

NOT RATED

Parabolic Drugs

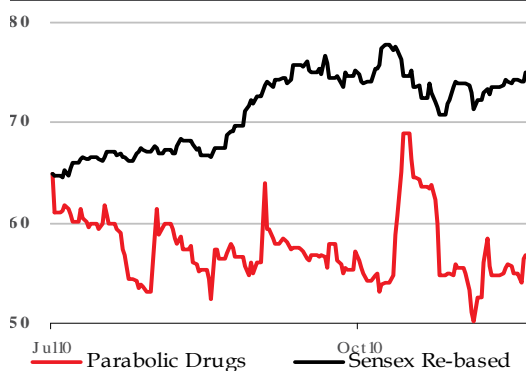
Execution in new business lines may shape valuations

COMPANY REPORT

Last Price (INR)	56.8
Bloomberg code	PDL IN
Reuters code	PARB.BO
Avg. Vol. (3m)	419,830
Avg. Val.(3m)(INRmn)	25.7
52-wk H/L (INR)	79.0 / 46.6
Sensex	20,256
MCAP (INRbn/USDmn)	3.52 / 78.0

Shareholding (%)	09/10
Promoters	38.0
MFs, FIs, Banks	15.1
FIIIs	16.1
Public	11.3
Others	19.4

Stock Chart (Relative to Sensex)



Stock Perfm. (%)	1m	6m	1yr
Absolute	3.3	NA	NA
Rel. to Sensex	-1.1	NA	NA

Financials (INRmn)	03/10	03/11f	03/12f
Sales	5,139	5,787	7,647
y-o-y (%)	30	13	32
EBITDA (%)	18.0	15.4	16.2
A.PAT	173	388	607
Sh o/s (diluted)	37	62	62
A.EPS ((INR)	4.7	6.3	9.8
y-o-y (%)	-78	35	56
D/E (x)	3.2	0.8	1.1
P/E (x)	12.2	9.1	5.8
EV/E (x)	6.4	6.8	5.9
RoCE (%)	10	10	12
RoE (%)	15	18	19

Quarterly Trends	12/09	03/10	06/10	09/10
Sales (INRmn)	NA	NA	1275	1469
PAT (INRmn)	NA	NA	105	143

During FY10-FY13, we forecast a CAGR of 21% led by asset additions in the legacy business and revenues from the new avenues of NCNP APIs and custom synthesis. PDL's planned investments in new product segments are spread out and systematic, treading the path of diversification one step at a time. From being a 100% API producer focused on the antibiotic space, we believe these new business verticals are likely to account for c20% of net sales by the end of the projected period. Risks to earnings stem from delay in commissioning of new assets and scaling up from new segments such as custom synthesis and NCNPs. The valuation range for the stock may assume shape over the next 12 months. We apply the mean P/E of ARBP as a benchmark to estimate the range of potential upside by end of Dec11.

Increasing capacity to feed growth

During FY01-FY10, PDL grew its gross block at a CAGR of 50%, supporting almost equal growth in revenues. Even as the gross asset turnover comes off its peak, PDL is likely to continue investing in capacity, which would help accelerate growth. In our opinion, PDL's planned investments in new segments are spread out and systematic, treading the path of diversification one step at a time. This staggered investment cycle is likely give the company sufficient time to milk its assets, which in turn would help fund PDL's next orbit of growth.

New engines of growth, strengthening product and customer mix

To expand beyond its legacy business, PDL is investing in new engines of growth - NCNP APIs and custom synthesis services. From being focused entirely on API antibiotics, we believe these new segments are likely to account for c20% of net sales by FY13f. Similarly, PDL is consciously strengthening its presence in steriles and has also been successful in de-risking its client concentration. PDL's conscious and continuous efforts to strengthen its product profile and client mix would add value to the company over the longer run.

Potential 3-year PAT CAGR of 32%

During FY10-FY13f, we forecast a CAGR of 21% in net revenues. Margin improvement is likely to be driven by a richer revenue mix, though the contribution from custom synthesis is likely to be limited over the medium term. During FY10-FY13, we forecast a CAGR of 32% on reported PAT. Key risks to earnings are the elevated debt level, elongated working capital cycles and the dependence of growth on the timely commissioning of new facilities, regulatory approvals for the same and, scaling up of revenues from new segments such as custom synthesis and NCNPs.

Valuation range may settle down over next 12 months

PDL's short trading history and unique business mix provide little guide to its future valuation from the universe of listed Indian pharmaceutical stocks. Aurobindo Pharma (ARBP IN, NR) may be a relevant peer, to a limited extent. We apply the benchmark of ARBP's mean P/E to identify a range of P/Es for PDL and thence, the range of potential upsides to the stock price.

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Increasing capacity to feed growth

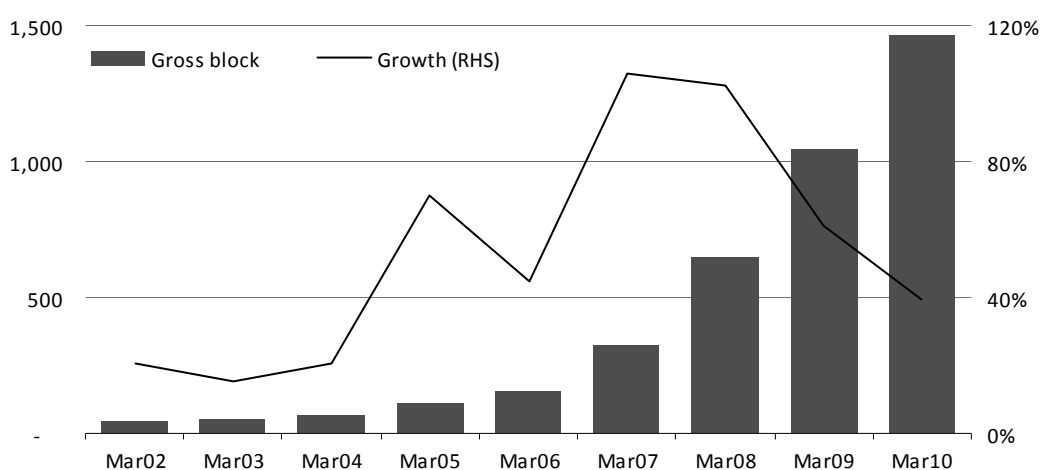
During FY01-FY10, PDL has grown its gross block at a CAGR of 50%, supporting almost equal growth in revenues. Though the company's gross asset turnover has come off its peak, PDL is likely to continue investing in capacity, which would help accelerate growth. PDL's capacity expansion has been, till date, focused on its core competitive area of antibiotics. We believe the company has consciously adopted a policy of diversifying its product profile only after establishing a strong base in its legacy business. In our opinion, PDL's planned investments in new product segments are spread out and systematic, treading the path of diversification one step at a time. This staggered investment cycle, in our view, would give the company sufficient time to milk its assets, which in turn would help fund PDL's next orbit of growth.

Strong 50% annual capacity expansion during FY01-FY10

During FY01-FY10, Parabolic Drugs (PDL) expanded its gross block at a CAGR of 50%, with investments in cephalosporins and semi synthetic penicillins (SSPs).

Exhibit 1: Gross block (INRmn) and growth

Expansion in the antibiotic space across three locations.



Source: Company, Avendus Research

PDL currently operates out of manufacturing units at Derabassi (Punjab) and Panchkula (Haryana) and a Custom synthesis and Research Centre at Barwala (Haryana).

