<u>Motilal Oswal</u>

GLENMARK

GNP's FY15 annual report analysis highlights another year of weak conversion of earnings to (a) net worth, and (b) cash flow. Operating performance remained weak, with PAT declining 13% YOY to INR4.7b due to muted revenue growth of 10% (at INR66.3b) and EBITDA margins declining 280bp to 15.43%. Translation loss of INR3.6b on foreign subsidiaries led to a marginal increase of INR0.2b in net worth to INR30b; we highlight that of these translation losses, INR1.7b (36% of PAT) pertains to MTM losses on cash. Functional currency of Russian subsidiary was changed (twice in the last four years) in FY15 from USD to RUB. Effective tax rate for FY15 stood at 20% while the current tax rate is 61%. DTA of INR0.7b (14% of PAT) in FY15 is on subsidiaries that have been making losses for the last four years. Cash as at FY15 end stood at INR7.7b, 26% of net worth yielded 0.2% returns.

- Translation losses of INR3.6b lead to low accretion (INR0.2b) in net worth while PAT post-dividend was INR4.1b in FY15; the management ascribed this primarily to depreciation in emerging markets currency v/s the INR. Though GNP's cumulative PAT post dividend for the last five years is INR23.3b, currency translation losses of INR9.2b over the period have resulted in a accretion in net worth by mere INR12.7b.
- Functional currency of Russian subsidiary changed (twice in the last four years) in FY15 from USD to RUB. During FY15, Russian Ruble depreciated ~36% against the INR. The impact on earnings due to this change has not been specified.
- MTM losses on cash at INR1.7b (36% of PAT); Cumulative MTM losses on cash over the last five years stand at INR5.4b, leading to low conversion of earnings to cash flows.
- DTA of INR0.7b (14% of PAT) recognized on subsidiaries making losses for the last four years. GNP reported an effective tax rate of 20% (current tax rate: 61%), primarily on account of DTA being recognized on (a) unused tax losses of foreign subsidiaries, and (b) MAT credit entitlement on the standalone operations. DTA at FY15-end stood at INR9.7b (32% of net worth).
- Potential write off's on repatriation of funds from Venezuela to India as Venezuelan government rolled out a third exchange mechanism SIMADI in Feb'15, (prescribing rates much lower than earlier mechanism). Venezuelan subsidiary has a net worth of INR2.3b and payables of INR1.5b to the parent entity; we believe these are represented in the financials using the CENCOEX rates.

ART will present a threadbare portrait of annual reports - statistical, strategic and structured. We believe **ART**'s wide canvas - from accounting and auditing issues to operating performance to management insights to governance matters - will help readers paint a clearer picture of the stock's investment worthiness.

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Investors are advised to refer through disclosures made at the end of the Research Report.



MTM losses on cash at INR1.7b (36% of PAT)

29 September 2015

DTA of INR0.7b (14% of PAT) recognized on subsidiaries reporting losses for last four years

Stock Info

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GNP IN
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-12/37/44
273.2/4.1

CONCERCIPTION STORES (CONCERCIPTION)

Financial summary (INR b)

	- / (- /		
Y/E March	2015A	2016E	2017E
Sales	66.0	79.4	95.5
EBITDA	11.8	17.2	22.0
Net Profit	4.8	9.5	12.0
Adj. EPS (INR)	17.5	35.1	44.2
EPS Gr. (%)	-37.8	100.4	25.9
BV/Sh. (INR)	110.6	144.5	192.0
RoE (%)	15.8	24.3	23.0
RoCE (%)	14.4	22.0	25.4
Payout (%)	20.0	9.3	6.8
Valuations			
P/E (x)	57.5	28.7	22.8
P/BV (x)	9.1	7.0	5.2
EV/EBITDA (x)	25.8	17.4	13.5
Div. Yield (%)	0.3	0.3	0.3
E 1400 E 11 1	(· · ·	

E: MOSL Estimates (Analyst estimates)

Shareholding pattern (%)

	01 ()		
As on	Jun-15	Mar-15	Jun-14
Promoter	46.4	48.3	48.3
DII	6.8	6.1	6.9
FII	35.9	34.7	34.4
Others	10.9	10.9	10.5

Note: FII Includes depository receipts

Auditor's name

Walker Chandiok & Co.

Motilal Oswal research is available on <u>www.motilaloswal.com/Institutional-Equities</u>, Bloomberg, Thomson Reuters, Factset and S&P Capital.

ACCOUNTING & KEY FINANCIAL INSIGHTS ART #1

Top line growth muted, margins contract

- On consolidated basis, GNP's revenues grew 10% YoY in FY15 to INR66b. The muted revenue growth was primarily on account of (a) US geography—channel consolidation and slowdown in the USFDA approvals, and (b) ROW markets weak demand and currency depreciation in most emerging markets.
- EBITDA margins dipped from 18.2% in FY14 to 15.4% in FY15, primarily on account of higher (a) employee cost, (b) sales and promotion expenditure (INR3.4b v/s INR1.7b in FY15), and (c) exchange fluctuation loss (INR1.6b v/s INR96m in FY14).
- During FY15, GNP merged two subsidiaries—Glenmark Generics (GGL) and Glenmark Access (GAL)—with the parent; hence, the financials of standalone and aggregate subsidiary (derived) are not comparable.
- The merger led to a one-time cost of INR0.7b, of which INR0.3b was incurred on GGL merger led to one time product reregistration, 0.3b on legal and professional expenses and the balance toward other expenditure.
 - Subsidiaries' performance (excluding GGL and GAL) remained subdued.

Provisioning for legal settlement continued in FY15

- During FY15, GNP settled a USD25m lawsuit with AG of State of Texas. The amount is payable in 16 quarterly installments commencing FY16. As a result, the company has made additional provision of INR1.6b this year.
- During FY14, GNP provided for USD36m (INR2.1b) toward the lost patentrelated lawsuit against Sanofi-Aventis Deutschland for generic equivalent to Abbott's TARKA drug product; the same currently forms part of trade payable.

Particulars	Standalone		Subsidiary (De	erived)	Consolidated	
	FY14	FY15	FY14	FY15	FY14	FY15
Net Revenue	23	51	37	15	60	66
YoY growth (%)	18.0	121.0	20.9	-58.3	19.8	10.4
Expenses						
Raw material cost	6	17	13	3	19	19
% of sales	27.1	32.8	33.8	17.2	31.2	29.2
Employee Benefits Expense	4	7	6	5	10	12
% of sales	17.2	13.0	17.0	35.0	17.1	18.1
Other Expenses	8	13	12	12	20	25
% of sales	34.2	25.4	33.2	76.4	33.6	37.3
Total Expenses	19	38	35	23	53	61
% of sales	81.1	74.1	93.2	148.1	88.6	91.4
EBITDA	5	15	6	-4	11	10
EBITDA margins (%)	21.6	28.8	16.1	-28.7	18.2	15.4
EBITDA margins (%)	21.6	28.8	16.1	-28.7	18.2	<u> </u>

Exhibit 1: Exhibit 1: Earnings declined on margin compression (INR b)

Source: Company, MOSL

Revenue growth muted at 10% due to weak performance in US & **ROW** markets

cost of INR0.7b

Performance of subsidiaries (Ex-GGL & GAL) remained subdued with losses increasing to INR4.3b

Subsidiaries' performance weak; losses increase in FY15

- GNP has 36 subsidiaries (post the GGL-GAL merger with the parent) as of FY15end.
- During FY15, subsidiaries' performance (ex- GGL and GAL) remained subdued as revenues (on an aggregate basis) grew only 10% YoY (INR45b) and the losses increased to INR4.3b (v/s INR2.7b in FY14).
- Losses increased in subsidiaries based in Russia, Brazil, Czech Republic and Romania; the losses in subsidiaries based in Argentina, South Africa and Mexico remained almost unchanged.
- Profits increased from Venezuela-based subsidiary, with revenues growing 4.2x to INR4.2b. Losses reduced in Switzerland-based subsidiary.

