PROJECT DISSERTATION

On

How to avoid hostile takeover attempt-Taking Cipla as case study

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CERTIFICATE

This is to certify that the dissertation report done on **"How to avoid hostile takeover attempt- Taking Cipla as case study."** Submitted to Delhi School of Management, DTU by **Anurag Chaturvedi** in partial fulfilment of the requirement for the degree of Masters in Business Management, is to the best of my knowledge a bona fide work carried out by him under my supervision and guidance. This work has not been submitted anywhere else for any other degree/diploma.

Signature of Guide Signature of Head, DSM

Dr. RAJAN YADAV

Place:

Date:

DECLARATION

I **Anurag Chaturvedi,** student of MBA 2015-17 of Delhi School of Management, Delhi Technological University, Bawana Road, Delhi-42 declare that Dissertation Report on **How to avoid hostile takeover attempt- Taking Cipla as case study** submitted in partial fulfillment of Degree of Master of Business Administration is the original work conducted by me.

The information and data given in the report is authentic to the best of my knowledge.

This Report is not being submitted to any other University for award of any other Degree, Diploma and Fellowship.

Anurag Chaturvedi

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EXECUTIVE SUMMARY

Takeover can be formally defined as 'acquisition of a certain block of equity capital or controlling interest in a company which enables the acquirer to exercise control over the affairs of the company' and can be categorized broadly into two types a hostile takeover in the former case and a friendly takeover in the latter. When the takeover takes place in a hostile manner, i.e. against the wishes of the target company, the target company often adopts certain measures to prevent or discourage the acquirer from taking over the target company; these measures are called takeover defenses.

The purpose of this study is to investigate which defense strategies are the most effective and easiest to put into practice by taking Cipla as case study. We have tried to answer few questions:

- What is a hostile takeover?
- What are the driving forces behind a hostile takeover?
- Which different hostile takeover defenses are available when facing a hostile takeover
  bid from another company?
- What effect did the chosen defense strategies have in some specific cases?

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1. INTRODUCTION

CIPLA History: It was founded by Dr. Khwaja Abdul Hamied as 'The Chemical, Industrial& Pharmaceutical Laboratories in 1935 in Mumbai. The name of the Company was changed to 'Cipla Limited' on 20th July 1984.

Products and Services: Cipla sells active pharmaceutical ingredients to other manufacturers as well as pharmaceutical and personal care products, including Escitalopram, Lamivudine and Fluticasone propionate. They are the world's largest manufacturer of antiretroviral drugs

Operation: Cipla has 34 manufacturing units in 8 locations across India and has presence in 170 countries.Exports accounted for 58% of its revenue for FY 2014-15.Cipla spent 6.2% of revenue in FY 2014-15 on R&D activities.The primary focus areas for R&D were development of new formulations, drug-delivery systems and APIs (active pharmaceutical ingredients). Cipla also cooperates with other enterprises in areas such as consulting, commissioning, engineering, project appraisal, quality control, know-how transfer, support, and plant supply.

1.1 Major Pointers for CIPLA

1.1.1 Shareholding Pattern (As on 31st March 2015)

Promotors have around 36.8% stake in Cipla compared to 34.75% from institutional holding.

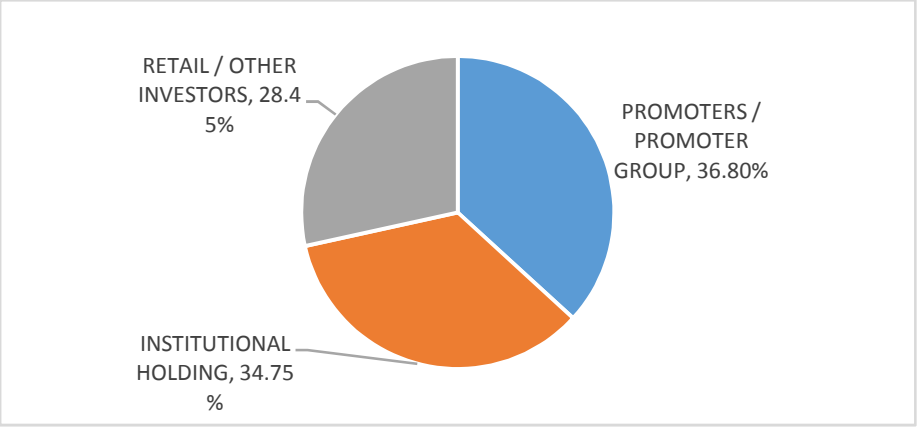


Fig 1.1 Shareholding Pattern

1.1.2 Revenue Distribution of Cipla

A major part of Cipla's revenue comes from India which is around 42%. Cipla has 58% of revenue coming from outside India where major focus is on South Africa and North America.

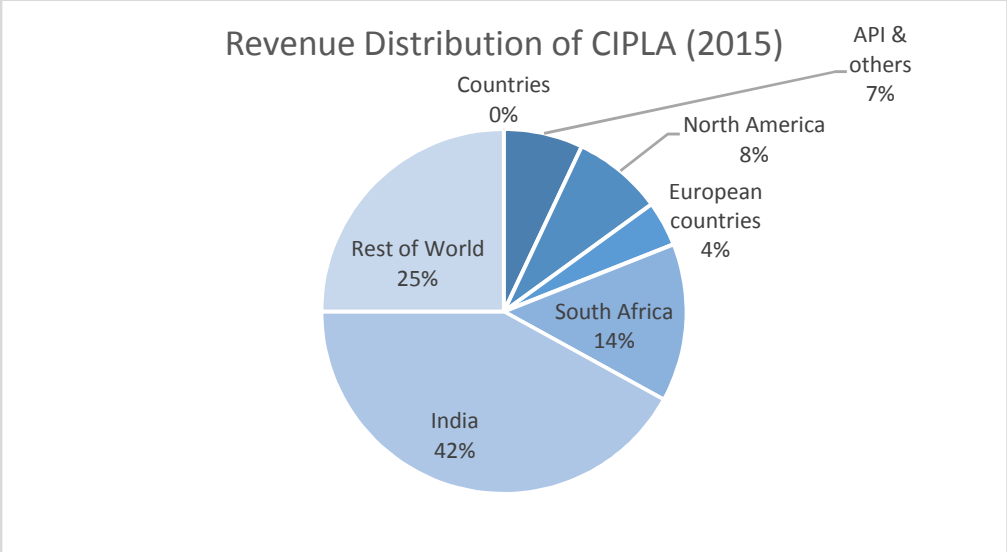


Fig 1.2 Revenue distribution

Growth in North America was very high as CIPLA made 12 filings in the year 2014-15 with focus on respiratory and oncology drugs. Drop in European countries was a one-off event and it was due to some loss on partner based business and due to some supplier related problem. CIPLA gets is maximum revenue from India and it was the highest because of strong position in Indian markets.

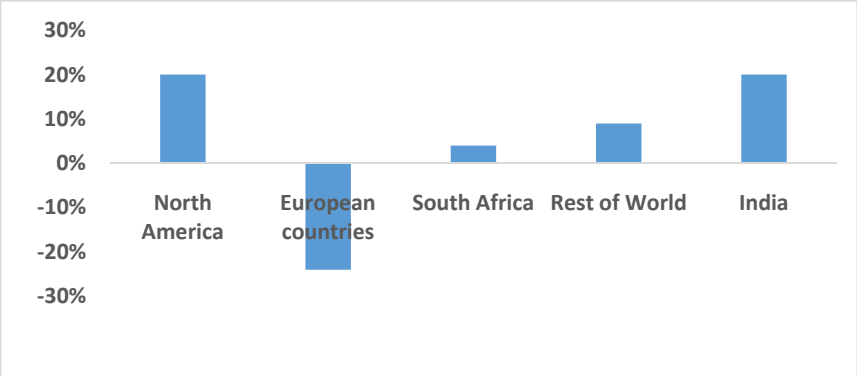


Fig 1.3 Year on Year Growth from different business divisions

1.1.3 Statement of Value Added

Cipla's major concern is high payment to employees which was 39% of the total value added. As loan taken by Cipla is very low and from last 5 years it has maintained a very low debt to equity ratio, it shows that it has high debt taking capacity. External financers account for only 3% of total value added. Also dividend payout from last 5 years has remained constant; around 5% of total value added. Retention is around 39% which is used for capital expenditure and others requirement.