Exhibit 2: Manufacturing facilities

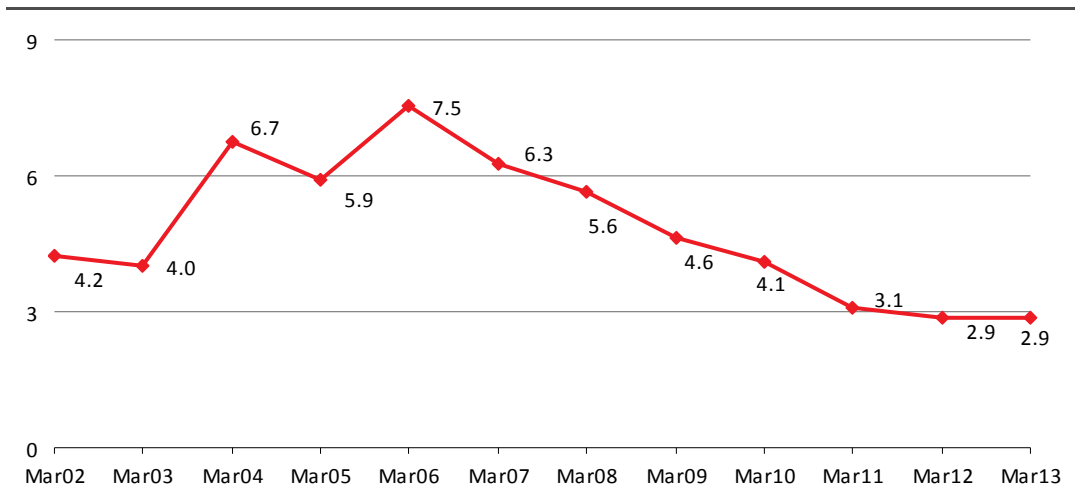
Plant	Products/services
Derabassi	Six manufacturing units for oral and sterile cephalosporin APIs and intermediates
Panchkula	Two manufacturing units for SSP APIs and intermediates
Barwala	Custom synthesis and pilot manufacturing plant; R&D centre for APIs/intermediates across non-antibiotic therapeutic categories

Source: Company, Avendus Research

The massive expansion has had an impact on the asset turnover.

While revenue growth has also been strong (CAGR of 46% during FY01-FY10), the massive capacity addition has had an impact on the asset turnover ratio. From its peak of 7.5x in FY06, the gross asset turnover fell to 4.1x in FY10.

Exhibit 3: Gross asset turnover



Source: Company, Avendus Research

Funded through a combination of debt and equity

To fund this capacity expansion, PDL raised debt (CAGR of c60% during FY01-FY10) and diluted equity (in FY07 and FY09). In early FY11, the company raised INR1.7bn through an IPO. The proceeds of the issue would be used to finance PDL's capacity expansion across product categories and investments in custom synthesis/CRAMS.

In early FY11, the company raised cINR1.7bn through an IPO.

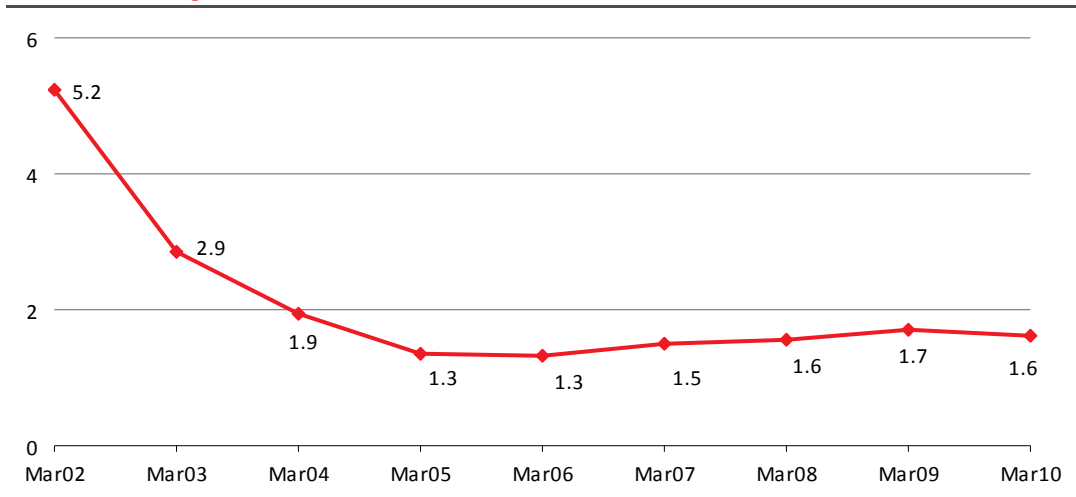
Exhibit 4: Use of IPO proceeds (INRmn)

Objects of the issue	(INRmn)
IPO proceeds	1,696
Objects of the issue	
Multi-purpose block III at Derabassi	203
Sterile cephalosporin plant at Derabassi	326
NCNP plant, Lalru	160
Custom synthesis and manufacturing, Panchkula	466
Repayment / prepayment of loan	377
Total	1,532

Source: Company, Avendus Research

We compare PDL's capacity addition and its consequent impact on asset utilization with Aurobindo Pharma (ARBP IN, NR) – its nearest peer. Despite increasing its gross block by 32% (lower than PDL's 50%) during FY01-FY10, ARBP has faced difficulty in lifting its gross asset turnover ratio. From 5.2x in FY02, ARBP's asset utilization slipped to 1.3x in FY05, and has since only recovered marginally.

Exhibit 5: ARBP's gross asset turnover ratio



Source: Bloomberg, Avendus Research

Investments in new product segments are spread out and systematic.

Till date, PDL's capacity expansion has been focused on its core competitive area of antibiotics (bulk and intermediates). We believe the company has consciously adopted a policy of diversifying its product profile only after establishing a strong base in its legacy business. In our opinion, PDL's planned investments in new product segments are spread out and systematic, treading the path of diversification one step at a time. For example, while the company is on schedule to commission its non-cephalosporin, non-penicillin (NCNP) API unit at Lalru (Punjab) by end FY11f, investments in formulations (cephalosporins, penicillins or NCNPs) are likely to flow over the medium term (though details are not available at this stage). This staggered investment cycle, in our view, would give the company sufficient time to milk its assets, which in turn would help fund PDL's next orbit of growth.

New engines of growth, strengthening product and customer mix

To diversify and expand beyond its legacy business of cephalosporin and SSP bulk drugs and intermediates, PDL is investing in new engines of growth—non-cephalosporin, non-penicillin (NCNP) APIs and custom synthesis services. While these avenues are seemingly new for PDL, the company's ability to grow in scale and expand operations in the highly competitive cephalosporin and penicillin API space gives us comfort. From being a 100% API producer focused on the antibiotic space, we believe these new business verticals are likely to account for c20% of net sales by the end of the projected period. Similarly, the company is consciously strengthening its presence in the sterile cephalosporin/SSP segment and has also been successful in de-risking its client concentration. We believe PDL's conscious and continuous efforts to strengthen its product profile and client mix would add value to the company over the longer run.

NCNPs likely to contribute from FY12f

Lalru unit to be commissioned in 4QFY11f.

PDL is investing cINR450mn in a NCNP API manufacturing unit at Lalru, Punjab. Catering to multiple therapeutic segments such as cardiology, diabetology, dermatology, pain management and oncology, the plant is expected to come on stream in 4QFY11f. The facility is being set up in accordance with the US FDA norms.

Working on a product pipeline of c20 molecules.

The company is working on a product pipeline of c20 molecules that are under various stages of development. One DMF has been filed with the US FDA; this would trigger an inspection at the Lalru facility.

During FY11f, we estimate the Lalru unit to contribute under INR200mn. FY12f would mark the first full year of operations at the unit and we estimate meaningful (c13%) revenue contribution from the NCNP segment from that year.

With the addition of the NCNP range, the company aims to expand its basket to cover over 65 APIs from the current level of 44 products.

Custom synthesis: Strong vision, but long gestation business

Barwala facility on stream; Panchkula R&D Centre expected to be commissioned in FY12f.

PDL's existing unit at Barwala (Haryana), commissioned in FY10, offers custom synthesis and pilot manufacturing services to innovator companies. The unit houses six dedicated laboratories with 12 fume hoods each and capacity to allow 72 chemists to work simultaneously on different projects. The company is investing in a new site in Panchkula, Haryana, which would complement the Barwala unit.