Exhibit 2: Aggregate losses of subsidiaries increase (INR m)

Particulars	Turno	ver	ΡΑΤ		Net worth	
	FY14	FY15	FY14	FY15	FY14	FY15
Glenmark Generics Inc., USA	20,849	21,449	1,858	825	6,447	7,549
Glenmark Pharmaceuticals Venezuela, CA	1,010	4,291	118	1,164	326	2,286
Glenmark Pharmaceuticals Europe Ltd.	2,513	3,255	139	42	1,093	1,061
Glenmark Impex L.L.C	5,222	2,911	977	-871	5,168	2,590
Glenmark Farmaceutica Ltda.	2,228	2,345	-852	-1,119	5,053	3,617
Glenmark Pharmaceuticals SRO	2,355	2,317	-191	-953	1,692	535
Glenmark Distributors SP Z.O.O.	729	870	18	3	70	60
Glenmark Arzneimittel GmbH	154	825	-12	21	16	32
Glenmark Pharmaceuticals S.R.L.	1,323	771	93	-104	362	208
Glenmark Pharmaceuticals SK SRO	580	617	7	5	23	24
Glenmark Pharmaceuticals (Malaysia) SDN. BHD	330	604	7	2	106	102
Glenmark Pharmaceuticals Kenya) Limited	338	522	-9	29	85	112
Glenmark Generics S.A. Argentina	391	521	-326	-317	1,083	1,377
Glenmark Pharmaceuticals SP Z.O.O.	491	496	10	17	211	190
Glenmark Pharmaceuticals South Africa (Pty) Ltd.	503	492	-166	-122	-229	-374
Glenmark Generics Finance S.A.	0	468	-937	-236	3,779	10,636
Glenmark Pharmaceuticals (Europe) R&D Ltd.	375	439	26	36	155	178
Glenmark Pharmaceuticals Mexico, SA DE CV	186	384	-194	-178	237	403
Glenmark Pharmaceuticals S.A., Switzerland	366	324	-2,403	-1,191	1,525	320
Glenmark Pharmaceuticals (Nigeria) Ltd.	226	314	-17	7	123	115
Glenmark Philippines Inc.	283	306	12	13	132	150
Glenmark Pharmaceuticals B.V.	163	214	1	0	4	4
Glenmark Therapeutics Inc., USA	165	138	14	-82	35	-47
Glenmark Pharmaceuticals F.Z.E.	22	111	31	19	72	93
Glenmark Pharmaceuticals Peru S.A.C	99	102	-78	-32	191	148
Glenmark Pharmaceuticals Egypt S.A.E.	37	58	-61	-92	67	20
Glenmark Pharmaceuticals Colombia SAS	5	12	-12	-8	2	2
Glenmark Holding S.A.	0	0	-793	-1,191	6,381	6,392
Others	0	0	-3	-27	2,266	1,299
Total (Exl. GGL and GAL)	40,941	45,155	-2,743	-4,339	13,330	39,082
Glenmark Access Ltd. (Formerly Glenmark Exports Ltd.)	0	0	0	0	25	0
Glenmark Generics Limited	19,134	0	3,950	0	23,119	0
Total	60,075	45,155	1,207	-4,339	36,474	39,082

Net worth increased by INR0.2b despite PAT (post dividend) of INR4.1b due to translation losses of INR3.6b

MTM losses on cash at

INR1.7b (36% of PAT)

Net worth accretion remains subdued on translation losses

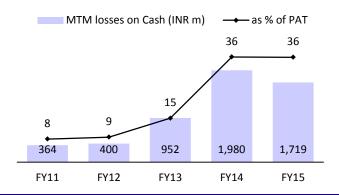
- During FY15, GNP reported a profit (post dividend) of INR4.1b. However, net worth increased a meager INR0.2b—primarily on account of foreign currency translation losses of INR3.6b (~76% of PAT), one of the highest amongst the peer group.
- Management attributes translation losses primarily to depreciation of emerging market currencies v/s the INR.
- We highlight that of the translation losses of INR3.6b, INR1.7b (36% of PAT) is on account MTM losses on cash, INR0.4b on account of intangible assets and INR0.2b against tangible assets; the balance INR1.2b pertains to other net assets.
- MTM losses on cash as a % of PAT have been increasing over the last five years.
- Cumulatively over the last five years, GNP has reported translation losses of INR9.2b which has led to increase in net worth by mere INR12.7b despite reporting a PAT post dividend of INR23.3b. MTM losses on cash over the same period stand at INR5.4b.

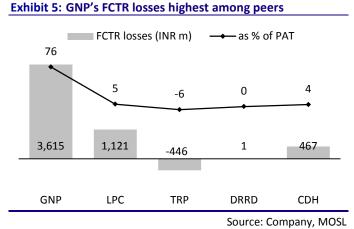
Exhibit 3: Net worth accretion remains subdued on account of foreign currency translation losses (INR m)

						Cumulative
Particulars	FY11	FY12	FY13	FY14	FY15	(FY11-15)
Opening Net Worth	17,257	20,372	24,016	27,630	29,833	17,257
Add: Profit for the year	4,532	4,603	6,200	5,423	4,753	25,512
Less: Dividend (including tax)	-126	-126	-643	-634	-635	-2,164
Add/(Less): Other adjustments	144	87	-77	91	-60	184
Less: Foreign exchange translation losses	-1,249	-684	-1,492	-2,244	-3,615	-9,284
Less: Acquisition of non-controlling interest	-185	-236	-375	-433	-273	-1,503
Closing Net Worth	20,372	24,016	27,630	29,833	30,003	30,003

Source: Company, MOSL

Exhibit 4: GNP's translation losses on cash as a % of PAT continue to increase





Particulars	FY11	FY12	FY13	FY14	FY15 C	umulative
Tangible assets	40	95	-16	-74	-210	-165
Intangible Assets	729	964	1	-206	-424	1,064
Goodwill	-55	3	-5	-2	-22	-81
Cash	-364	-400	-940	-1,980	-1,719	-5,403
other net assets	-1,600	-1,345	-533	18	-1,239	-4,699
Total	-1,249	-684	-1,492	-2,244	-3,615	-9,284
Proportion adjusted in Cash (%)	29	59	63	88	48	58

Exhibit 6: Significant translation losses are on each

Source: Company, MOSL

Frequent change in functional currency of Russian subsidiary

GNP changed the functional currency of Russian subsidiary (twice in the last four years) from USD to RUB in FY15. However, the impact on earnings due to the change has not been specified. We highlight that during FY15, the Russian Ruble depreciated \sim 36% v/s the INR.