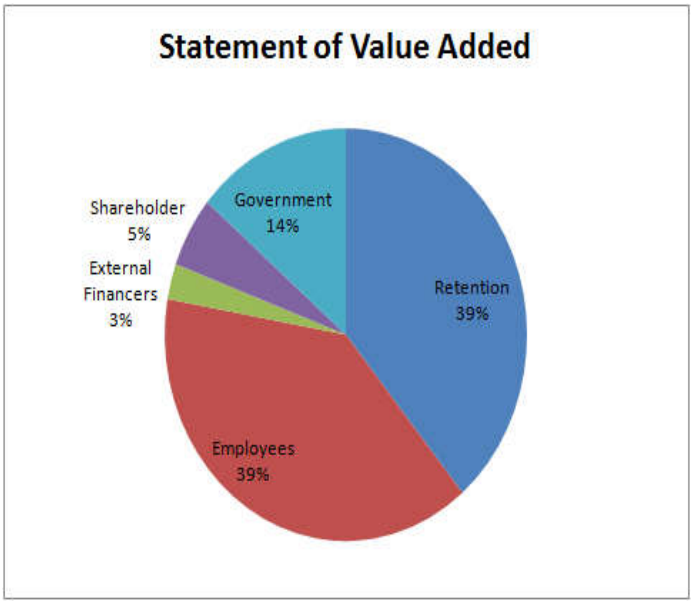


Fig 1.4 : Statement of value added

1.1.4 Research & Development

Cipla is continuously increasing its expenditure on R&D as a % of total sales. Compared to industry, Cipla R&D expenditure is low. As Pharma sector highly relies on R&D for future sales as well as bigger market share,this increased focus on R&D by Cipla is a positive step

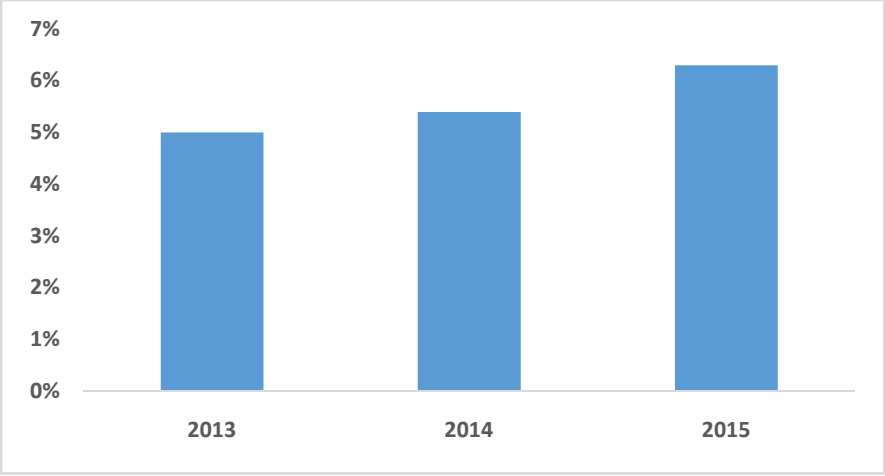
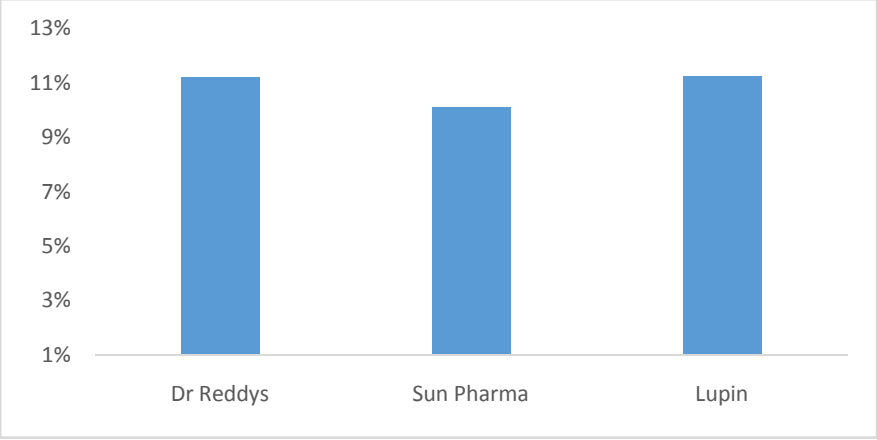


Fig 1.5 Cipla R&D as % of Total Revenue



. Fig 1.6 : Sector R&D as % of Total revenue

1.1.5 Percentage of Imported Raw Material

As it is self-evident from the below graph that Cipla imported raw material as % of revenue is very high as compared to sector, because of this reason only Cipla Raw material cost is high. Earlier Sun pharma had very high imported raw material but because of acquisition, it came down drastically.

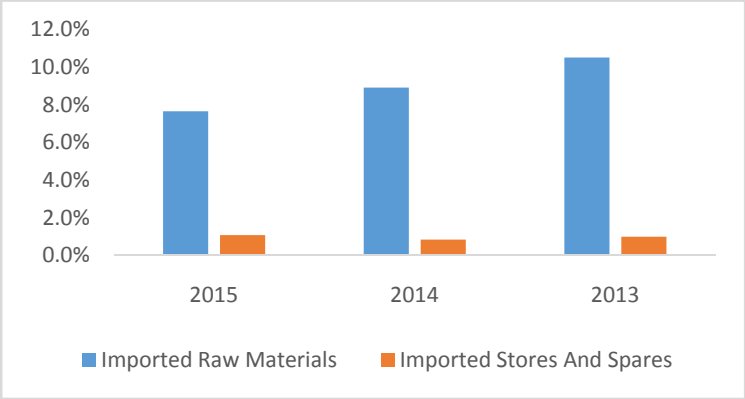


Fig 1.7 Dr Reddy- Imported Material % of Net Sales

Fig 1.8 Lupin-Imported Material % of Net Sales

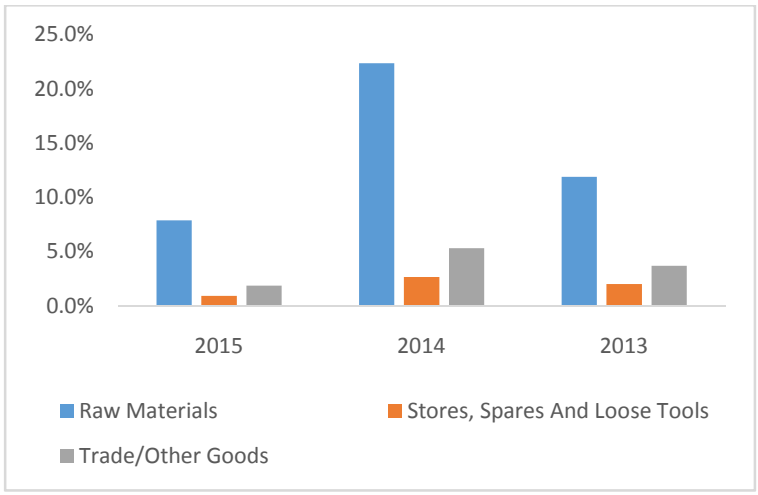


Fig 1.9 Sunpharma-Imported Material % of Net Sale

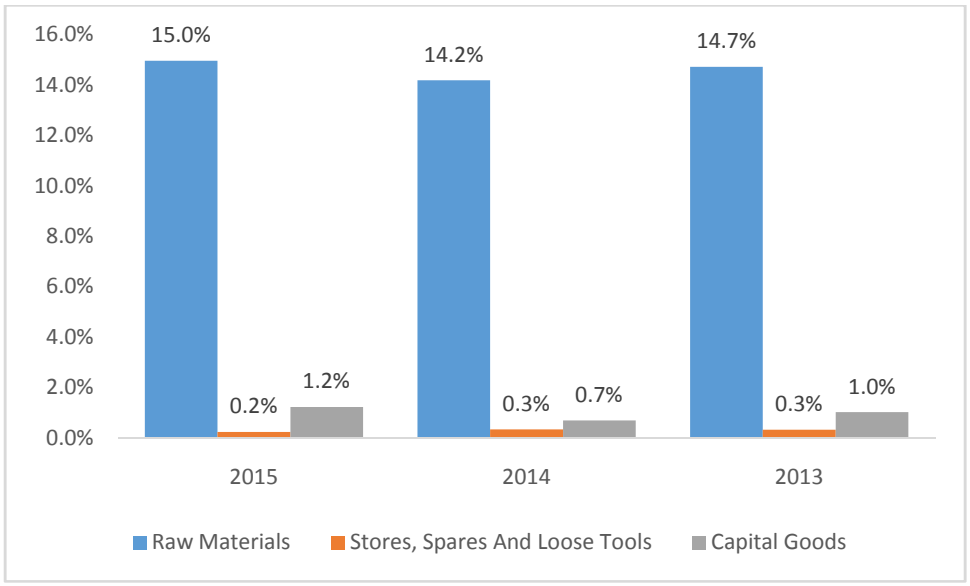


Fig 1.10 Cipla-Imported Material % of Net Sale

1.1.6 Stock Price Movement

Cipla's stock price has moved in tandem with Nifty Pharma index. It is evident from the graph that Pharma sector as a whole including Cipla was giving better returns than

Sensex Index from September 2014 to December 2015. Recent drop in Pharma stocks to Sensex level indicates that they were overvalued during that time.

