
Total current assets and loans and advances	1,232	1,597	1,762	1,903	2,915
Current liabilities and provisions	432	342	493	752	1,131
Net current assets	800	1,255	1,269	1,152	1,784
Total assets	**3,288**	**3,706**	**3,662**	**3,606**	**4,582**

*Source: Company, Centrum Research Estimates, *Year end June*

Exhibit 37: Cash Flow

Y/E June/Mar (Rs mn)	FY08*	FY09 (9m)	FY10	FY11	FY12
Cash flow from operations					
Net Profit		43	303	209	299
Depreciation and amortization		118	186	189	208
Change in working capital		(435)	(8)	102	(434)
Deferred tax liability		18	48	28	32
Cash flow from operations		**(256)**	**529**	**528**	**104**
Cash flow from investments					
Capex		(81)	(127)	(251)	(551)
Other investing activities		-	(0)	(0)	1
Cash flow from investments		(81)	(127)	(251)	(549)
Cash flow from financing					
Inc / (dec) in long term debt		387	(367)	(257)	691
Dividends paid		(29)	(29)	(35)	(47)
Cash flow from financing		**357**	**(396)**	**(292)**	**645**
Net Cash Flow		**20**	**6**	**(15)**	**200**

*Source: Company, Centrum Research Estimates, *Year end June*

Appendix A

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