Exhibit 7: Functional currency of Glenmark Impex (Russian subsidiary) changed				
Particulars	FY12	FY13	FY14	FY15
Functional Currency	RUB	USD	USD	RUB
Turnover	2,812	4,893	5,222	2,911
РАТ	719	1,217	977	-871
		Cou	real Campa	MOCI

Source: Company, MOSL

64% of the foreign subsidiary exposure in USD, which appreciated 4%YoY

- Currencies of emerging markets have witnessed a steep decline v/s the INR (BRL depreciated 28% and RUB 36%) in FY15.
- At FY15-end, GNP's exposure to net worth of subsidiaries having functional currency BRL and RUB stood at 9% and 7% respectively; for USD, the exposure stood at 64% and for VEF at 6%—both the currencies appreciated 4% YoY.
- GNP has reported translation losses in the last five years.

Particulars	FY12	2	FY13	3	FY14	1	FY1	5
	INR m	%						
USD	1,789	4	21,772	66	23,340	64	24,853	64
RUB	3,191	7	0	0	0	0	2,590	7
BRL	5,545	12	5,096	15	5,053	14	3,617	9
MYR	27	0	33	0	106	0	102	0
EURO	30	0	40	0	44	0	59	0
CZK	845	2	891	3	1,692	5	535	1
RON	474	1	228	1	362	1	208	1
VEF	101	0	162	0	326	1	2,286	6
GBP	736	2	899	3	1,248	3	1,239	3
MXN	68	0	183	1	237	1	403	1
CHF	28,730	64	-	-	-	-	-	-
Others	3,186	7	3,737	11	4,066	11	3,189	8

Exhibit 8: Foreign subsidiaries' net worth exposure skewed toward USD

Source: Company, MOSL

Functional currency of Russian subsidiary changed twice in last four years

Exhibit 9: Emerging market currencies depreciated against INR (%)								
Particulars	FY12	FY13	FY14	FY15				
USD	12	7	11	4				
RUB	11	-1	-5	-36				
BRL	4	-5	-2	-28				
MYR	14	4	3	-8				
EURO	9	1	18	-18				
СZК	8	-3	10	-18				
RON	2	0	16	-17				
VEF	15	0	-22	4				
GBP	15	4	16	-7				
MXN	7	9	3	-10				
CHF	17	0	18	-3				

Source: Company, MOSL

Earnings to cash conversion remains low

GNP's earnings to cash conversion remained low, primarily on account of (a) higher cash taxes paid while the effective tax rate remains low, (b) higher exchange fluctuation losses on cash (as discussed above), and (c) high working capital requirements.

Exhibit 10:	Earnings to cas	h conversi	ion rema	ins low

Particulars	FY11	FY12	FY13	FY14	FY15
PAT	4,578	4,643	6,283	5,456	4,752
Add: Interest expense	1,605	1,466	1,600	1,886	1,902
Less: Interest income	39	89	43	66	14
Less other Non- operating Income	1,405	93	65	48	205
Add: Depreciation	947	979	1,270	2,168	2,600
Cash operating profit post tax - (A)	5,686	6,906	9,046	9,395	9,035
CFO	9,306	8,044	6,479	8,537	4,816
Less: MTM losses on cash	364	400	940	1,980	1,719
Adjusted CFO - (B)	8,942	7,644	5,539	6,557	3,097
(A)/(B) (%)	157	111	61	70	34

Source: Company, MOSL

Effective tax rate lower due to recognition of deferred tax asset

- GNP's current tax (at 61%) has remained significantly higher than the effective tax rate (20%), primarily on account of deferred tax recognized on account of (a) MAT credit entitlements and (b) tax credit on loss-making subsidiaries.
- During FY15, GNP recognized a net deferred tax asset of INR2.5b. The DTA accretion is primarily on account of unused tax losses of foreign subsidiaries.
- Our calculations suggest that in FY15, INR687m worth of deferred tax (14% of PAT) was recognized on subsidiaries that have been making losses for at least the last four years. GNP's annual report highlights that its subsidiaries can carry forward losses for future utilization for 3-7 years.
- Deferred tax assets as of FY15 end stood at INR9.7b (32% of net worth), of which INR4.3b pertains to unused tax losses and INR4.2b to MAT credit entitlement.

Deferred tax assets stood at INR9.7b, of which INR4.3b pertains to unused tax losses and INR4.2b to MAT credit

Effective tax rate of 20% as

Exhibit 11: Huge difference between current and effective tax rates (INR m)							
Particulars	FY11	FY12	FY13	FY14	FY15		
PBT (A)	4,815	4,881	7,390	6,969	5,943		
Current tax (B)	505	1,346	3,128	2,990	3,650		
Current tax rate (B/A)%	10	28	42	43	61		
Deferred Tax Asset (C)	-268	-1,108	-2,021	-1,477	-2,460		
Tax expense D= (B+C)	237	238	1,107	1,513	1,190		
Effective tax rate (D/A) %	4.9	4.9	15.0	21.7	20.0		
			C	real Campa			

Source: Company, MOSL

Exhibit 12: Deferred tax assets remain a significant proportion of net worth (INR m) Particulars FY11 FY12 FY13 FY14 FY15

ective tax rate of 20% as	Deferred Tax Assets							
against current tax rate of 61%	Unused Tax losses	1,358	2,365	2,269	2,810	4,263		
	MAT credit entitlement	1,057	1,586	3 <i>,</i> 086	3,622	4,183		
	Others	142	223	217	781	1,285		
	Subtotal (A)	2,557	4,174	5,572	7,213	9,731		
	Deferred tax asset as % of net worth	13%	17%	20%	24%	32%		
	Deferred Tax Liabilities							
DTA at 32% of net worth	Depreciation on fixed assets	1,451	1,457	1,673	1,895	2,205		
	Other current assets	25	43	96	176	593		
	Sub Total (B)	1,476	1,500	1,769	2,071	2,798		
	Net deferred Tax Asset (A-B)	1,081	2,674	3,803	5,142	6,933		
	Net deferred tax asset as % of net worth	5%	11%	14%	17%	23%		
				C				

Source: Company, MOSL

Exhibit 13: DTA recognized on subsidiaries incurring losses for last four years (INRm)

Particulars		FY12	FY13	FY14	FY15
INR687m (14% of PAT) of DTA recognized on subsidiaries increased losses for last four years	Glenmark Farmaceutica Ltda.	181	214	256	315
	Glenmark Pharmaceuticals SRO	0	1	522	174
	Glenmark Generics S.A. Argentina	76	107	112	122
	Glenmark Pharmaceuticals Mexico, SA DE CV	22	29	33	25
	Glenmark Pharmaceuticals South Africa	11	8	64	31
	Glenmark Pharmaceuticals Peru S.A.C	30	7	21	20
	Total (A)	320	364	1,008	687
	РАТ (В)	4,643	6,283	5,456	4,752
	DTA recognized as % of PAT (A/B)	6.9	5.8	18.5	14.4