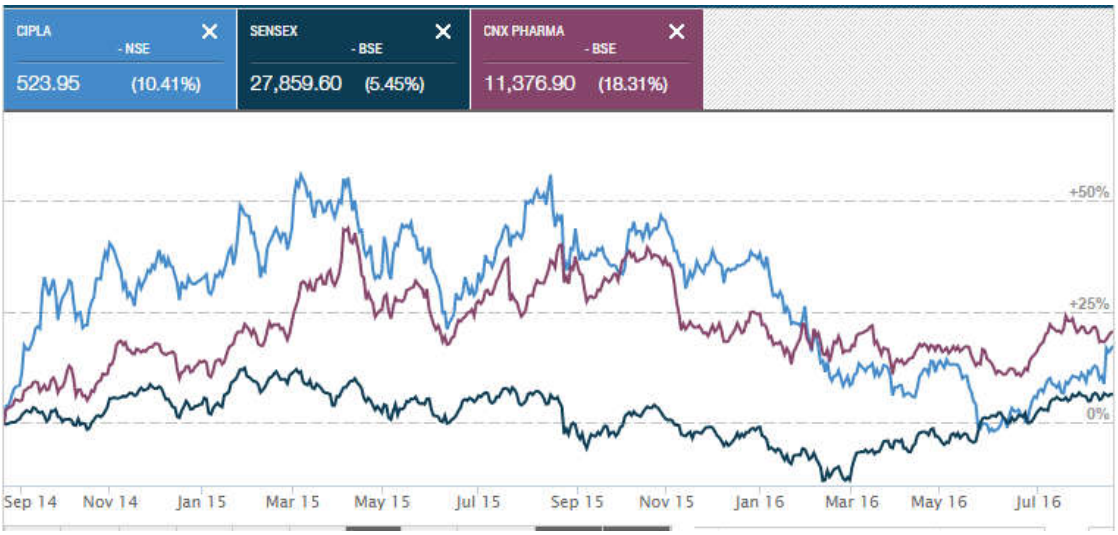


Fig 1.11 Stock price movement

1.1.7Foreign Exchange Exposure

Cipla has considerable foreign exchange exposure but compared to sector, Cipla has less foreign exchange exposure. Sector earnings in foreign currency is way higher

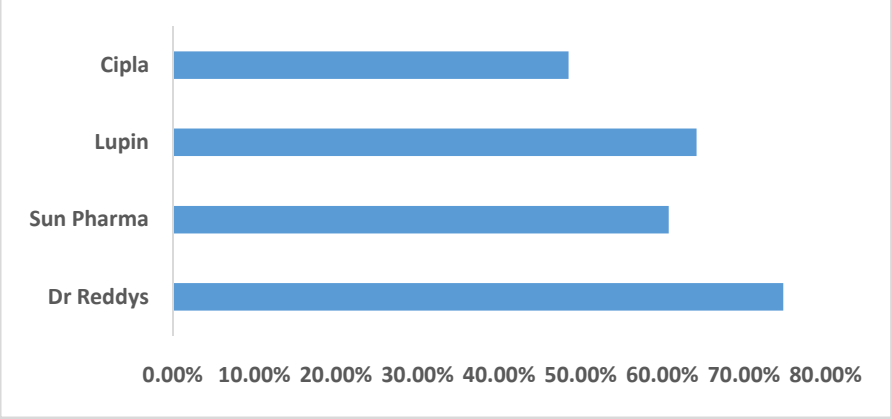


Fig 1.12 Earnings in foreign currency

2. LITERATURE REVIEW

Companies worldwide have realized the importance of being present and to be operating transnational. That is why many firms tend to expand globally through Mergers & Acquisitions. Furthermore a takeover could be categorized as either friendly or hostile, whereas the latter one is characterized as an acquisition of control of a target company without a contract or a mutual understanding with the management of the target firm (Savela, 1999). Furthermore, if a bid is placed for the shares of the target company without informing its board, the term hostile takeover is also applied (Damodaran, 1997) A target company which faces a hostile bid from an acquiring firm does not stand helpless. The management of the targeted firm may implement certain defense measures, suchas various corporate defense strategies, which aims to make the hostile bid less profitable for the acquiring firm as well as protecting the shareholders and the management of the targeted firm.
Commonly known is that there are several reactive measurements that can be implemented in the case of a hostile takeover, but one important aspect that we will also look further in to are the proactive measures that can be implemented prior to a hostile bid. The commitment to defend against future takeover attacks is important both because of preventive defenses take time to construct and because they signal that the board and the executives are united in the pursuit of the goal of the companies' independence.
Furthermore, a company which is publicly listed should never feel totally safe nor out of range for possible future hostile takeovers. That is why it has become more common and significantly more important for today's companies to highlight and realize the importance of various defense strategies against hostile takeovers as well as being aware of the potential risk of being bought by another company.

Hostile Tender Offer : A hostile tender offer made directly to a target company's shareholders, with or without previous overtures to the management, has become an increasingly frequent means of initiating a corporate combination. As a result, there has been considerable interest in and energy expended on devising defenses strategies by actual and potential targets. One of the largest hostile takeovers is the 200 billion takeover of German Co. Mannesmann by Vodafone. Defenses can take the form of fortifying one self, i.e., to make the company less attractive to takeover bids or more difficult to take over and thus discourage any offers being made. These include, inter alia, asset and ownership restructuring, anti takeover constitutional amendments, adoption of poison pill rights plans, and so forth. Defensive actions are also resorted to in the event of perceived threat to the company, ranging from early intelligence that a "raider" or any acquirer has been accumulating the company's stock to an open tender offer. Adjustments in asset and ownership structures may also be made even after a hostile takeover bid has been announced. The two key methods of accomplishing a hostile takeover are the tender offer and the proxy fight. They can be explained as follows:

Tender Offer: A tender offer is a public bid for a huge chunk of the target's stock at a predetermined price, usually more than the present market value of the stock. The acquirer uses a premium price to push the shareholders to sell their shares. The offer has a time perimeter, and it may have other conditions that the target company must stand for if shareholders agree to the offer. The bidding company must reveal their plans for the target company and file the appropriate documents with the Securities and Exchange Commission (SEC) in United States and Securities and Exchange Board of India (SEBI) in India. Sometimes, a purchaser or group of purchasers will progressively buy up adequate stock to gain a controlling interest (known as a creeping tender offer), without making a public tender offer. But it is unsafe because the target company could determine the takeover and take steps to avoid it.

Proxy Fight: In this, the buyer doesn't try to buy stock. In its place, they try to persuade the shareholders to vote out present management or the current board of directors in support of a team that will approve the takeover. The term "proxy" refers to the shareholders' capacity to let someone else make their vote for them - the buyer votes for

the new board by proxy. Generally, a proxy fight start offs within the company itself. A group of dissatisfied shareholders or even managers might hunt for a change in ownership, so they try to persuade other shareholders to group together. The proxy fight is popular because it avoids many of the defenses that companies put into place to avoid takeovers. Most of those defenses are intended to prevent takeover by purchase of a controlling interest of stock, which the proxy fight evades by changing the outlook of the people who already own it. The most famous proxy fight was Hewlett-Packard's takeover of Compaq.

Creeping tender offer: A creeping tender offer is the gradual accumulation of the shares of a company, with the intention of acquiring control over the company or obtaining a significant voting bloc within the company. This process is conducted through the acquisition of shares on the open market, rather than through a formal tender offer. A creeping tender offer is conducted through the open financial markets rather than as a direct bid to the shareholders as is common in regular tender offer procedures. Since an acquirer purchases shares through the open market, a premium is not offered to the shareholder. Creeping tender offers are primarily used to try to obtain shares at non inflated prices. By using the creeping tender offer method, an acquirer can obtain at least a portion of the shares it needs to exercise control at market prices, rather than at the more inflated rates that it would likely pay in the event of a tender offer. However, this approach also means that failure of the acquisition bid will leave the acquirer with a large block of stock that it will presumably have to liquidate at some point in the future, possibly at a loss.