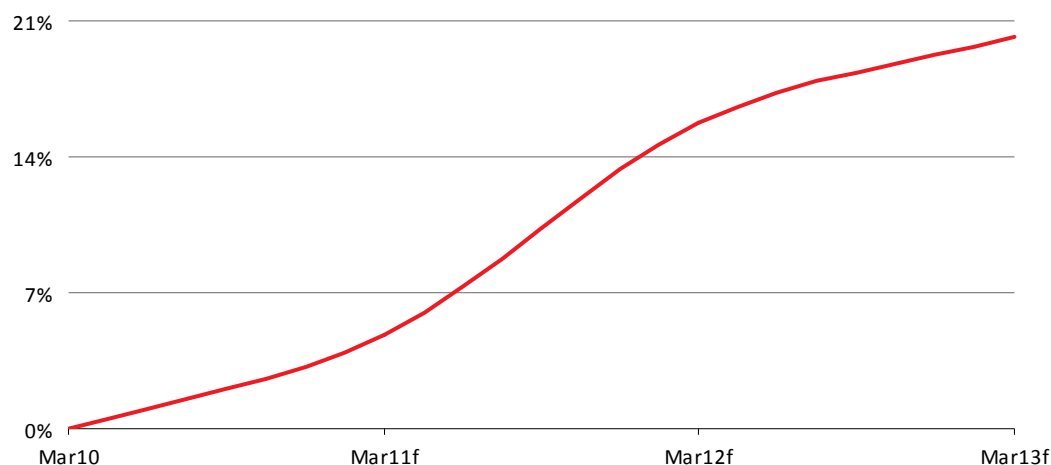
The Panchkula Research Centre would offer custom synthesis services, including process research, contract research and collaborative research in process chemistry and multi-dimensional synthetic skills in non-antibiotic chemistry as well as formulations R&D. The unit is expected to be commissioned towards end-FY12f.

Given the long gestation nature of this business, we expect the contribution from custom synthesis and contract manufacturing to be restricted to mid-single digits over the projected period. Over a longer horizon, however, this business arm could offer interesting opportunities. Over the past six months, the company has executed 8 small, custom synthesis projects for innovator pharmaceutical and biotech companies.

New verticals likely to account for c20% of revenues by FY13f

From being a 100% API producer focused on the antibiotic space, we expect the new growth engines of NCNP APIs and custom synthesis to meaningfully contribute to overall revenues over the projected period. From an estimated 5% in FY11f, NCNP and custom synthesis revenues are likely to account for c20% of net sales by the end of the projected period.

Exhibit 6: NCNP and custom synthesis/CRAMS contribution to sales



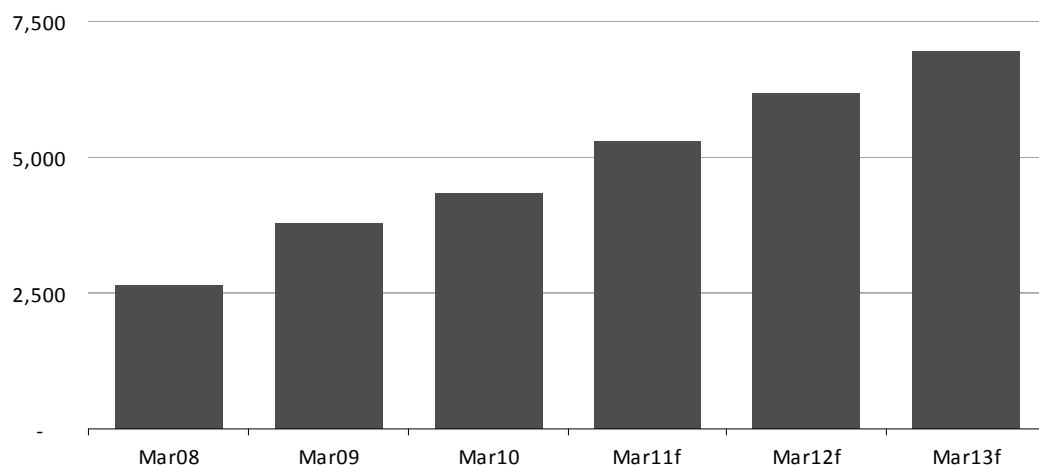
Source: Avendus Research

Other expansion to contribute to volumes

Besides its investments in the NCNP API and custom synthesis space, PDL is investing in a multi-purpose oral cephalosporin block and a sterile cephalosporin bulk plant at Derabassi. The two units are likely to be operational in 2HFY11f.

With the new capacities adding to volumes, we estimate PDL's base business (excluding NCNP APIs and CRAMS/custom synthesis) to grow at a 17% CAGR during FY10-FY13f.

Exhibit 7: Base business revenues (INRmn)



Source: Company, Avendus Research

Strengthening product and client mix

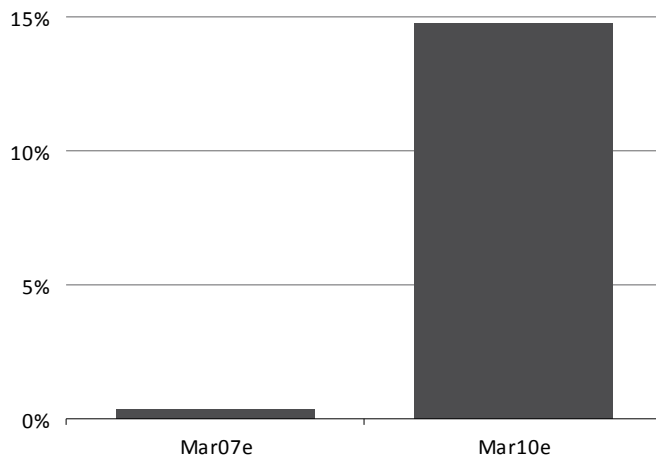
Over the years, PDL has strengthened its product mix to include a larger share of high-margin sterile products; this trend is particularly apparent in the cephalosporin space. From a negligible contribution to revenues, steriles accounted for c15% of sales in FY10e. With NCNPs and custom synthesis likely to contribute to revenues in the future, we estimate PDL's product mix to strengthen further.

Similarly, as the company has evolved, client concentration has come down, de-risking revenues. From c39% in FY07, PDL's largest client accounted for just 14% of sales in FY09. Similarly, from a share of 58% in FY07, the top 5 clients accounted for just 35% of revenues in FY09.

We forecast PDL's base business (i.e. excluding NCNP APIs and CRAMS/custom synthesis) to report a 17% CAGR during FY10-FY13f.

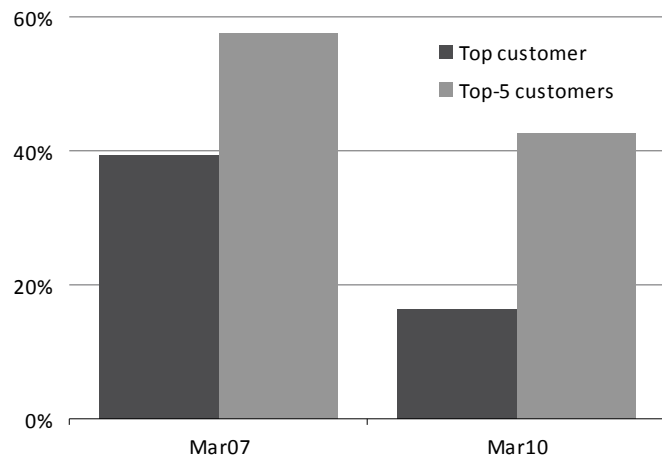
From a negligible contribution to revenues, steriles accounted for an estimated 15% of sales in FY10.

Exhibit 8: Estimated contribution from steriles to total revenues



Source: Company, Avendus Research

Exhibit 9: Client concentration



Source: Company, Avendus Research

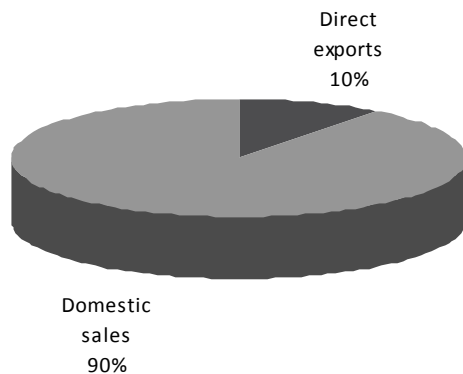
We believe PDL's conscious and continuous efforts to strengthen its product profile and client base would add value to the company over the longer run.

Spreading reach across geographies

Currently exports to over 51 countries globally.