Source: Company, MOSL

Exhibit 14: Subsidiaries incurring losses for last four years (INR m)

	Turnover		PBT			PAT						
Particulars	FY12	FY13	FY14	FY15	FY12	FY13	FY14	FY15	FY12	FY13	FY14	FY15
Glenmark Farmaceutica Ltda.	2,272	2,051	2,228	2,345	-647	-973	-1,108	-1,434	-466	-759	-852	-1119
Glenmark Pharmaceuticals SRO	1,459	1,543	2,355	2,317	-723	-800	-713	-1,127	-723	-800	-191	-953
Glenmark Generics S.A. Argentina	353	340	391	521	-217	-396	-437	-439	-141	-289	-326	-317
Glenmark Pharmaceuticals Mexico	52	90	186	384	-146	-165	-227	-202	-124	-136	-194	-178
Glenmark Pharmaceuticals												
South Africa (Pty) Ltd.	493	725	503	492	-42	-28	-231	-153	-31	-20	-166	-122
Glenmark Pharmaceuticals Peru S.A.C	51	120	99	102	-55	-24	-100	-51	-25	-17	-78	-32
										-	-	

Cash flows decline on weak performance and high working capital requirements

- Adjusted operating cash flow post interest declined 72% YoY to INR1.3b (FY14: INR4.6b), primarily on account of weak operating performance and continued increased in working capital requirements.
- Inventories increased steeply—from INR9.3b (16% of revenue) in FY14 to INR12.7b (19% of revenue) in FY15; this was primary on account of increase in finished goods (from INR4.1b in FY14 to INR6.1b in FY15)—the management has highlighted that this was primarily due to merger of GGL (subsidiary) with the parent wherein the company was provided a transition period during Feb'15 to use the packing material of GGL before migrating to the new operating entity.
- Receivables increased from INR21.5b (36% of revenue) in FY14 to INR25.1b (38% of revenue) in FY15. Receivables outstanding for more than six months stood at INR2.7b (10.7% of the overall receivables).
- Trade payables and current liability increased INR4.0b. This was primarily on account of provision of INR1.6b of liabilities toward Texas lawsuit and increase in trade payable in line with the inventory.

Exhibit 15: Operating cash declines (INR m)

Particulars	FY14	FY15		
PBT	6,969	5,943		
Add				
Non Cash adjustments	5,276	2,781		
Non-operating adjustments	1,822	1,944		
Less				
Tax Paid	-2,629	-3,178		
Operating profit before working capital changes	11,438	7,490		
(Increase)/ decrease in trade receivable	-4,595	-4,010		
(Increase)/decrease in inventory	-512	-3,544		
(Increase)/decrease in other assets	-2,190	858		
Increase /(decrease) in trade payable and other current liabilities	4,396	4,023		
Cash flow from operations	8,537	4,817		
Less				
Effect of exchange rate on cash	-1,980	-1,719		
Interest Paid	-1,943	-1,792		
Adjusted operating cash flow from operations post interest	4,615	1,306		
Source: Company, M				

Adjusted operating cash flow post interest declined 72%YoY to INR1.3b

Particulars	FY14	FY15		
Current assets				
Inventories	9.3	12.7		
Trade Receivables	21.6	25.1		
Other Current Assets	8.6	7.6		
Subtotal (A)	39.5	45.4		
Current Liabilities				
Trade Payables	13.6	20.5		
Other Current Liabilities	2.1	3.2		
Short-Term Provisions	2.8	0.6		
Subtotal (B)	18.5	24.3		
Net Working capital (A-B)	20.9	21.2		
Adjustments for :				
Tarka Liability dues	2.1	2.1		
Amount payable for Texas Law suite		1.6		
Adjusted net working capital	23.0	24.9		
Revenue	60.1	66.3		
Adjusted working capital Turnover	2.6	2.7		
	Source: Company, N			

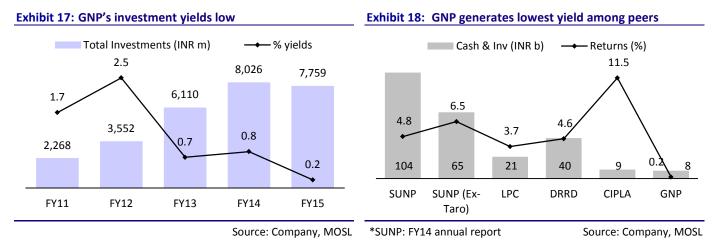
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Source: Company, MOSL

Investment yield remains lowest among peers

that do come and

- In FY15, cash and investments stood at INR7.8b (26% of net worth). Yield on investments have remained low at 0.2%.
- The management has highlighted that at FY15-end, ~USD30m is kept for meeting the Tarka product legal liabilities and ~USD40m is stuck in Venezuela pending repatriation (valued at government's official rates).
- GNP's debt has increased from INR32.6b in FY14 to INR37.9b in FY15, primarily attributed to forex fluctuation and spike in working capital. However, debt refinancing has reduced the overall borrowing cost over the last five years.



Yield on investments have remained low—in the range of 0.2-2.5% over FY11-15

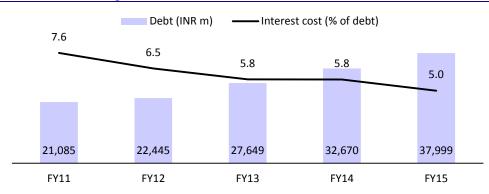


Exhibit 19: Re-financing led to lower interest cost

Source: Company, MOSL

Exchange rate change in Venezuela may lead to write-offs

- GNP's revenue in Venezuelan subsidiary increased from INR1.0b in FY14 to INR4.3b in FY15 and PAT from INR0.1b in FY14 to INR1.2b in FY15.
- Venezuelan economy was severely impacted by the decline in crude prices in FY15, leading to hyperinflation, decline in forex reserves and delay in import payments.
- In Feb'15, the Venezuelan government introduced the third exchange mechanism SIMADI (with lesser restriction than the earlier prevalent mechanism of CENCOEX and SICAD) to overhaul the rate mechanism. SIMADI prescribed rates much lower than the earlier mechanisms.
- Venezuelan subsidiary has a net worth of INR2.3b and payables of INR1.5b to the parent entity; we believe these are represented using the CENCOEX rates, and repatriation of funds from Venezuela to India may lead to a write-off.

Exhibit 20: Wide disparity in exchange rates of different mechanisms in Venezuelan at FY15-end

-	VEF/USD
CENCOEX	6.3
SICAD	12.0
SIMADI	193.0
	Source: MOSL, Company

Intangibles constitute 40% of the net worth

 GNP's Intangibles, primarily comprising product development/brands, stood at INR12.1b—40% of net worth (FY14: INR12.7b, 43% of net worth)

Exhibit 21: Total Intangibles in FY15 amounts to 40% of net worth					
Particulars	FY11	FY12	FY13	FY14	FY15
Computer software	147	166	506	266	237
Product development/Brands	9,252	10,942	13,084	12,410	11,564
Intangibles under development	324	145	62	53	333
Total	9,723	11,253	13,652	12,729	12,135
As % of Net worth	48	47	49	43	40

Source: Company, MOSL

Venezuelan subsidiary has a net worth of INR2.3b and payables of INR1.5b to the parent entity

SIMADI prescribed rates much lower than the earlier mechanisms

Contingent liabilities increase to 14% of net worth

Sharp increase in indemnity bonds, from INR394m to INR2.7b, led to higher contingent liabilities in FY15 (INR4.1b, 14% of the total net worth).