In the United States Tender Offers are regulated by the Williams Act. Other countries in the world have similar acts. In these legislations, the law sets the rules on what is allowed and what not when it comes to Tender Offers. In a creeping Tender Offer, investors or a group of individuals adopt a strategy to get around these rules. Typically a group of individuals try to gradually acquire target company shares in the open market. Often, the ultimate goal of a creeping tender offer is to acquire enough shares of the stock to have enough interest in the company to create a voting bloc at the target company's AGM. With a creeping tender offer, the offerer(s) will attempt to circumvent the legal

requirements and quietly go about purchasing shares from different shareholders. Only once a substantial number of shares have been acquired with the group do they comply with filing the proper documents with the SEC. The result can be that the target company finds itself in a hostile takeover bid before there is a chance to prepare themselves. The scenario in the United States of America is that The Williams Act is relevant to the practice of buying and selling of shares in any market that operates within the United States of America. For many years after the addition of this act in 1968, the provisions of this act helped to minimize the potential for the use of a creeping tender offer. One of the key elements of the Williams Act is that shareholders must be offered the same price for their available shares. This means that if one shareholder is offered a particular price for his or her shares, the same investor or group of investors cannot offer a different shareholder a different price in order to attract a sale. Until the original price is rejected, the group cannot offer a higher price per share to a different shareholder.One of the largest hostile takeovers is the 200 billion takeover of German Co. Mannesmann by Vodafone.

1. **Non-voting Stock**:Non-voting stock is that stock which gives the shareholder nil voting rights on the matters relating to the management of the company. This can be used as a strategy to avoid hostile takeovers if a company issues all the voting shares to its promoters and offers only non-voting shares to the public.

   In India, the Companies Act. 1956 provides for the issue of equity shares with differential voting rights. Thus issue of equity shares with differential voting rights can be a useful tactic to avoid hostile takeover in Indian context.

2. **Crown Jewel Defense**: Crown jewel defense is a strategy where the target company spins off its major attractive assets to new company specially formed for this purpose. This makes the target company less attractive for the hostile acquirer. Crown jewel defense is a useful tactic to avoid hostile takeover especially for those companies where its assets backing is major strength.

3. **Gray Knight**: Gray Knight is a strategy where the target company enters into an arrangement with another company which is more acceptable to it than the hostile acquirer and which is interested in acquiring the target company. Under the arrangement, the other company agrees to move a competitive bid against hostile bidder. This tactic is used where the hostile acquirer is not at all acceptable to the target company.

4. **Greenmail**: Greenmail is a strategy where the target company agrees to buy back the bidder's stockholding in the target company but at a substantial premium to the fair market stock price to avoid the hostile takeover. This tactic shall be used only after a cost-benefit analysis. This is quite similar to targeted repurchase strategy of avoiding hostile takeover. This strategy has been successfully used to fend off Swaraj Paul efforts to takeover Escorts Limited.

5. **Nancy Reagan defense**: Nancy reagan defense is more a defense to avoid friendly takeover than hostile takeover. This is a strategy where the Board of directors of target company agrees between them to disagree with the proposal of the acquirer. That is why this strategy is sometimes also called ***"JUST SAY NO"***

6. **Pac-man defense**: Pac-man defense is a strategy where the target company starts buying the shares of its acquirer company with the ultimate objective of taking over its acquirer. Although the effect will almost be the same, the matter is just of acquiring controlling authority. This strategy was used by the Martin-marietta for the first time to take over Bendix Corporation.

7. **Poison Pill**: Poison pill is a strategy where the target company issues low-priced preference shares to its shareholders. This increases the total issued share capital of the target company and consequently makes it more costly for the acquirer to acquire the target company. Although this strategy may cause loss to the target company but this strategy is sometimes very effective in avoiding the hostile takeover as in Saurashtra Cement Case.

8. **Suicide pill**: This is the extreme version of poison pill where the tactics adopted by the target company to avoid hostile takeover results in self-destruction. But this defense is not practical and thus not normally resorted to.

3. RESEARCH METHODOLOGY

In order to calculate defense strategy , the Indian Pharma sector is evaluated and hypothetical scenario is created using Cipla as case study to understand the effect of hostile takeover and its defense strategy on various aspect of valuations and financial health of the firm.

The various technique used here are

i) Ratio Analysis and Valuations
ii) Pro-Forma Forecast
iii) Fundamental Analysis Approach

3.1 Ratio Analysis

It refers to the systematic use of ratios to interpret the financial statements in terms of the operating performance and financial position of a firm. It involves comparison for a meaningful interpretation of the financial statements.In view of the needs of various uses of ratios the ratios, which can be calculated from the accounting data are classified into the following broad categories

A. Liquidity Ratio
B. Turnover Ratio
C. Solvency or Leverage ratios
D. Profitability ratios
E.

A. LIQUIDITY RATIO

It measures the ability of the firm to meet its short-term obligations, that is capacity of the firm to pay its current liabilities as and when they fall due. Thus these ratios reflect the short-term financial solvency of a firm. A firm should ensure that it does not suffer from lack of liquidity. The failure to meet obligations on due time may result in bad credit image, loss of creditors confidence, and even in legal proceedings against the firm on the other hand very high degree of liquidity is also not desirable since it would imply that funds are idle and earn nothing. So therefore it is necessary to strike a proper balance between liquidity and lack of liquidity. The various ratios that explains about the liquidity of the firm are

Current Ratio
Acid Test Ratio / quick ratio
Absolute liquid ration / cash ratio

CURRENT RATIO

The current ratio measures the short-term solvency of the firm. It establishes the relationship between current assets and current liabilities. It is calculated by dividing current assets by current liabilities.

$$\text{Current Ratio} = \frac{\text{Current Asset}}{\text{Current Liabilities}}$$

Current assets include cash and bank balances, marketable securities, inventory, and debtors, excluding provisions for bad debts and doubtful debtors, bills receivables and prepaid expenses. Current liabilities includes sundry creditors, bills payable, short- term loans, income-tax liability, accrued expenses and dividends payable.

ACID TEST RATIO / QUICK RATIO

It has been an important indicator of the firm's liquidity position and is used as a complementary ratio to the current ratio. It establishes the relationship between quick assets and current liabilities. It is calculated by dividing quick assets by the current liabilities.

$$\text{Acid Test Ratio} = \frac{\text{Quick Assets}}{\text{Current liabilities}}$$

Quick assets are those current assets, which can be converted into cash immediately or within reasonable short time without a loss of value. These include cash and bank balances, sundry debtors, bill's receivables and short-term marketable securities.

ABSOLUTE LIQUID RATION / CASH RATIO

It shows the relationship between absolute liquid or super quick current assets and liabilities. Absolute liquid assets include cash, bank balances, and marketable securities.

$$\text{Absolute liquid ratio} = \frac{\text{Absolute liquid assets}}{\text{Current liabilities}}$$

B. TURNOVER RATIO

Turnover ratios are also known as activity ratios or efficiency ratios with which a firm manages its current assets. The following turnover ratios can be calculated to judge the effectiveness of asset use.

1. Inventory Turnover Ratio
2. Debtor Turnover Ratio
3. Creditor Turnover Ratio
4. Assets Turnover Ratio

INVENTORY TURNOVER RATIO

This ratio indicates the number of times the inventory has been converted into sales during the period. Thus it evaluates the efficiency of the firm in managing its inventory. It is calculated by dividing the cost of goods sold by average inventory.