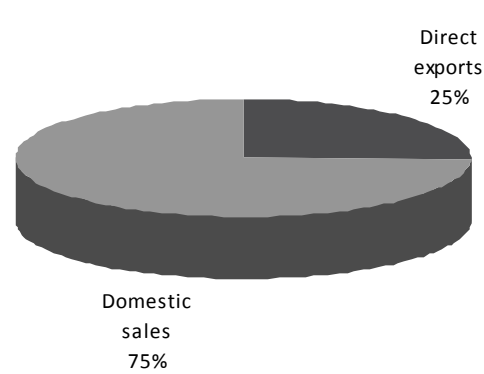
Exports currently account for almost a fourth of PDL's revenues and the company exports to over 51 countries globally. The contribution from direct exports has improved from c10% of sales in FY07. The company marked its entry in the European region in FY11 following the approval of its Derabassi cephalosporin unit. PDL currently retails three cephalosporin products in Europe.

Exhibit 10: Revenue break-down (FY07)



Source: Company, Avendus Research

Exhibit 11: Revenue break-down (FY10)



Source: Company, Avendus Research

Note: Domestic sales include deemed exports.

The momentum in export growth is likely to sustain in the coming years as the company expands (markets including South Korea, Turkey and the US) and strengthens its market reach (such as in the European Union).

3-year PAT CAGR of 32% may support re-rating

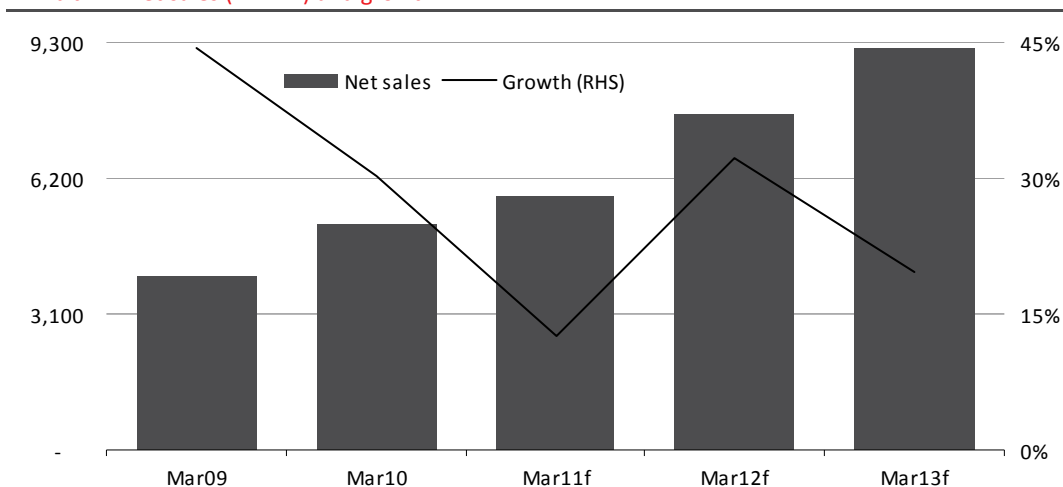
During FY10-FY13, we forecast a CAGR of 21% in net revenues on contribution from new facilities in the legacy business and revenues from the new business avenues of NCNP APIs and custom synthesis. Margin improvement is likely to be driven by a richer revenue mix and growing contribution from the NCNP segment, though the contribution from custom synthesis is likely to be limited over the medium term. During FY10-FY13, we forecast a CAGR of 32% in reported PAT. PDL's short trading history and unique business mix provide little guide to its future valuation. From the universe of listed Indian pharmaceutical stocks, ARBP may be a relevant peer, to a limited extent. We apply the benchmark of ARBP's mean P/E to identify a range of P/Es for PDL and thence, the range of potential upsides to the stock price. Key risks to the company are elevated debt level and the elongated working capital cycles. Other risks to earnings forecasts include the timely commissioning of the new facilities and regulatory approvals for the same and, scaling up of revenues from new segments such as custom synthesis and NCNPs.

Revenue CAGR of 21% led by the legacy business, new verticals

During FY10-FY13, we forecast a CAGR of 21% in net revenues led by contribution from new facilities in the legacy business and coupled with revenues from the new business avenues of NCNP APIs and custom synthesis. FY12f would represent the first full year of operations at the NCNP unit and the capacity addition at Derabassi, bringing with it 32% projected revenue growth during the year.

Exhibit 12: Net sales (INRmn) and growth

During FY10-FY13f, we forecast a 21% CAGR in sales led by contribution from new facilities in the legacy business and revenues from the new business avenues of NCNP APIs and custom synthesis.



Source: Company, Avendus Research

EBITDA margins likely to improve on richer revenue mix

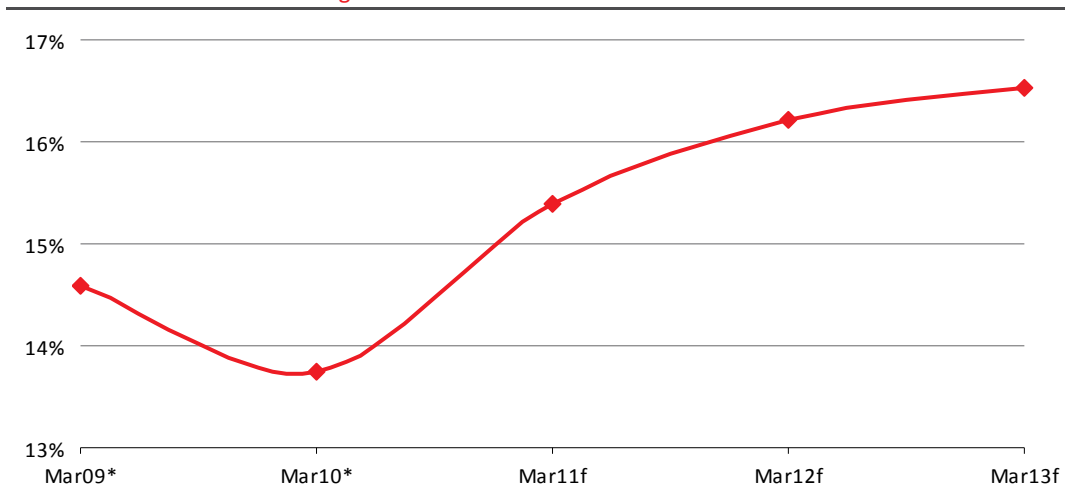
PDL capitalizes its revenue R&D expenses to be written off over a period of five years. We adjust for the capitalized R&D (and assume that the expenses is written off in the year it is incurred) to arrive at the actual operating margin for the company. For FY10, PDL's adjusted EBITDA margin stood at 13.8%, which we believe would improve gradually in the coming years. Margin improvement is likely to be driven by a richer revenue mix and growing contribution from the NCNP segment. While the custom synthesis business could potentially contribute to margin expansion, over the medium term, the segment's contribution is likely to be limited. The segment is likely report thin margins before it attains critical mass.

We estimate adjusted EBITDA margins to scale up from 13.8% in FY10 to 16.5% in FY13f.

For FY10, PDL's adjusted EBITDA margin stood at 13.8%, which we believe would improve gradually in the coming years.

During FY10-FY13f, we forecast a 66% CAGR in PDL's net income (32% CAGR on reported PAT).