FY11	FY12	FY13	FY14	FY15
69	39	66	72	74
323	764	524	661	838
9	11	11	13	13
260	288	375	394	2,775
1,206	0			
47	212	203	155	224
296	289			145
0	0	0	0	0
2,210	1,602	1,179	1,294	4,069
10.8%	6.7%	4.3%	4.3%	13.6%
			4.3%	
	69 323 9 260 1,206 47 296 0 2,210	69 39 323 764 9 11 260 288 1,206 0 47 212 296 289 0 0 2,210 1,602	69 39 66 323 764 524 9 11 11 260 288 375 1,206 0 - 47 212 203 296 289 - 0 0 0 2,210 1,602 1,179 10.8% 6.7% 4.3%	69 39 66 72 323 764 524 661 9 11 11 13 260 288 375 394 1,206 0 - - 247 212 203 155 296 289 - - 0 0 0 0 2,210 1,602 1,179 1,294 10.8% 6.7% 4.3% 4.3%

Exhibit 22: Contingent liabilities increase on indemnity bonds (INR m)

ART #2 MANAGEMENT SPEAK / KEY PLANS

USA (31% of sales): US business remained flat at INR20.4b in FY15, primarily led by slowdown in ANDA approvals during the period. IN FY15, GNP filed 18 ANDAs with the US FDA and launched 6 products in the market. Overall, GNP is authorized to sell 95 generic products in the US market. The company has a rich ANDA pipeline with 74 pending approvals with the US FDA, of which 33 are Paragraph IV applications. FY15 product launches include Eszopiclone Tablets, Telmisartan Tablets, Fluocinonide Cream USP, Omeprazole Delayed-Release Capsules, AshlynaTM, Trandolapril and Verapamil Hydrochloride Extended-Release Tablets.

India (26% of sales): India sales grew 16% YoY to INR17.5b in FY15, led by highgrowth specialty therapies like Derma, Respiratory and Anti Diabetic. The company is currently ranked 17th in India and has 8 brands in the top-300.

SRM (12% of sales): SRM (Semi-regulated market) sales declined 18% YoY to INR8.1b due to sharp currency depreciation in Russia/CIS region. During Fy15, GNP entered respiratory markets in the Philippines and Sri Lanka with the launch of inhalers. Combiwave SF, an inhaled respiratory product, was approved in Malaysia.

LatAm (11% of sales): LatAm sales grew 89% YoY to INR7.6b in FY15, led by extraordinary volume push in Venezuela. However, GNP is yet to repatriate USD25m-30m sales from this region.

Europe (10% of sales): GNP's western European business unit successfully launched Escitalopram in the UK, the Netherlands and Germany. In Germany, GNP has become the fastest growing generic company among the top-50 companies and is ranked 16th amongst the generic groups in this market. The key launches include Linezolid bags, Memantine, Cilostazol and Amlodipine+Ramipril in Central Eastern Europe. The other products launched successfully in this region: Artaxin, Dilizolen, Magnesium B complex, Telmark Plus, Fayton RFU, Hemoroeasy gel, Radioxar, Bicalutamid and Cital60 tabs.

Novel molecules: GNP has a pipeline of 3 NCE and 4 NBE molecules in clinical trials or ready-to-enter clinical trials, including the in-licensed molecule 'Crofelemer'.

Capex: GNP is setting up a new manufacturing facility at Monroe, North Carolina (USA) to serve the growing business in the country. The company will manufacture oral solids and injectables at the facility. GNP is expected to spend INR6b on capex requirements in FY16.

ART #3 GOVERNANCE MATTERS

Directors regular in attending board meetings

- GNP's board comprises 11 members-three executives, one non-executive promoter director and seven independent directors.
- GNP is regular in calling board meetings as per the prescribed laws. Four board meetings were held in FY15.
- All directors attended more than 50% of the meetings in FY15.
- Three of the Independent directors have been on the company's board for more than 10 years

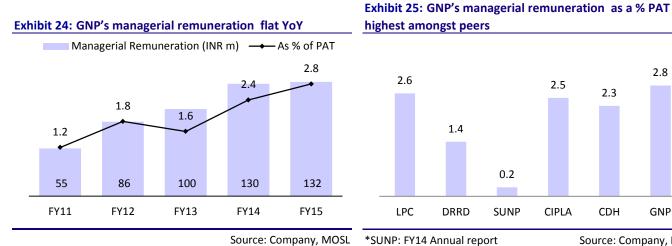
Exhibit 23: Directors regular in attending board meetings

		No of board	
Name of the director	Position	meetings attended	Appointed on
Mr. Glenn Saldanha	Executive, CMD	4	-
Mrs. Cherylann Pinto	Executive	4	-
Mr. Rajesh Desai	Executive	4	9th Nov 2011
Mrs. B. E. Saldanha	Non-Executive	3	
Mr. D. R. Mehta	Non-Executive, Independent	4	14th Aug 2009
Mr. Bernard Munos	Non-Executive, Independent	4	30th Jan 2012
Mr. J. F. Ribeiro	Non-Executive, Independent	4	Prior to 2006
Dr. Brian W. Tempest	Non-Executive, Independent	3	30th Jan 2012
Mr. Sridhar Gorthi	Non-Executive, Independent	3	Prior to 2006
Mr. N.B. Desai	Non-Executive, Independent	4	Prior to 2006
Mr. Hocine Sidi Said	Non-Executive, Independent	2	29th Oct 2009
			6 6 N100

Source: Company, MOSL

Managerial remuneration highest among peers

- Managerial remuneration remained flat at INR132m in FY15 as against INR130m in FY14.
- GNP's managerial remuneration at 2.8% of PAT (in FY15) is highest amongst the peers.