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of goods sold}}{\text{Average Inventory}}$$

The average inventory is simple average of the opening and closing balances of inventory. (Opening + Closing balances / 2). In certain circumstances opening balance of the inventory may not be known then closing balance of inventory may be considered as average inventory

DEBTOR TURNOVER RATIO

This indicates the number of times average debtors have been converted into cash during a year. It is determined by dividing the net credit sales by average debtors.

$$\text{Debtor Turnover Ratio} = \frac{\text{Net Credit Sales}}{\text{Average Trade Debtors}}$$

Net credit sales consist of gross credit sales minus sales return. Trade debtor includes sundry debtors and bill's receivables. Average trade debtors (Opening + Closing balances / 2)

When the information about credit sales, opening and closing balances of trade debtors is not available then the ratio can be calculated by dividing total sales by closing balances of trade debtor

$$\text{Debtor Turnover Ratio} = \frac{\text{Total Sales}}{\text{Trade Debtors}}$$

CREDITOR TURNOVER RATIO

It indicates the number of times sundry creditors have been paid during a year. It is calculated to judge the requirements of cash for paying sundry creditors. It is calculated by dividing the net credit purchases by average creditors.

$$\text{Creditor Turnover Ratio} = \frac{\text{Net Credit Purchases}}{\text{Average Trade Creditor}}$$

Net credit purchases consist of gross credit purchases minus purchase return

When the information about credit purchases, opening and closing balances of trade creditors is not available then the ratio is calculated by dividing total purchases by the closing balance of trade creditors.

Creditor Turnover Ratio = Total purchases

Total Trade Creditors

ASSETS TURNOVER RATIO

The relationship between assets and sales is known as assets turnover ratio. Several assets turnover ratios can be calculated depending upon the groups of assets, which are related to sales.

a) Total asset turnover.
b) Net asset turnover
c) Fixed asset turnover
d) Current asset turnover
e) Net working capital turnover ratio

TOTAL ASSET TURNOVER

This ratio shows the firms ability to generate sales from all financial resources committed to total assets. It is calculated by dividing sales by total assets.

Total asset turnover = Total Sales

Total Assets

NET ASSET TURNOVER

This is calculated by dividing sales by net assets.

Net asset turnover = Total Sales

Net Assets

Net assets represent total assets minus current liabilities. Intangible and fictitious assets like goodwill, patents, accumulated losses, deferred expenditure may be excluded for calculating the net asset turnover.

FIXED ASSET TURNOVER

This ratio is calculated by dividing sales by net fixed assets.

Fixed asset turnover = Total Sales

Net Fixed Assets

Net fixed assets represent the cost of fixed assets minus depreciation.

CURRENT ASSET TURNOVER

It is divided by calculating sales by current assets

$$\text{Current asset turnover} = \frac{\text{Total Sales}}{\text{Current Assets}}$$

NET WORKING CAPITAL TURNOVER RATIO

A higher ratio is an indicator of better utilization of current assets and working capital and vice-versa (a lower ratio is an indicator of poor utilization of current assets and working capital). It is calculated by dividing sales by working capital.

$$\text{Net working capital turnover ratio} = \frac{\text{Total Sales}}{\text{Working Capital}}$$

Working capital is represented by the difference between current assets and current liabilities.

C. SOLVENCY OR LEVERAGE RATIOS

The solvency or leverage ratios throws light on the long term solvency of a firm reflecting its ability to assure the long term creditors with regard to periodic payment of interest during the period and loan repayment of principal on maturity or in predetermined instalments at due dates. There are thus two aspects of the long-term solvency of a firm.

a. Ability to repay the principal amount when due
b. Regular payment of the interest.

The ratio is based on the relationship between borrowed funds and owner's capital it is computed from the balance sheet, the second type are calculated from the profit and loss a/c. The various solvency ratios are

1. Debt equity ratio
2. Debt to total capital ratio
3. Proprietary (Equity) ratio
4. Fixed assets to net worth ratio
5. Fixed assets to long term funds ratio
6. Debt service (Interest coverage) ratio

DEBT EQUITY RATIO

Debt equity ratio shows the relative claims of creditors (Outsiders) and owners (Interest) against the assets of the firm. Thus this ratio indicates the relative proportions of debt and equity in financing the firm's assets. It can be calculated by dividing outsider funds (Debt) by shareholder funds (Equity)

$$\text{Debt equity ratio} = \frac{\text{Outsider Funds (Total Debts)}}{\text{Shareholder Funds or Equity}}$$

The outsider fund includes long-term debts as well as current liabilities. The shareholder funds include equity share capital, preference share capital, reserves and surplus including accumulated profits. However fictitious assets like accumulated deferred expenses etc should be deducted from the total of these items to shareholder funds. The shareholder funds so calculated are known as net worth of the business.

DEBT TO TOTAL CAPITAL RATIO

$$\text{Debt to total capital ratio} = \frac{\text{Total Debts}}{\text{Total Assets}}$$

PROPRIETARY (EQUITY) RATIO

This ratio indicates the proportion of total assets financed by owners. It is calculated by dividing proprietor (Shareholder) funds by total assets.

$$\text{Proprietary (equity) ratio} = \frac{\text{Shareholder funds}}{\text{Total assets}}$$

FIXED ASSETS TO NET WORTH RATIO

This ratio establishes the relationship between fixed assets and shareholder funds. It is calculated by dividing fixed assets by shareholder funds.

$$\text{Fixed assets to net worth ratio} = \frac{\text{Fixed Assets X 100}}{\text{Net Worth}}$$

The shareholder funds include equity share capital, preference share capital, reserves and surplus including accumulated profits. However fictitious assets like accumulated deferred expenses etc should be deducted from the total of these items to shareholder funds. The shareholder funds so calculated are known as net worth of the business.

FIXED ASSETS TO LONG TERM FUNDS RATIO

Fixed assets to long term funds ratio establishes the relationship between fixed assets and long-term funds and is calculated by dividing fixed assets by long term funds.

$$\text{Fixed assets to long term funds ratio} = \frac{\text{Fixed Assets X 100}}{\text{Long-term Funds}}$$

DEBT SERVICE (INTEREST COVERAGE) RATIO

This shows the number of times the earnings of the firms are able to cover the fixed interest liability of the firm. This ratio therefore is also known as Interest coverage or time interest earned ratio. It is calculated by dividing the earnings before interest and tax (EBIT) by interest charges on loans.

$$\text{Debt Service Ratio} = \frac{\text{Earnings before interest and tax (EBIT)}}{\text{Interest Charges}}$$

PROFITABILITY RATIOS

The profitability ratio of the firm can be measured by calculating various profitability ratios. General two groups of profitability ratios are calculated.

a. Profitability in relation to sales.
b. Profitability in relation to investments.

Profitability in relation to sales

Gross profit margin or ratio
Net profit margin or ratio
Operating profit margin or ratio
Operating Ratio
Expenses Ratio

GROSS PROFIT MARGIN It measures the relationship between gross profit and sales. It is calculated by dividing gross profit by sales.

$$\text{Gross profit margin or ratio} = \frac{\text{Gross profit X 100}}{\text{Net sales}}$$

Gross profit is the difference between sales and cost of goods sold.

NET PROFIT MARGIN OR RATIO

It measures the relationship between net profit and sales of a firm. It indicates management's efficiency in manufacturing, administrating, and selling the products. It is calculated by dividing net profit after tax by sales.

$$\text{Net profit margin or ratio} = \frac{\text{Earning after tax X 100}}{\text{Net Sales}}$$

OPERATING PROFIT MARGIN OR RATIO

It establishes the relationship between total operating expenses and net sales. It is calculated by dividing operating expenses by the net sales.

$$\text{Operating profit margin or ratio} = \frac{\text{Operating expenses X 100}}{\text{Net sales}}$$

Operating expenses includes cost of goods produced/sold, general and administrative expenses, selling and distributive expenses.

EXPENSES RATIO

While some of the expenses may be increasing and other may be declining to know the behavior of specific items of expenses the ratio of each individual operating expenses to net sales should be calculated. The various variants of expenses are

$$\text{Cost of goods sold} = \frac{\text{Cost of goods sold X 100}}{\text{Net Sales}}$$

$$\text{Administrative Expenses Ratio} = \frac{\text{Administrative Expenses X 100}}{\text{Net sales}}$$

$$\text{Selling and distribution expenses ratio} = \frac{\text{Selling and distribution expenses X 100}}{\text{Net sales}}$$

OPERATING PROFIT MARGIN OR RATIO

Operating profit margin or ratio establishes the relationship between operating profit and net sales. It is calculated by dividing operating profit by sales.

$$\text{Operating profit margin or ratio} = \frac{\text{Operating Profit X 100}}{\text{Net sales}}$$

Operating profit is the difference between net sales and total operating expenses. (Operating profit = Net sales – cost of goods sold – administrative expenses – selling and distribution expenses.)

PROFITABILITY IN RELATION TO INVESTMENTS

1. Return on gross investment or gross capital employed
2. Return on net investment or net capital employed
3. Return on shareholder's investment or shareholder's capital employed.
4. Return on equity shareholder investment or equity shareholder capital employed.