Exhibit 13: Trend in EBITDA margins

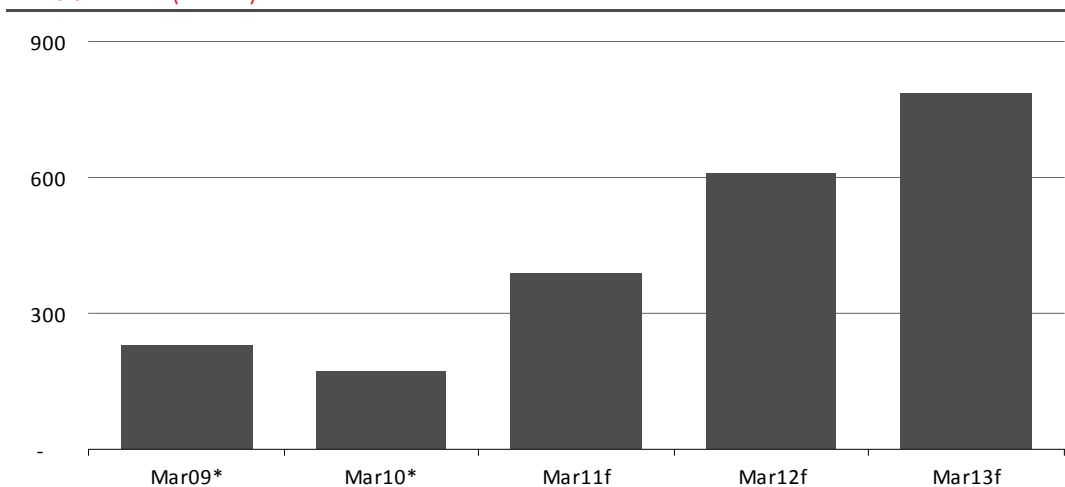


Source: Company, Avendus Research

* Adjusted for capitalized R&D expenses

Adjusted PAT for FY10 took a hit on higher R&D expenses, which was driven by dossier/DMF filings across geographies. An INR94mn loss on foreign exchange contracts impacted profitability further. During FY11f, however, we estimate a strong rebound in operations. Contribution from new facilities and improved operating margins are likely to aid profit growth. During FY10-FY13, we forecast a CAGR of 66% in PDL's adjusted PAT (32% CAGR on reported PAT).

Exhibit 14: PAT (INRmn)



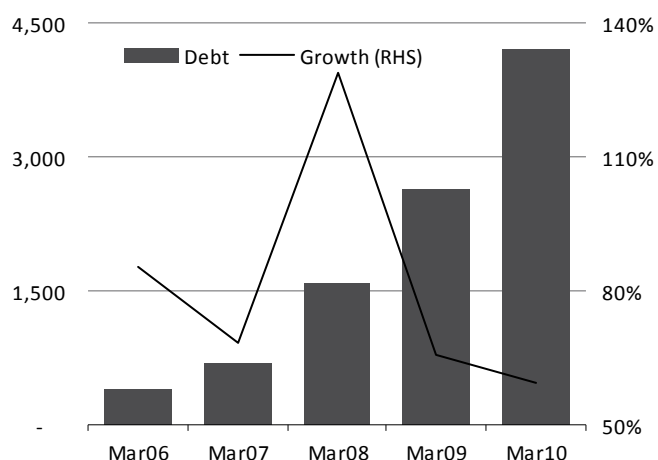
Source: Company, Avendus Research

* Adjusted for capitalized R&D expenses

Debt levels a concern

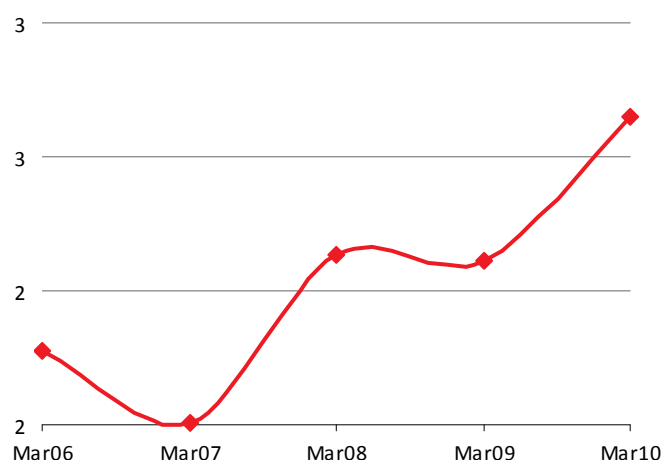
Since FY08, PDL's debt has leaped forward as the company funded its capex plans. Longer working capital cycles have also resulted in higher borrowings. During FY07-FY10, total debt has grown at a CAGR of 82%. Consequently, the D:E ratio has worsened from 1.8:1 in FY06 to 2.7:1 as of Mar10.

Exhibit 15: Total debt (INRmn) and growth



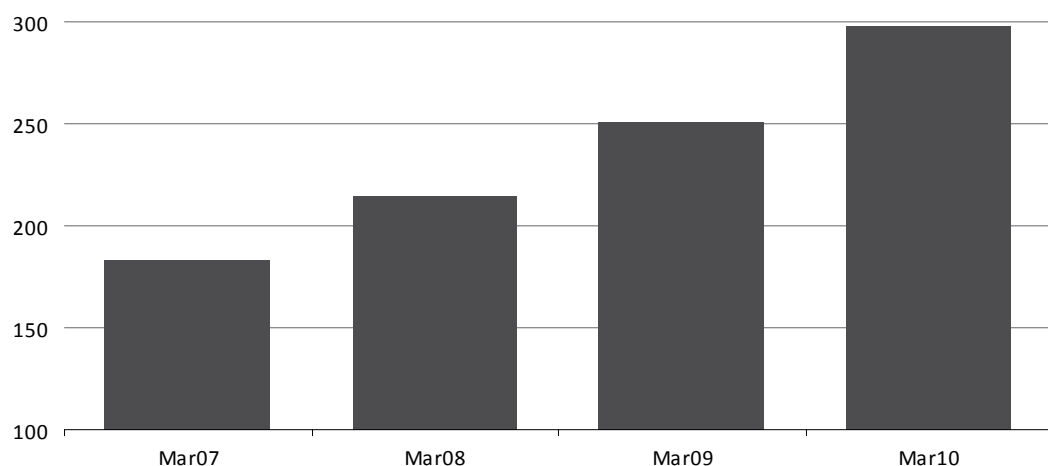
Source: Company, Avendus Research

Exhibit 16: Gross D:E ratio



Source: Company, Avendus Research

Exhibit 17: Net working capital days (excluding cash)



Source: Company, Avendus Research

We build in a constant gross D:E of 1.1:1 over the projected period.

Out of the proceeds of the IPO, PDL has earmarked INR377mn for debt repayment, which is likely to give a small breather in the immediate term. We, however, do not factor in strong improvement in the company's working capital cycle over the projected period. We, thus, build in a constant gross debt-equity ratio of 1.1:1 over the projected period. The improvement from the FY10 level (2.7:1) takes into consideration proceeds from the IPO. Any easing of the working capital above our expectation would provide a positive upside.

Little guide to valuation from trading history and business mix

Among the listed stocks from the pharmaceutical sector, a comparable stock is Aurobindo Pharmaceuticals (ARBP IN, NR). To an extent, PDL may also be compared with Nectar Lifesciences (NLSC IN, NR). The business mix and market presence of other listed pharmaceutical stocks is significantly different from PDL. So, their valuation history has low relevance for PDL. The 12-month mean 1-year forward P/E of NLSC and ARBP is 6.3x (assuming a 20% PAT CAGR during FY10-FY12e) and 9.4x, respectively. The latter could serve as a reference for the valuation of PDL. The mean P/E of PDL for the past three months is estimated at 6.8x, a 40% discount to ARBP's mean P/E over the same period. For the foreseeable future it is likely that PDL's P/E may stay at a discount to that of ARBP. Exhibit 19 presents the implied P/E at discounts ranging from 10% to 40%. Exhibit 20 depicts the potential upside to the stock should the P/E of PDL rise to the various levels.