Source: Company, MOSL

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	4 September 2015
MOTILAL OSWAL	
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HERO MOTOCORP V/S BAJAJ AUTO	D D
	REPORT
A comparative analysis of Hero MotoCorp (HMCL) and Bajaj Auto's (BJAUT) annual reports highlights varying trends on the two sector	THREADBARE
leaders' critical metrics. HMCL scores on capital allocation, dividend	HREADBARE
payout, investment yields, off balance sheet risk, and auditor	The ART of annual report analysis
quality. BJAUT stands out on cash flow conversion, accounting policy, managerial remuneration, and related party transactions.	HMCL v/s BJAUT
policy, management remains adoit, and remain party contactoria.	Win some, lose some
Where HMCL stands out	> RolC declines for both; HMCL's
· Capital allocation: Cumulatively, over the last five years, HMCL	decline steeper on rising capex
utilized 42% of funds for business expansion and distributed \$5%	Roll decline steeper for BIAUT
as dividend. BIAUT utilized 11% for capex, distributed 47% as	on cash accumulation
dividend, and retained 39% as cash and investments. HMCL's RoE declined from 62% in FY11 to 40% in FY15: BJAUT's decreased	lower than HMCL's
from 75% in FY11 to 31% in FY15 due to cash accumulation.	MCL's managerial
 Investment yields: Over FY12-15, HMCL's investment yields were 	remuneration and related party transactions higher
8-14% as against BJAUT's 5-8%. BJAUT's cash and investments	Band College party transactions region 40
increased from INRSSb (90% of net worth) in FY12 to INR8Sb	Contraction of the second s
(77% of net worth) in FY15. HMCL's cash and investments	
decreased from INR40b (93% of net worth) in FY12 to INR31b (47% of net worth) in FY15.	Parameters to Compare HMCL BIAUT
 Off balance sheet risk: As at FY15end, BJAUT's contingent 	Capital Allocation 🥥 🕕
liabilities at INR15b (13.7% of net worth) remains significantly	Investment Vald
higher than HMCL's INR0.04b (0.1% of networth).	Investment Yield O
Where BJAUT stands out	Dividend Payout
Cash flow conversion: Earnings to cash flow conversion	
remained superior for BIAUT, with median pre-tax CFO/EBITDA	Earnings to cash flow
at 95% against 91% for HMCL. This was primarily on account of BIAUT's higher payable days, partially offset by higher receivable	
days and higher inventory days.	Earnings growth () ()
Managerial remuneration: HMCL's managerial remuneration has	Accounting policy
been at 2-4% of PBT over the last five years against BJAUT's ~1%.	conservativeness
 Related party transactions: In FY15, related parties accounted 	Lower off balance sheet
for 10.3% of HMCL's expenditure. BIAUT's related party expenditure were at 0.3%.	
 Accounting policy: BIAUT expenses the exchange fluctuation 	Lower related party () transactions
through the P&L while HMCL capitalizes the exchange fluctuation	
on long term items and amortizes over the period as per the	Auditor quality 🛛 🔍 🤤
amended AS11. Further, R&D (for development) is amortized by	Managerial remuneration
BIAUT over a period of three years (six years if acquired), while HIMCL amortizes it over a period of five years. HIMCL currently	
does not have any capitalized R&D (for development)	Strong Steadury () Average Cheativery
	Strong Weak
ART will present a threadbare portrait of enviral reports - statistical, strategic and structured. We be operating performance to management insights to povemence matters - will help readers paint a de	
Sandeep Gupta (S.Gupta@MotilalOswal.com); +91 22 3982 5544	
Somil Shah (Somil.Shah@MotilalOswal.com); +91 22 3312 4975	
investors are advised to refer through disclosures made at the end of the Research Rep	ort.