RETURN ON GROSS CAPITAL EMPLOYED

This ratio establishes the relationship between net profit and the gross capital employed. The term gross capital employed refers to the total investment made in business. The conventional approach is to divide Earnings After Tax (EAT) by gross capital employed.

$$\text{Return on gross capital employed} = \frac{\text{Earnings After Tax (EAT)} \times 100}{\text{Gross capital employed}}$$

RETURN ON NET CAPITAL EMPLOYED

It is calculated by dividing Earnings Before Interest & Tax (EBIT) by the net capital employed. The term net capital employed in the gross capital in the business minus current liabilities. Thus it represents the long-term funds supplied by creditors and owners of the firm.

$$\text{Return on net capital employed} = \frac{\text{Earnings Before Interest \& Tax (EBIT)} \times 100}{\text{Net capital employed}}$$

RETURN ON SHARE CAPITAL EMPLOYED

This ratio establishes the relationship between earnings after taxes and the shareholder investment in the business. This ratio reveals how profitability the owners' funds have been utilized by the firm. It is calculated by dividing Earnings after tax (EAT) by shareholder capital employed.

$$\text{Return on share capital employed} = \frac{\text{Earnings after tax (EAT)} \times 100}{\text{Shareholder capital employed}}$$

RETURN ON EQUITY SHARE CAPITAL EMPLOYED

Equity shareholders are entitled to all the profits remaining after the all outside claims including dividends on preference share capital are paid in full. The earnings may be distributed to them or retained in the business. Return on equity share capital investments or capital employed establishes the relationship between earnings after tax and preference dividend and equity shareholder investment or capital employed or net worth. It is calculated by dividing earnings after tax and preference dividend by equity shareholder's capital employed.

Return on equity share capital employed = Earnings after tax (EAT), preference dividends X 100

Equity share capital employed

EARNINGS PER SHARE

IT measure the profit available to the equity shareholders on a per share basis. It is computed by dividing earnings available to the equity shareholders by the total number of equity share outstanding

Earnings per share = Earnings after tax – Preferred dividends (if any)

Equity shares outstanding

DIVIDEND PER SHARE

The dividends paid to the shareholders on a per share basis in dividend per share. Thus dividend per share is the earnings distributed to the ordinary shareholders divided by the number of ordinary shares outstanding.

Dividend per share = Earnings paid to the ordinary shareholders

Number of ordinary shares outstanding

DIVIDENDS PAY OUT RATIO (PAY OUT RATIO)

It measures the relationship between the earnings belonging to the equity shareholders and the dividends paid to them. It shows what percentage shares of the earnings are available for the ordinary shareholders are paid out as dividend to the ordinary shareholders. It can be calculated by dividing the total dividend paid to the equity shareholders by the total earnings available to them or alternatively by dividing dividend per share by earnings per share.

Dividend pay our ratio (Pay our ratio) = Total dividend paid to equity share holders

Total earnings available to equity share holders

Or

Dividend per share
Earnings per share

DIVIDEND AND EARNINGS YIELD

While the earnings per share and dividend per share are based on the book value per share, the yield is expressed in terms of market value per share. The dividend yield may be defined as the

relation of dividend per share to the market value per ordinary share and the earning ratio as the ratio of earnings per share to the market value of ordinary share.

$$\text{Dividend Yield} = \frac{\text{Dividend Per share}}{\text{Market value of ordinary share}}$$

$$\text{Earnings yield} = \frac{\text{Earnings per share}}{\text{Market value of ordinary share}}$$

PRICE EARNING RATIO

The reciprocal of the earnings yield is called price earnings ratio. It is calculated by dividing the market price of the share by the earnings per share.

$$\text{Price earnings (P/E) ratio} = \frac{\text{Market price of share}}{\text{Earnings per share}}$$

3.2 Pro-Forma Forecast

A pro-forma forecast is a financial forecast based on pro-forma income statements, balance sheet and/or cash flows. Pro-forma forecasts are usually created from pro-forma financials, which are forecasted using basic forecasting procedures. Often, revenues will provide the initial groundwork for the forecast, while expenses and other income statement items will be calculated as a percentage of future sales. Pro-forma forecasts, similar to any sort of pro-forma report, are not required to abide by GAAP. As a result, they often reflect the best-case scenario, which the firm would like to portray to investors.
Stock analysts use various forecasting methods to determine how a stock's price will move in the future. They might look at revenue and compare it to economic indicators. Changes to financial or statistical data are observed to determine the relationship between multiple variables. These relationships may be based on the passage of time or the occurrence of specific events. For example, a sales forecast may be based upon a specific period (the passage of the next 12 months) or the occurrence of an event (the purchase of a competitor's business).

Stages of Forecasting

Forecasting addresses a problem or set of data. Economists make assumptions regarding the situation being analyzed must be established before the variables of the forecasting are determined. Based on the items determined, an appropriate data set is selected and used in the manipulation of information. The data is analyzed, and the forecast is determined. Finally, a verification period occurs where the forecast is compared to the actual results in order to establish a more accurate model for forecasting in the future.

Forecasting Models

Qualitative forecasting models are useful in developing forecasts with a limited scope. These models are highly reliant on expert opinions and are most beneficial in the short term. Examples of qualitative forecasting models include market research, polls and surveys that apply the Delphi method. Quantitative methods of forecasting exclude expert opinions and utilize statistical data based on quantitative information. Quantitative forecasting models include time series methods, discounting, analysis of leading or lagging indicators and econometric modeling.

3.3 Fundamental Analysis Approaches

- Present value approach(Capitalization of expected income)
- Intrinsic value based on the discounted value of the expected stream of cash flows
- Multiple of earnings (P/E) approach
- Stock worth some multiple of its future earnings

Here we are using the Present Value Approach

Present Value Approach (Capitalization of Income)

Intrinsic value of a security is

$$P_o = \sum_{t=1}^{\infty} \frac{D_t}{(1+K_e)^t}$$

K_e = appropriate discount rate

In using model, to estimate the intrinsic value of the security must:

- Discount rate (Capitalization Rate, Required Rate of Return)
- Required rate of return: minimum expected rate to induce purchase given the level of risk
- The opportunity cost of dollars used for investment
- Expected cash flows and timing of cash flows
- Stream of dividends or other cash payouts over the life of the investment
- Dividends paid out of earnings and received by investors
- Earnings important in valuing stocks
    - Retained earnings enhance future earnings and ultimately dividends
    - If use dividends in PV analysis, don't use retained earnings in the model
    - Retained earnings imply growth and future dividends
    - Compared computed price to actual price

4.FINANCIAL ANALYSIS OF CIPLA

4.1.1Revenue from Operations:

The revenue from operation grew at a much slower rate for Cipla as compared to the sector. Cipla's revenue from operations grew at 14% in 2014 as compared to the sector average of 20% and at 8% in 2015 as compared to the sector average of 29%. The major reason of high growth number of sector is the merger of Sun Pharma with Ranbaxy which increased Sun Pharma's revenue threefold in 2015.

4.1.2 Raw material consumed as % of Net revenue

Cipla has a higher cost of raw materials consumed as % of Net revenue. Raw material consumed as % of revenue for Cipla was close to 40% in 2014 and 2015 as against sector average of around 32%.

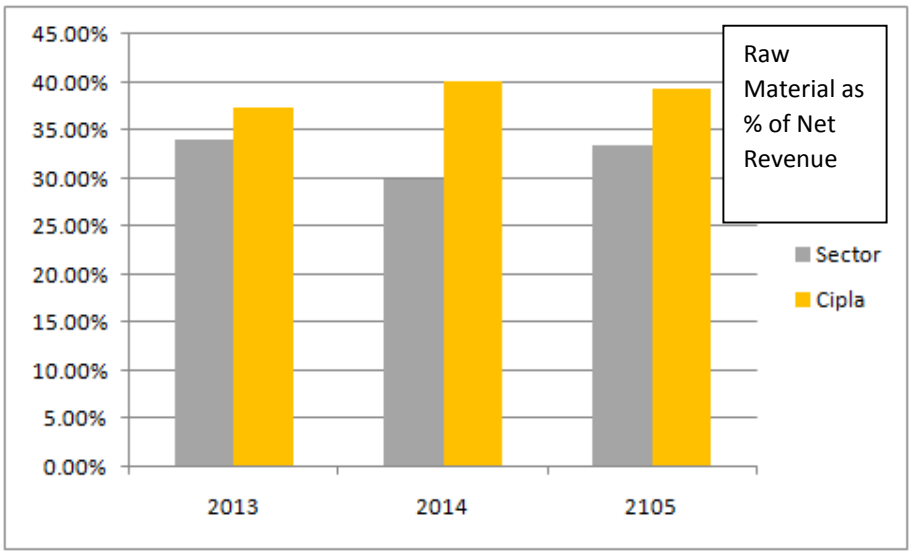


Fig 4.1 Raw Material as % of Net Revenue

4.1.3 Cash Conversion Cycle

Cipla's cash conversion cycle is lower than the sector with 179 days as compared to 151 days for the sector. There is a major scope for improvement in Inventory Conversion Cycle which is 231 days for Cipla as compared to 164 days for the sector. Trades payable days which stands at 126 days for Cipla are comparable to the sector's 129 days. Cipla's receivables conversion period at

74 days is far better than industry which is 116 days. Cipla should work towards maintaining this advantage.