Exhibit 18: ARBP's one-year forward rolling P/E chart



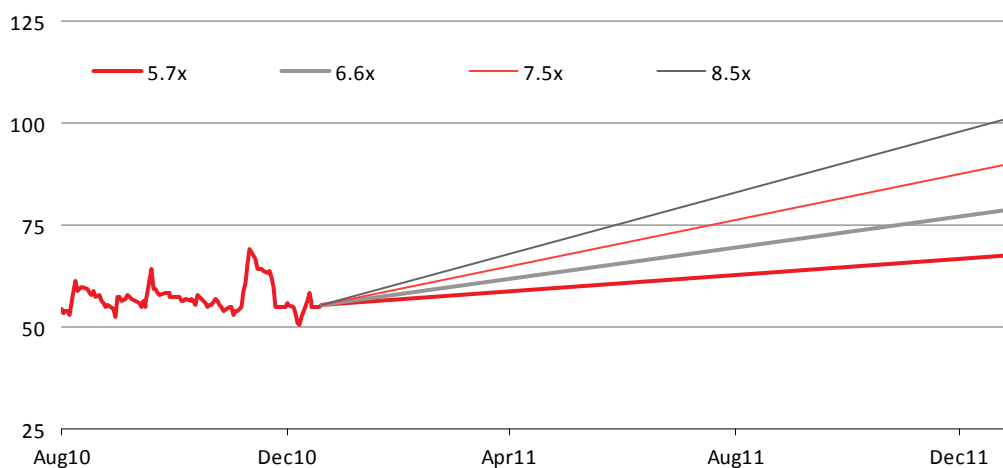
Source: Company, Bloomberg, Avendus Research

Exhibit 19: P/E band

Target P/E	5.7x	6.6x	7.5x	8.5x
(Discount)/premium to ARBP	-40%	-30%	-20%	-10%

Source: Bloomberg, Avendus Research

Exhibit 20: Fair valuation on P/E band



Source: Avendus Research

We are lower than company guidance on revenues and PAT

Our revenue estimates for PDL factor in a CAGR of 21% in revenues during FY10-FY13f and we are up to 11% lower than the company's guidance. Our PAT estimates factor in capitalized R&D expenses and we, thus, stand up to 28% lower than management guidance.

Exhibit 21: Company guidance v/s Avendus estimates

(INRmn)	Revenue			PAT *		
	FY11f	FY12f	FY13f	FY11f	FY12f	FY13f
Avendus estimates	6,290	8,312	9,948	388	607	785
Company projections	7,050	9,080	11,110	540	710	890

Source: Company, Avendus Research

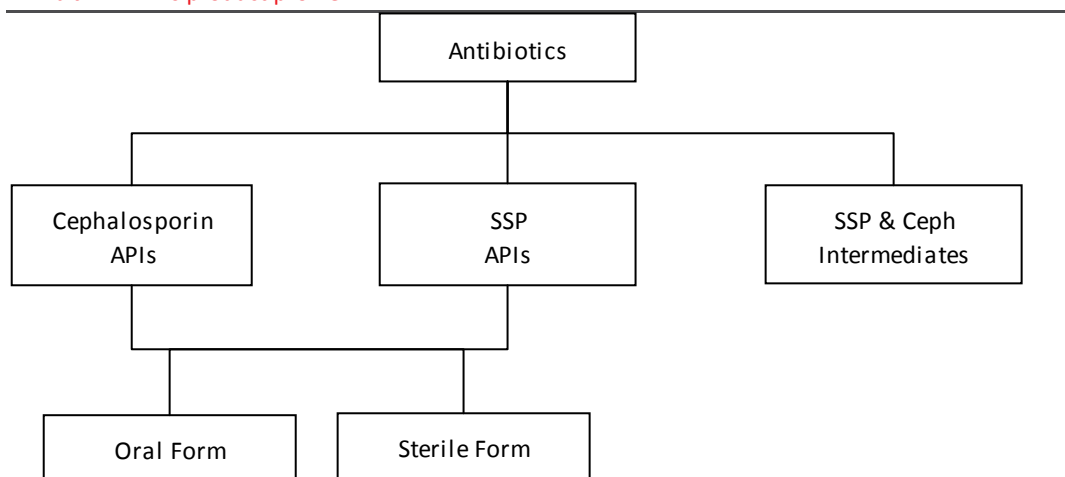
* Avendus estimates adjusted for capitalized R&D

Risks to our earnings call

- ▶ A significant part of our growth estimate is based on timely commissioning of PDL's facilities, including the planned expansion at Derabassi and the NCNP API unit. Any delay in commissioning these assets is a risk to our earnings call. Further, export revenue growth, particularly from regulated markets, is linked to PDL's ability to secure relevant regulatory approvals, delays in which could impact revenue growth.
- ▶ While PDL has built a strong base in Antibiotics, it lacks experience in manufacturing and marketing products of other therapeutic categories. As the company moves towards new business avenues, the inability to scale up its revenues from custom synthesis and NCNPs is a risk to our earnings call.
- ▶ International prices of cephalosporin and SSP APIs and intermediates (and prices of their key input materials) are extremely volatile. A sharp drop in prices would impact profitability.
- ▶ Our forecasts factor in expansion in operating margins as we build in contribution from the higher margin NCNP business. However, the company's inability to expand EBITDA margins (low scale-up in the NCNP business, higher-than-estimated drain from the long gestation custom synthesis business and higher-than-estimated R&D expenses) could impact profitability. However, a surprise addition in the CRAMS/custom synthesis segment could provide an upward risk to our earnings call.

Annexure I: PDL's current product profile and product range

Exhibit 22: PDL's product profile



Source: Company, Avendus Research

The company currently carries a basket of 51 products, including 44 APIs and seven intermediates. Some of the company's products are listed in the table below.