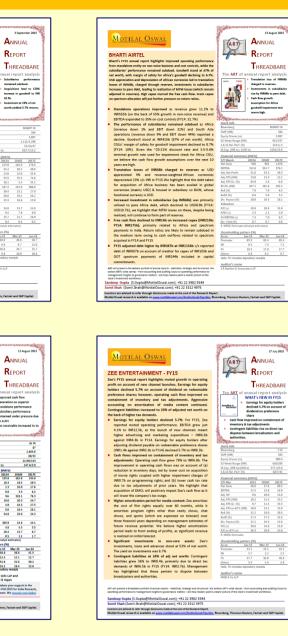
STATISTICS STATISTICS		
4 September 2015	MOTILAL OSWAL	
Annual 🕴	MOTILALOSWAL	
Report	LUPIN Lupin's FY15 annual report highlights a 22% growth in EBITDA-driven by	
THREADBARE	200bps expansion in margins; however, the revenue growth (at 13%) tapered for the second consecutive year. Standalone operations delivered 88% of the consolidated EBITDA while the performance of subsidiaries	
ual report analysis	(primarily acquired) remained subdued. Incremental investments in existing subsidiaries stood at INR3.4b. IPC acquired Grin Labs and 40%	
some, lose some	stake in Pharma Dynamics, which increased goodwill by INR9.9b to	
C declines for both; HMCL's	INR16.5b (19% of net worth). Cash and investments of INR21b (24% of net	
dine steeper on rising capex	worth), made low yields of 3.7%. Fair valuation of ESOPs would lower	
Edecline steeper for BIAUT	FY15 PAT by 1.9%. Managerial remuneration stood at INR646m (2.6% of	
cash accumulation	PAT).	ł
UUT's investment yields		
er than HMCL's	 Standalone operations contributed 88% of the consolidated 	
ICL's managerial	EBITDA and 74% of the revenues. Standalone revenues grew 8%	
nuneration and related	YoY to INR 92.3b; while EBITDA margins expanded 170bps on the	
ty transactions higher	back of better product mix and improved operating leverage.	
	 Subsidiaries (ex US) performance deteriorated, with aggregate 	
anse mensember (* 1950)	PAT reducing from INR 1.7b in FY14 to a loss of INR1.4b in FY15 -	
HMCL BJAUT	primarily on the back of Lupin Atlantis Holdings SA (LAHSA), which	
	reported a loss of INR3.0b. During FY15, LPC invested INR 3.4b in	
a 0	existing subsidiaries.	
• •	 Goodwill rises on acquisition of (a) Grin labs for INR 6.1b, and (b) 	
• •	40% additional stake in Pharma dynamics, South Africa (on	
	counterparty exercising the put option) for INR 5.9b. Goodwill	
• •	increased to INR16.5b (19% of net worth) from INR6.6b in FY14.	
	 Cash and investment (24% of net worth) yielded 3.7% in returns 	
• •	- lowest amongst the peers. Cash and investments increased	
	110% YoY to INR 21b. Cumulatively, over the last five years 24% of	
	the funds generated have contributed to increase in cash and	
	investments.	
	Fair valuation of ESOPs to lower PAT by 1.9%. LPC factors ESOPs	
• •	granted to its employees on intrinsic cost basis. Fair valuation of	
	the options granted would lower FY15 PAT by INR448m (1.9%).	
	 Managerial remuneration at 2.6% of PAT highest amongst peers; 	
	increased by 10% YoY from INR587m in FY14 to INR646m.	
• •	Translation loss of INR 1.1b (4.5% of PAT) charged through	
	reserves, primarily pertaining to subsidiaries located at Japan,	
m () 🛛 🔴	Australia, Germany, South Africa, Philippines, Mexico, Switzerland	
	and Netherlands - which LPC considers as non-integral.	
ly () Average () Relatively	ART will present a threadbare portrait of annual reports - statistical, strategic and structured. We	
	believe ART's wide canvas - from accounting and auditing issues to operating performance to management insights to governance matters - will help readers paint a clearer picture of the	
ounting and auditing issues to ent worthiness.	stock's investment worthiness.	
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	Amey Chalke (Amey Chalke@MotilalOswal.com): +91 22 3982 5423	
	Investors are advised to refer through disclosures made at the end of the Research Repo	
Factset and S&P Capital.	Motifal Oswal research is available on www.motifaloswal.com/institutional-Equities, Blo	
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MOTILAL OSWAL	ART	A	23 NNUA	June 2015 .L
RELIANCE INDUSTRIES FY15		2 Re	PORT	r 1
Reliance Industries Ltd's (RIL) FY15 annual report analysis				- E
highlights its highest ever capex (cash capex of INR634b) led by	2	— T⊧	READ	BARE
its large core and non-core investments. 60% of the past four				
year capex is towards telecom and refining segments. Difference	The ART of			
of 29% in balance sheet and cash flow capex primarily due to unrealized forex gain/(loss), creditors for capex and	š 🚽	WHAT'S		
unrealized forex gain/(loss), creditors for capex and consolidation of Network 18 consolidation. Effective income tax	A	High cap		
rate stood at a decade high level of "24%.	SPADED	 Decode I Related 		
Tate stood at a decade rightere of 24%.			to remain	
Highest ever capex of INR1t in FY15: RIL's INR1t capex in FY15			for 21% of	
is the highest ever in its history; the allocation was: (i)	2A	and adm	in expense	n (5)
INR313b in refining business. (iii) INR158b in Oil & gas	A CONTRACTOR OF	INTRODUCTION NO.	President	10-07-020
business, and (iii) INR\$31b in other segments (primarily in	Stock Info			RE IN
telecom). Of the total capital expenditure of INR2.2t in the	CMP (INR)			995
past four years. INR731b (32%) has been incurred on 'other	Equity Shares (m)			3254
segments' (primarily telecom), INR634b (28%) on 'oil & gas'	52-Week Range (I			063/796
segment, INRSS4b (24%) on refining segment and INR271b	M.Cap. (INR b)/(U 1.6.12 Rel. Perf. (5	SD b)		17.8/50.6
(12%) in petchem business.				
Exposure in subsidiaries and associates at 34% of FY15 net	Standalone fina	2015	2016F	20176
worth: Aggregate of loans and investments in subsidiaries and	Sales	3,575	2,848	3,429
associates increased 20% YoY to INR743b in FY15 (FY14:	EBITDA	316.0	350.4	454.4
INR621b), Incremental investments have been made in	Adj. PAT	227.2	250.0	308.1
Reliance Jio Infocomm (INR70.5b), Reliance Industrial	Adj. EPS (INR) EPS Gr. (%)	77.5	85.3	23.2
Investments and Holdings (INR11b), and Reliance Prolific	EV/Sh/INR)	737.9	810.3	23.2
Traders Private Ltd (INR12.4b).	Rot (%)	11.0	11.0	12.5
 Related party payments high at 21% of operating & admin 	RoCE (%)	10.5	10.6	12.4
expenses: Related parties continue to account for a	Payout (%)	16.7	16.7	16.7
considerable proportion of the operating & administration	P/E (x) P/BV (x)	13	12.9	11
expenses (INR62b for FY15 v/s INR57b in FY14).	E: MOSL Estimater		1.5	
 Deferred tax assets worth INR24b created primarily on account of carried forward loss in subsidiaries; RIL created 	shareholding pa	ttern (%)		
DTA of INR24.2b during FY15 (FY14: INR12.1b) on account of	As on	Mar-15	Dec-14	Mar-14
DTA of INR24.2b during FY15 (FY14: INR12.1b) on account of losses in subsidiaries, which have been carried forward to be	Promoter	45.2	45.3	45.3
losses in subsidiaries, which have been carried forward to be set-off in future years. Extrapolating this, these assets would	FI	22.0	22.2	22.1
	Others	20.2	20.5	21.4
point to losses worth INR71b in the subsidiaries business during FY15. However, as per the subsidiary details given in	Note: Pil Includes	depository re	oripts	
during FY15. However, as per the subsidiary details given in the annual report, the cumulative loss of all the subsidiaries is	Auditor's name			
the annual report, the cumulative loss of all the subsidiaries is only INR33b in FY15 (FY14: INR11b). We believe the difference	Chaturvedi & Shah			
	Deloitte Haskins 8 Raiendra & Co. 0			
is due to consolidation of financial statements on line by line basis.	majeridra & Co. 0	.narcefed A	ccountant	D
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Standalone operations contributed 88% of the consolidated				
EBITDA and 74% of the revenues. Standalone revenues grew 8% YoY to INR 92.3b; while EBITDA margins expanded 170bps on the	Stock Info Bloomberg		8	IHARTI IN
back of better product mix and improved operating leverage.	CMP (INR)			384
Subsidiaries (ex US) performance deteriorated, with aggregate		NR)		3,997 12/1,296
PAT reducing from INR 1.7b in FY14 to a loss of INR1.4b in FY15 - primarily on the back of Lupin Atlantis Holdings SA (LAHSA), which	1,6,12 Rel. Perf. (* M.Cap. (INR b) / (*			21/14/47 33.7/13.2
primarily on the back of Lupin Atlantis Holdings SA (LAHSA), which reported a loss of INR3.0b. During FY15. LPC invested INR 3.4b in	M.Cap. (NK 6) 7 (Financial summ		8:	ee.1123.2
existing subsidiaries.	Financial summ Y/E March	2015A	20166	20176
Goodwill rises on acquisition of (a) Grin labs for INR 6.1b, and (b)	Sales EBITDA	123.9 32.4	144.0	178.6
40% additional stake in Pharma dynamics, South Africa (on counterparty exercising the put option) for INR 5.9b. Goodwill	Acj. PAT	24.0	24.9	55.6
counterparty exercising the put option) for INR 5.9b. Goodwill increased to INR16.5b (19% of net worth) from INR6.6b in FY14.	Adj. EPS (INR) EPS Gr. (%)	53.5	55.3 3.4	74.8
Cash and investment (24% of net worth) yielded 3.7% in returns	BV/Sh. (INR) RoE (%)	197.4	243.9	305.9
- lowest amongst the peers. Cash and investments increased	RoE (%) RoCE (%)	30.4 40.6	25.1	27.0
110% YoY to INR 21b. Cumulatively, over the last five years 24% of	Payout (%)	15.3	16.8	13.9
the funds generated have contributed to increase in cash and investments.	Valuations P/E (x)	34.8	33.7	24.9
Fair valuation of ESOPs to lower PAT by 1.9%. LPC factors ESOPs		9.4 25.7	7.6	6.0 16.9
granted to its employees on intrinsic cost basis. Fair valuation of	EV/EBITDA (x) Div. Yield (%)	25.7	22.7	16.9
the options granted would lower FY15 PAT by INR448m (1.9%).		s (Analyst es	timates)	
Managerial remuneration at 2.6% of PAT highest amongst peers; increased by 10% YoY from INR587m in FY14 to INR646m.	Shareholding pa	attern (%) Jun-15	Mar-15	han.""
increased by 10% YoY from INR587m in FY14 to INR646m. Translation loss of INR 1.1b (4.5% of PAT) charged through	As on Promoter	46.6	46.6	Jun-14 46.7
reserves, primarily pertaining to subsidiaries located at Japan,	DI	6.5	8.7 34.7	11.0
Australia, Germany, South Africa, Philippines, Mexico, Switzerland	Others	9.0	39.7	10.6
and Netherlands - which LPC considers as non-integral.	Note: Fil Includes	depository re	ecelpts	
IT will present a threadown portrait of annual reports - statistical, strategic and structured. We deer ART's wide canval - trum accounting and availing issues to operating performance to magement budgets to governance matters - will nep readers paint a center picture of the oct is investment workliness.	Auditor's name	Selving		
anagement insights to governance matters - will help readers paint a clearer picture of the				
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ASHOK LEYLAND abok Leyland's FYIS annual report analysis highlights improved abit flow generation on the back of superior operating performance	ART	R	nnua	ирин 2015 (Ц Г
ASHOK LEYLAND thok leyland's FYIS annual report analysis highlights improved ash flow generation on the back of superior operating performance of working capital management by standalone entity. While screemental investments in subdistance/JV remained molimand, sale	The ART of	R Tr	IIA NNUA EPORT HREAD report	igun 2015 (L F DBARI
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VESTLE CY14		≕ K	EPORT	ſ
Our analysis of Nestle's (NEST) CY14 annual report highlights	1	_		
ubdued profit growth, with decline in volumes. Cash conversion	\$		HREAD	BARE
ycle continued to improve in CY14 to 12 days (CY13: 17 days). Post	The ART o	d annual	report	analysis
he ECB repayment in CY14, the company has turned debt-free,		VHAT TO 1		
with net liquid cash/investments of INR9.3b. NEST operates a discretionary unfunded pension fund (unlike global peers), with		Company to		
iscretionary unfunded pension fund (unlike global peers), with inderfunded pension liabilities of INR8.8b, Its dividend payout was	100	repayment		
interrunded pension liabilities of livito.ob. its dividend payout was inter at 51% in CY14 (vs. 42% in CY13), post completion of capex.	-	Cash conver		nproves
egner as a rain crace (es. as a m cr13), post completion of capex.	Sec. 1	further to 1		
Subdued PAT growth of 6.8%: volumes decline for the first time	Company of			
in fourteen years: NEST's revenue grew 8.2% YoY to INR98.1b in	pension scl	heme; pensio	n cost comp	rises 1.5%
CY14 primarily led by pricing growth (8.6%) while volumes	200			
declined by 0.6% (three of its four segments witnessed volume	SEAT Consider	109150918-00	er treitres	and the second
decline). Gross margin and EBITDA margin contracted 70bp YoY	stock info			
and 90bp YoY resp. Adj PAT grew 6.8 YoY to INR 12.5b.	Bloomberg CMP (INR)			NEST IN 5 0.00
Improved cash conversion cycle; lags peers: Cash conversion	Equity Shares (n	4		96.4
cycle improved to 12 days from 17 days in CY13 primarily due to	52-Week Range		7,5	00/4.845
higher payable days and marginally lower inventory days.	M.Cap. (INR b)/			75.5/0.9
Relative to peers, NEST's cash conversion cycle appears high due	1,6,12 Rel. Perf.			12/-3/15
to lower creditor days (55 days versus 138-158 days for peers).	Financial sum	mary (INR b)		
Discretionary unfunded pension scheme; pension cost at 16.8%	Y/E DEC	2014	20150	20160
of employee cost: Unlike global peers, NEST operates a	EBITDA	20.6	25.1	29.1
discretionary unfunded pension scheme. The net underfunded	Adj. PAT	12.6	15.5	18.3
pension liabilities stood at INR8.8b as at the end of CY14. Pension	Adj. EPS (INR)	130.2	160.3	190.0
expenses on the scheme were INR1.4b, 16.8% of NEST's CY14	EPS Gr. (%) BV/Sh.(INR)	6.8 294.3	23.1 327.8	18.5
employee costs.	BoE (%)	48.2	51.5	54.7
NEST's royalty expense in-line with peers; to increase by 20bp	RoCE (%)	53.9	70.5	74.4
per year for five years: On comparing the royalty rates as a	Payout (%)	48.4	63.6	64.2
percentage of sales with global peers, we found that NEST's rates	P/E (x) P/EV (x)	45.7	37.1	31.3
are in line with peers. Further, as per the revised terms of	P/BV (x) EV/EB/TDA (x)	20.2	21.9	18.6
agreement, Nestlé SA has increased its royalty rate from 3.5% to	Div. Yield (%)	11	1.7	2.1
4.5% of domestic sales - an increase of 0.20% per year over five	E: MOSL Estimat	es.		
years, effective January 1, 2014.	Shareholding pattern (%)			
Dividend payout rises to 51% in CY14, post completion of capex:	As on	Mar-15 62.8	Dec-14 62.8	Mar-14 62.8
During CY14, NEST's dividend payout increased to 51% (CY13:	Promoter	62.8	62.8	62.8
42%), post completion of the capex. However NEST's payout lags	FI	12.5	13.8	13.7
global peers, Hindustan Unilever (73%) and Colgate (68%),	Others	20.2	18.7	18.5
though it is much higher than GSK Consumer Healthcare (28%).	Note: Pil Include	s depository n	icelpts	
OTE: Our analysis is factual analysis of NEST's CV14 Annual Report and is	Auditor's nam	e		
ot related to the recent events pertaining to Maggi Noodles.	A.F. Ferguson &	Co., Chartere	d Accountar	nta -
will present a threadaire portrait of annual reports - statistical, strategic and structured. We be rating performance to management insights to governance matters - will help readers paint a ch	earer picture of the sta			iting issues to
sutam Duggad (Gautam.Duggad@MotilalOswal.com); +91 22 3982 54 anish Poddar (Manish.Poddar@MotilalOswal.com) / Aditya Dakh (Adi				