Details	**Sector Average**	**Cipla**
	No. Of Days	**No. Of Days**
Raw Material Inventory	116	157
WIP Inventory	29	42
Finished Goods Inventory	19	32
Inventory Conversion Cycle	*164*	*231*
Receivables Conversion Period	116	74
(Trade Payables Payment	129	126
CashConversion Cycle(CCC)	**151**	**179**
Inventory of Trading Goods	74	101

Table 4.1 Cash Conversion Cycle

If we benchmark each component of cash conversion with best performers in the industry, we can get CCC as low as 109 days. This number for CCC may be somewhat unrealistic but it gives us an idea about the scope of improvement.

Raw Material Inventory	Dr. Reddy	93
WIP Inventory	Lupin	24
Finished Goods Inventory	Dr. Reddy	12
Inventory Conversion Cycle		129
Receivables Conversion Period	Cipla	74
(Trade Payables Payment Period)	Dr. Reddy	94
Cash Conversion Cycle(CCC)		**109**

Table 4.2 Benchmarking of Components

Given this analysis we believe that there is scope for Cipla to further bring down its CCC which would help freeing up some cash. The major focus for Cipla should be to bring down Inventory Conversion Cycle.

4.1.4 Return On Equity

ROE of the sector is skewed towards a lower number because of negative PAT of Sun Pharma in the last two years. If we exclude Sun Pharma from our analysis, Cipla is performing poorly

compared to the sector. Moreover, the ROE is a consistent downward trend in ROE numbers over the last three years. Net Profit margin has gone down from 18.37% in 2013 to 11.66% in 2015. Also asset turnover has gone down from 0.71 in 2013 to 0.66 in 2015.

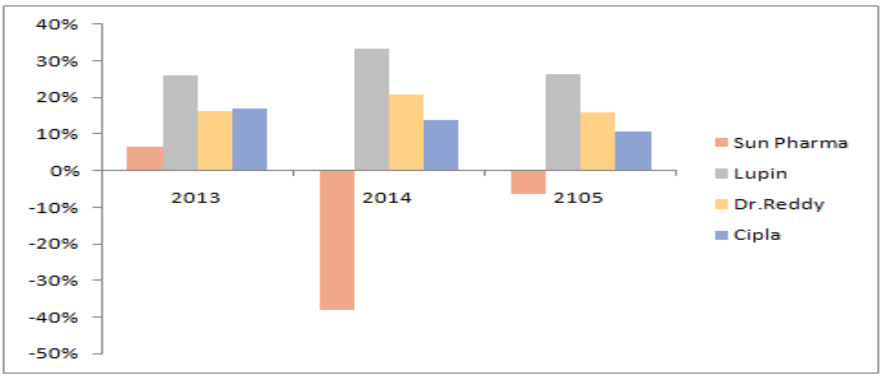


Fig 4.2 Return on Equity

4.1.5 Net Operating Margin

Net Operating Margin (EBIT/Net Revenue) for Cipla is similar to the sector average. But the number has been declining for the last three years. The major reason for declining operating margin is increasing raw material and employee benefit costs.

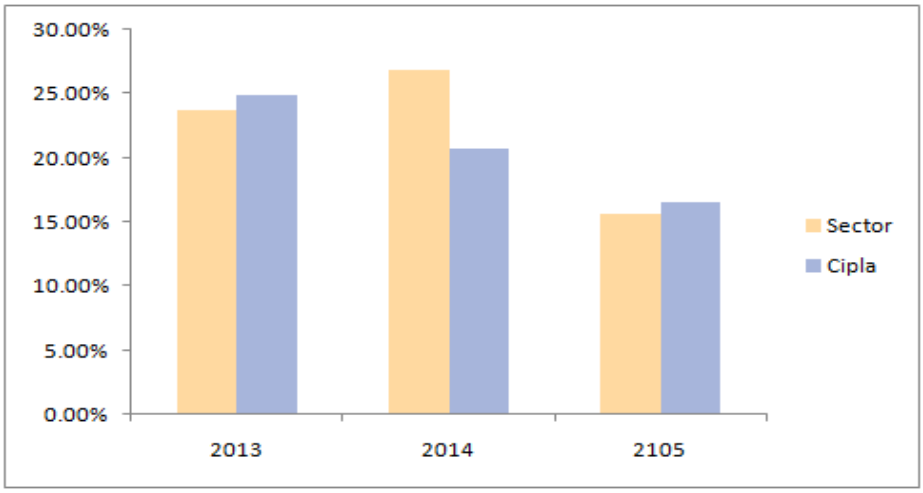


Fig 4.3 Net Operating Margin

4.1.6 Asset utilization

Cipla has beaten the industry average when it comes to Asset utilization and Return on Assets (Computed as EBIT/Total Assets). Both these numbers have been consistently high for Cipla as compared to industry average and signal towards efficient use of assets.

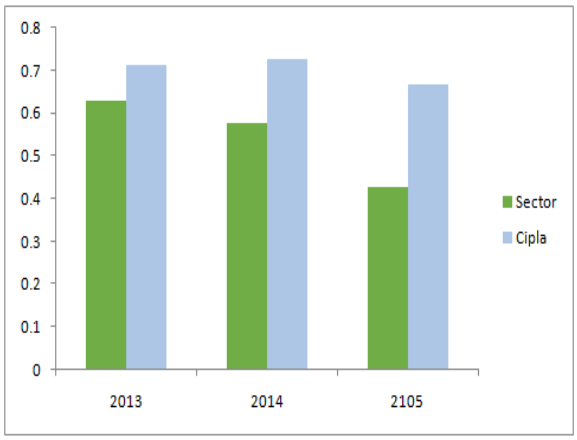


Fig 4.4 Asset Turnover

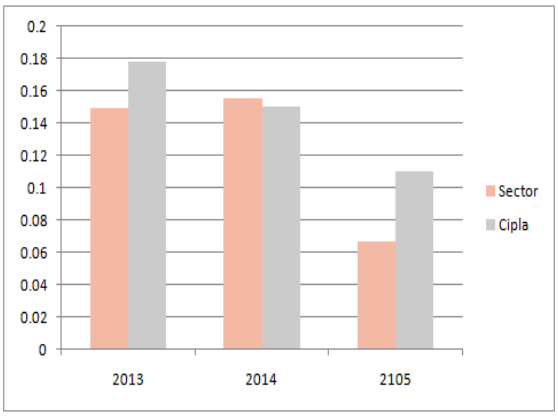


Fig 4.5 Return on Asset

4.1.7 Debt/Equity Ratio

D/E (in book value terms) ratio is 0.12 for Cipla as compared 0.20 for the industry. Although the sector as a whole has lower debt on its books we believe that there is scope for Cipla to add more debt in its capital structure. This will help lower the WACC and increase the value for the shareholders.