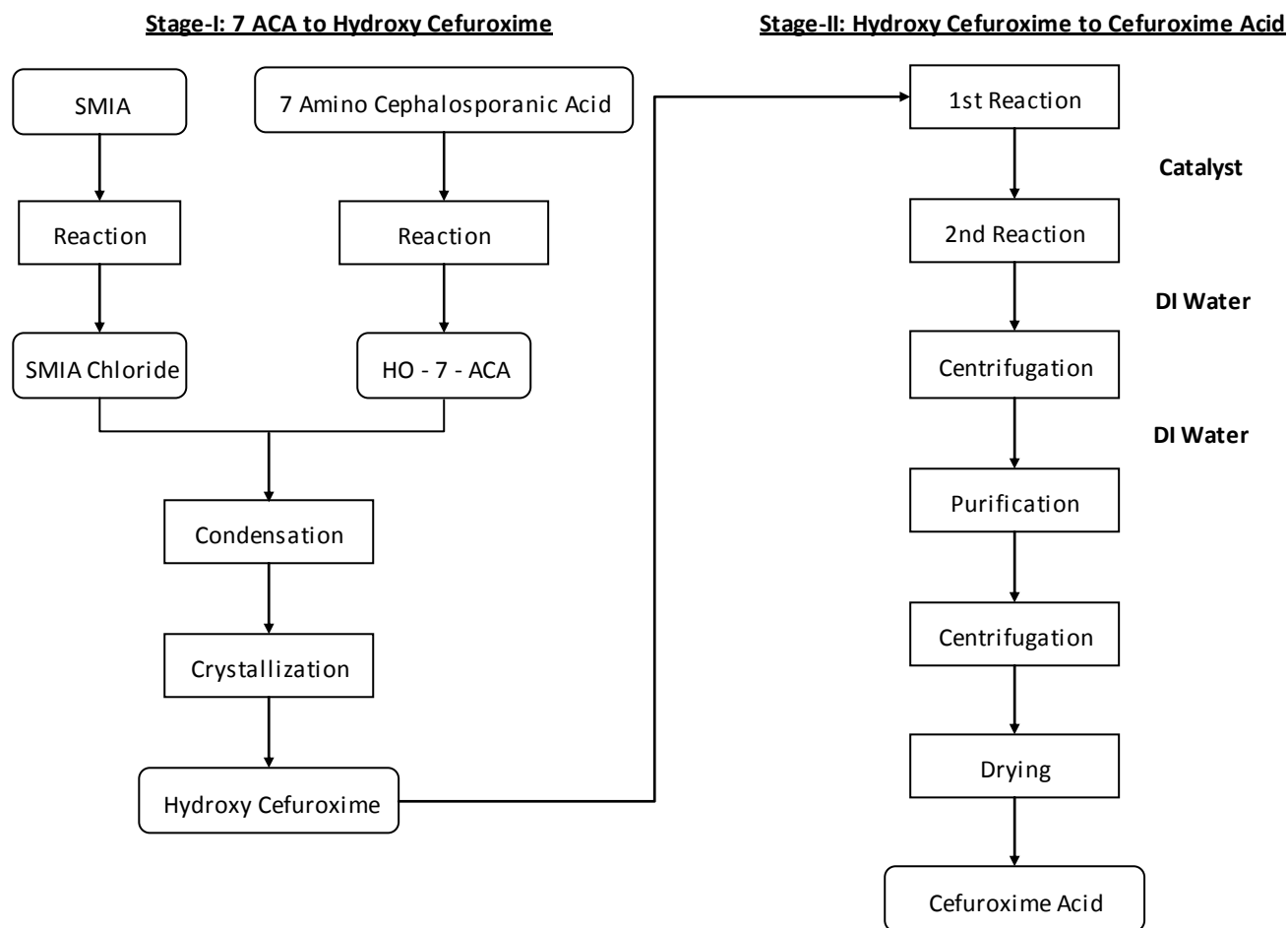
Exhibit 23: PDL's product basket

Category	Oral	Sterile	Intermediates	
Cephalosporins	Cefuroxime Axetil Amorphous	Ceftriaxone Sodium	Cefuroxime Acid	
	Cefuroxime Axetil DC Grade	Cefuroxime Sodium	Cefuroxime Axetil Crystalline	
	Cefuroxime Axetil Taste Masked	Cephalotin Buffered	7- ATCA	
	Cefpodoxime Proxetil	Cefepime+L-Arginine	7- AVNA	
	Cefixime Trihydrate	Ceftazidime Buffered	7- APRA	
	Cefdinir	Ceftizoxime Sodium	7- ANCA	
	Cefprozil	Cefotiam HCl		
	Cefditoren Pivoxil	Cefoperazone Sodium + Sulbactam Sodium		
	Ceftamet Pivoxil			
	Ceftibuten			
	SSPs	Ampicillin Anhydrous	Ampicillin Sodium	6- APA
		Ampicillin Trihydrate	Amoxicillin Sodium	
		Amoxicillin Trihydrate	Cloxacillin Sodium	
Cloxacillin Sodium		Dicloxacillin Sodium		
Dicloxacillin Sodium		Flucloxacillin Sodium		
Flucloxacillin Sodium		Oxacillin Sodium		
Oxacillin Sodium		Sulbactam Sodium		
Pivampicillin Base		Ampicillin Sodium + Sulbactam Sodium (2:1)		
Sultamicillin Base		Ampicillin Sodium + Cloxacillin Sodium (1:1)		
Sultamicillin Tosylate		Amoxicillin Sodium + Sulbactam Sodium (2:1)		
Bacampicillin HCL	Amoxicillin Sodium + Flucloxacillin Sodium (1:1)			
	Piperacillin Sodium + Tazobactam Sodium (8:1)			

Source: Company, Avendus Research

Annexure II: Cephalosporin and SSP manufacturing process

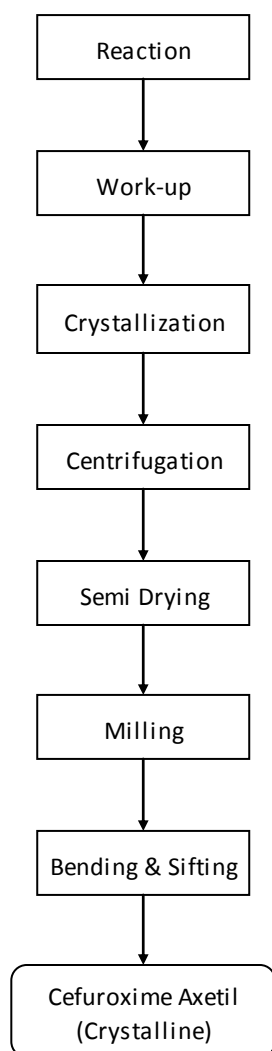
Exhibit 24: Cephalosporin manufacturing process



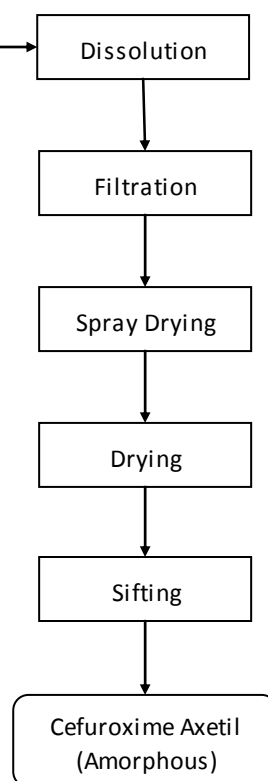
Source: Company, Avendus Research

Exhibit 25: Cephalosporin manufacturing process (cont)

Stage-III: Cefuroxime Acid to Cefuroxime Axetil (Crystalline)

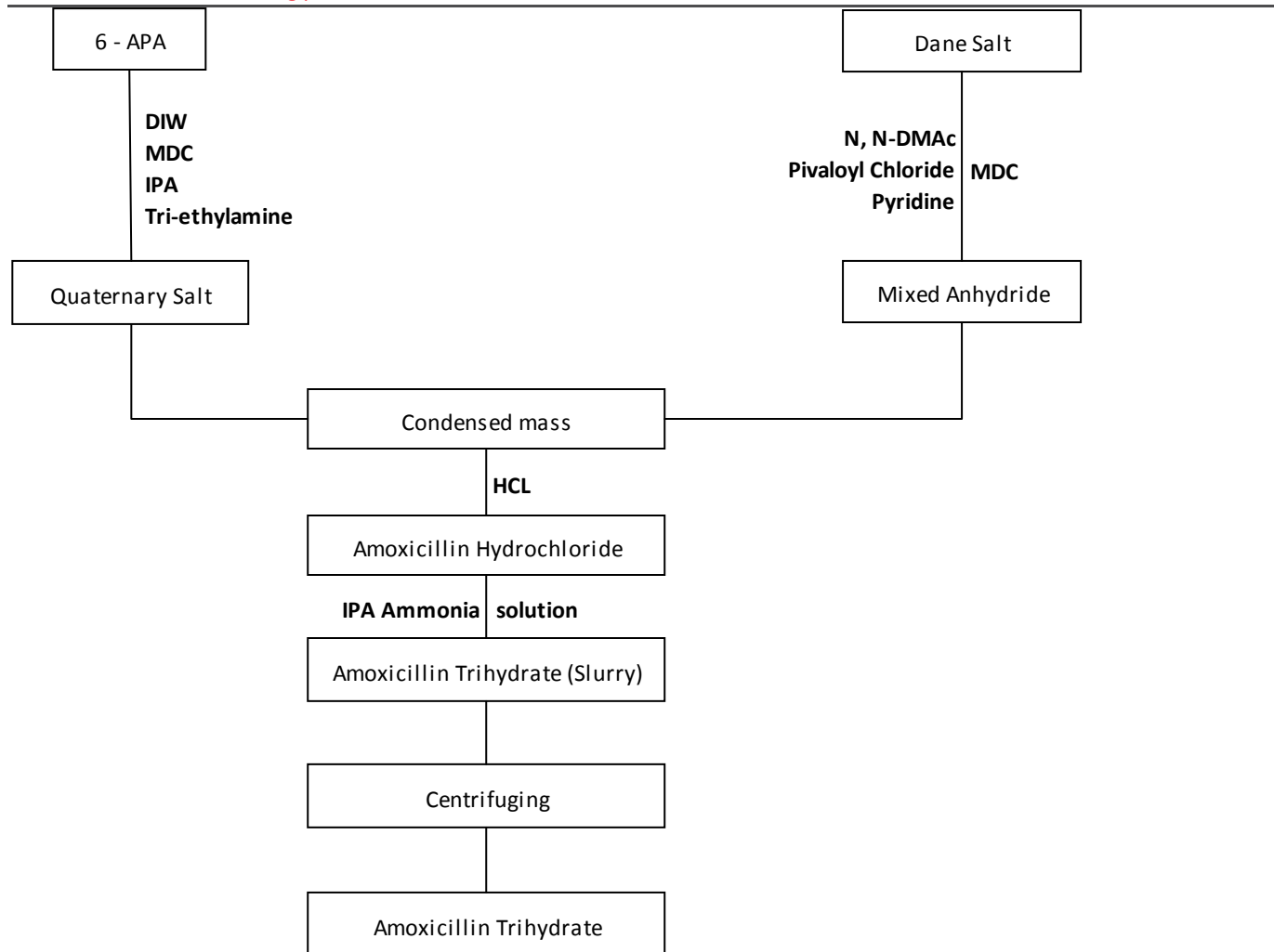


Stage-IV: Cefuroxime Axetil (Crystalline) to Cefuroxime Axetil (Amorphous)