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Stock Info Bloomberg		51	SARTI IN
CMP (INR)			384
S2-Week Range (1,6,12 Rel. Perf. (NR)		3,997 452/557 8/11/-2
1,6,12 Rel. Perf. (M.Cap. (INR b) / (N) USD b)	15	8/11/-2 34/23.6
Financial summ	ary (INR b)		
Y/E March Net Sales	2015A 920	2016E 981	2017E 1,078 376.1
	312.6	981 341.7	376.1
Adj. Net Profit Adj. EPS (NR) Adj. EPS Gr. (N)	51.8 13.0	53.3 13.3	48.5
Adj. EPS Gr. (N)	51.9	2.8 181.8	-0.9 192.2
RoE (%)	167.1 7.9	7.6	6.5
Acj. EPS (INR) Acj. EPS Gr. (N) BV/Sh (INR) RoE (N) Dir. Payout (N) Veluations P/E (n) P/E (n)	6.6 20.0	5.9 19.5	5.2 18.1
Veluetions			
P/E (x) P/DV (x)	29.6 2.5	28.8 2.1	31.6
EV/EBITDA (+)	7.3	7,0	63
Div. Yield (N) E: MOSL Estimate	0.7 Is (Analyst est	0.7 imates)	0.6
Shareholding p	attern (%)		
As on Promoter	Jun-15 65.5	Mar-15 65.4	Aut-14 65.4
DI	6.5	7.5	7.2
Fil Others Note: Fil Includes	19.3 8.6	9.2	17.7
	depository re	selpts	
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