Source: Company, Avendus Research

Exhibit 26: SSP manufacturing process



Source: Company, Avendus Research

Financials and valuations

Income statement (INRmn)

Fiscal year ending	03/09	03/10	03/11f	03/12f	03/13f
Gross sales	4,297	5,590	6,290	8,312	9,948
Less: Excise duty	353	451	503	665	796
Net sales	3,944	5,139	5,787	7,647	9,152
Other operating income	0	0	0	0	0
Total operating income	3,944	5,139	5,787	7,647	9,152
Total operating expenses	3,351	4,215	4,895	6,407	7,640
Net materials	2,925	3,679	4,123	5,411	6,452
Other direct costs	173	202	231	306	366
Personnel	108	139	159	206	238
SG&A	112	153	177	252	305
R&D	33	43	205	233	278
EBITDA	593	924	891	1,240	1,512
Other income	26	-45	21	16	16
Depreciation	36	56	102	138	149
EBIT	582	823	810	1,118	1,379
Interest	283	382	326	360	398
Recurring PBT	299	440	485	758	981
Net extra ordinary items	0	0	0	0	0
PBT (reported)	299	440	485	758	981
Total taxes	57	98	96	151	195
PAT (reported)	242	342	388	607	785
Add: Share of earnings of associate	0	0	0	0	0
Less: Minority interest	0	0	0	0	0
Prior period items	0	0	0	0	0
Net income (reported)	242	342	388	607	785
Aventus net income	228	173	388	607	785
Dividend + Distribution tax	0	0	72	72	72
Shares outstanding (mn)	11	37	62	62	62
Aventus diluted shares (mn)	11	37	62	62	62
Aventus EPS (INR)	21	5	6	10	13
Growth ratios (%)					
Total operating income	44.3	30.3	12.6	32.2	19.7
EBITDA	37.1	55.9	-3.5	39.1	21.9
EBIT	38.4	41.2	-1.5	38.0	23.3
Recurring PBT	-0.2	47.3	10.1	56.4	29.3
Aventus net income	-12.6	-23.9	124.1	56.4	29.3
Aventus EPS	-14.7	-78.0	34.9	56.4	29.3
Operating ratios (%)					
EBITDA margin	15.0	18.0	15.4	16.2	16.5
EBIT margin	14.8	16.0	14.0	14.6	15.1
Net profit margin	5.7	3.4	6.7	7.9	8.6
Other income/PBT	8.6	-10.2	4.3	2.1	1.6
Effective Tax rate	19.2	22.3	19.9	19.9	19.9

Balance sheet (INRmn)

Fiscal year ending	03/09	03/10	03/11f	03/12f	03/13f
Equity capital	107	373	619	619	619
Preference capital	0	0	0	0	0
Reserves and surplus	948	838	2,449	2,809	3,347
Net worth	1,056	1,210	3,068	3,428	3,966
Minority interest	0	1	1	1	1
Total debt	2,640	4,207	3,830	4,365	4,981
Deferred tax liability	53	76	92	110	132
Total liabilities	3,749	5,494	6,990	7,904	9,079
Gross block	1,047	1,461	2,261	3,061	3,311
less: Accumulated depreciation	84	138	240	378	527
Net block	963	1,322	2,021	2,683	2,784
CWIP	200	406	200	100	100
Goodwill	0	0	0	0	0
Investments	20	0	0	0	0
Cash	135	176	1,091	273	401
Inventories	1,873	2,401	2,598	3,409	4,066
Debtors	1,459	1,931	2,061	2,724	3,260
Loans and advances	261	290	285	377	451
less: Current liabilities	1,078	886	1,107	1,453	1,732
less: Provisions	83	147	159	210	251
Net working capital	2,566	3,765	4,769	5,121	6,195
Total assets	3,749	5,494	6,990	7,904	9,079

Cash flow statement (INRmn)

Fiscal year ending	03/09	03/10	03/11f	03/12f	03/13f
Net profit	242	342	388	607	785
Depreciation	36	56	102	138	149
Deferred tax	0	0	0	0	0
Working capital changes	-863	-1,129	-94	-1,077	-871
Less: Other income	26	-45	21	16	16
Cash flow from operations	-611	-686	375	-348	47
Capital expenditure	-462	-620	-594	-700	-250
Strategic investments purchased	-14	20	0	0	0
Marketable investments purchased	0	0	0	0	0
Change in other loans and advances	-134	-29	4	-92	-74
Goodwill paid	0	0	0	0	0
Other income	26	-45	21	16	16
Cash flow from investing	-584	-674	-568	-776	-308
Equity raised	0	0	0	0	0
Change in borrowings	1,046	1,567	-377	535	616
Dividends paid (incl. tax)	0	0	-72	-72	-72
Others	211	-165	1,557	-157	-153
Cash flow from financing	1,257	1,401	1,108	306	390
Net change in cash	62	41	914	-818	129

Key Ratios

Fiscal year ending	03/09	03/10	03/11f	03/12f	03/13f
Valuation ratios (x)					
P/E (on Avendus EPS)	2.7	12.2	9.1	5.8	4.5
P/E (on basic, reported EPS)	2.7	12.2	9.1	5.8	4.5
P/CEPS	2.3	9.2	7.2	4.7	3.8
P/BV	0.6	1.7	1.1	1.0	0.9
Dividend yield (%)	0.0	0.0	1.8	1.8	1.8
Market cap. / FCF	-1.0	-3.1	9.4	-10.1	74.6
Market cap. / Sales	0.2	0.4	0.6	0.5	0.4
EV/Sales	0.7	1.2	1.0	1.0	0.8
EV/EBITDA	4.9	6.4	6.8	5.9	5.1
EV / FCF	-2.7	-4.5	-27.7	-7.0	-38.3
EV / Total Assets	0.8	1.1	0.9	0.9	0.9
Net Cash / Market cap.	64.9	22.0	39.1	18.5	24.3
Per share ratios (INR)					
Avendus EPS	21.2	4.7	6.3	9.8	12.7
EPS (Basic, reported)	22.5	9.2	6.3	9.8	12.7
Cash EPS	24.5	6.2	7.9	12.0	15.1
Book Value	98.2	32.5	49.6	55.4	64.1
Dividend per share	0.0	0.0	1.0	1.0	1.0
ROE Decomposition (%)					
EBIT margin	14.8	16.0	14.0	14.6	15.1
Asset turnover (x)	1.3	1.1	0.9	1.0	1.1
Interest expense ratio	9.4	8.3	5.2	4.8	4.7
Tax retention ratio	80.8	77.7	80.1	80.1	80.1
ROA	7.6	3.8	6.2	8.2	9.3
Total assets / equity (x)	3.6	4.1	2.9	2.3	2.3
ROE	27.1	15.3	18.2	18.7	21.2
Return ratios (%)					
EBIT / Capital Employed	19.4	17.8	13.0	15.0	16.2
ROCE	15.2	10.2	10.4	12.0	13.0
ROIC	16.7	11.3	12.2	13.5	13.7
FCF / IC	-39.3	-31.4	-4.1	-15.8	-2.5
OCF/Sales	-15.5	-13.3	6.5	-4.6	0.5
FCF/Sales	-27.2	-25.4	-3.8	-13.7	-2.2
Turnover ratios (x)					
Gross turnover	3.8	3.5	2.6	2.5	2.8
Net turnover	4.1	3.9	2.9	2.9	3.3
Revenue / IC	1.4	1.2	1.1	1.2	1.1
Inventory / Sales (days)	134	152	158	143	149
Receivables (days)	109	120	126	114	119
Payables (days)	95	92	84	82	85
Working capital cycle (ex-cash) (days)	161	194	211	188	196
Solvency ratios (x)					
Gross debt to equity	2.6	3.5	1.3	1.3	1.3
Net debt to equity	2.2	3.2	0.8	1.1	1.1
Net debt to EBITDA	4.5	4.6	4.3	3.5	3.3
Interest Coverage (EBIT / Interest)	2.1	2.2	2.5	3.1	3.5

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