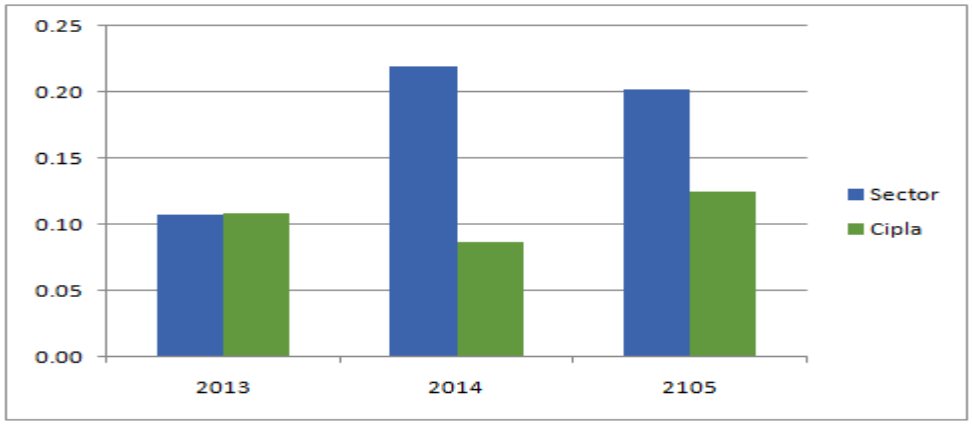


Fig 4.6 D/E Ratio

4.1.8 Interest Coverage Ratios:

Cipla has a healthy interest coverage ratio of 12.32 and DSCR of 1.38. Still the interest coverage ratio is lower than the industry average of 17.24. Though the D/E ratio for Cipla is lower than the industry average, the interest coverage ratio is higher. This indicates that Cipla should look out for cheaper sources of debt to lower its finance cost. This will also reduce WACC and increase the value of the company.

4.2 Important assumption

4.2.1 WACC assumption

Items	Assumptions	Reason	Source
Terminal Value	7.00%	We have assumed the long term nominal GDP of the India to be at around 7%.	
H-Model high growth period	10 Years	We have assumed that revenue growth of CIPLA will decrease from 16% in 2020 to 7% in 2030 in a linearly fashion.	*After 2030, The terminal rate is 7%.*
Marginal Tax Rate	34.61%	Tax rate use for the projection is marginal tax rate only as increase in profit, the application tax rate is marginal tax only	Damodaran; Date: 03-08-2016 :*http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/countrytaxrate.htm*
No. of Shares	802.92		From Annual report
Market Price	711		As on 31th march 2015 Source: Money control
Risk Free Rate	7.37%	Zero Coupon Yield Curve(The clearing corporation of India)	*www.ccilindia.com/RiskManagement/SecuritiesSegment/Pages/ZCYC.aspx Date accessed: 21-July*
Debt Spread	0.54%	Credit default Spread-Zero Coupon Yield Curve	Source: Bloomberg *Date accessed: 20-07-2016*
Cost of Debt	7.91%	Calculated as the addition of risk-free rate and the Debt Spread	
Levered Beta	0.43	Source: Reuters.in	
Market Risk Premium	9.28%	We have taken Market risk Premium for India given by Damodaran	Damodaran Date: 04-08-2016 *http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html*
Unlevered Cost of Equity	11.36%	Calculated as Ke=Kf+Beta*Rp	*Where Kf=Risk free rate, Rp= Market risk premium*
WACC	12.04%	Using existing D/E ratio we have calculated the WACC	*Assumption remain constant*

4.2.1 Assumption related to Income Statement

Items	Assumptions	Reason	Source
Net Revenue from Operation	16.00%		IBEF: Projected growth rate of Indian Pharma sector over 15% till 2020.
Other Income	2.41%	% of Net Revenue (Average of last three years)	Historically major part of Other income includes dividend income from current Investment and Net gain on Foreign Currency Translation. As both of these will grow in line with Net revenue(Assumption), we are assuming that other income would also increase in line with revenue.
Raw Material Consumed	-1.80%	Raw Material Consumed as % of Net Revenue will decrease by 1.8% each year. In Year 2020 it would be 25% in line with Industry average	CIPLA Raw material consumed as % of Net Revenue was around 45-48% of net revenue in 2001-0(Source: Business line). In 2011-12 it was 38.5 % of Net revenue. Now it has reduced to 34%. Seeing the historical trend and comparing it with historical average of Sector which is 25% of Net Revenue, we assumed that it would reduce to 25% of Net revenue in next 5 years in line with industry average. This reduction will happen linearly over these five years.
Purchase of Trading Goods	8.59%	% of Net sales (Average of last three years)	Purchase of Trading goods is assumed to be taken as % of Net Sales(Average of last 3 years)
Changes in inventory (except raw material inventory)		From Cash Conversion Cycle Schedule	It has been calculated after the calculation of WIP, finished goods and inventory of trading goods and taking the difference between these.
Employee Benefit Expenses	12.93%	% of Net sales	The Employee benefit expense of sector is 12.93% of Net Sales. We have assumed that CIPLA would take measures for cost cutting to reduce it expense benefit from current 14.65% to 12.93% of Net Sales from next year onwar

Items	Assumptions	Reason	Source
Other Expenses	24.90%	% of Net sales (Average of last three years)	Historically Cipla enjoys lower other expenses cost as compared to its industry peers in Selling and Distribution, Professional & Legal Cost and fuel Cost. We assume that it will enjoy the cost advantage in future years also.
Depreciation and Amortization		From Fixed Assets Schedule	Last year depreciation on fixed tangibles asset as % of opening gross fixed asset was 8.75%. We have assumed that it will remained constant. Also amortization is also assumed to be in line with historical trends.
Interest Charges		From Debt Schedule	For short term borrowings the rate assumed is 13% as given by SBI and for long term borrowings we have calculated from credit spread. As the long term rating of Cipla is AAA by Flitch, so we have calculated the credit spread over risk free rate to find out the cost on long term borrowings which is coming out to be 7.91%.
Exceptional Items		Historically zero	Assumed to be zero
Dividend		Constant	Assumed to be same as previous years. Dividend amount is very less and it has been constant in last 3-4 years. We do to maintain the status quo in dividend as of now.
(Tax Charges)	34.61%	Marginal Tax Rate	As profitability will increase, we expect tax expense as per marginal tax rate in India. Also the sector tax expense is also close to the marginal tax expense.

4.2.3 Assumption related to Balance Sheet

Items	Assumptions	Reason	Source
Share Capital	1605.90	Assumed to be Constant	
Long Term Borrowings		Debt Schedule	As the long term borrowings of CIPLA is very low as compared to the sector we are assuming that the future Capex requirement of the company are fulfilled with Long term borrowings. Also we have assumed that 20% of Long term borrowings will be repaid in each years with internal sources. Our debt to equity target ratio is 20.25% which is the sector debt to equity ratio. Our target is to maintain debt to equity below 20%.
Deferred Tax Liabilities (Net)	3.26%	% of Net revenue (Last year percentage)	Assumed trend in line with Historical average
Other Long Term Liabilities	0.39%	% of Net revenue (Last year percentage)	Assumed trend in line with Historical average
Long Term Provisions	1.50%	% of Net revenue (Last year percentage)	Assumed trend in line with Historical average
Short Term Borrowings		From Debt Schedule	As the short term borrowings of CIPLA is very low as compared to the sector we are assuming that all the future working capital requirement of the company are fulfilled with short term borrowings. We have assumed that CIPLA is paying back the short term debt and borrowings the same amount at the same cost, so there is no debt repayment in the debt schedule. Also short term debt and long term debt is made up to 20% of debt to equity ratios, after that we are using excess cash for any capex or short term requirement. Also the short term borrowings for working capital is taken from bank after making assurance that current asset are sufficient to back that loan.

Items	Assumptions	Reason	Source
Trade Payables		From Cash Conversion Cycle Schedule	Trade payables is calculated by assuming that Trade payables payment period will remain same as that of 2015. Also Industry trade payables payment period is almost equal to Cipla Trade payables payment period. So we do not see much scope of improvement.
Other Current Liabilities	3.48%	% of Net revenue(Last year percentage)	Other current liabilities as % of Net Revenue remain to be constant
Short Term Provisions	0.00%	% of Net revenue(Last year percentage)	Proposed dividend payment is the major part of Short term provisions which is constant from last 3 years. We assumed short term provision to remain constant.
Gross Fixed Assets	10.00%	Fixed Asset Schedule	We have assumed that Gross fixed asset grows at the last year growth rate (10%). Net tangible assets is calculated after subtraction of accumulated depreciation from the gross asset.
Intangible Assets	10.00%	Fixed Asset Schedule	We have assumed that Gross intangibles asset to grow at the rate of growth of gross fixed asset. Net tangible assets is calculated after subtracting of accumulated depreciation from the gross asset.
Capital Work in Progress	3390.00	Assumed to be Constant	We are assuming that capital work in progress to remain constant as some tangibles asset would be in construction at any particular time.
Intangible Assets Under Development	0.00%	Assumed to be Constant	We are assuming that Intangibles Assets under Development to remain constant as some Intangibles would be in development at any particular time.
Non-Current Investments	39.84%	% of Net revenue (Last year percentage)	As sector Non-Current Investment is skewed because of Sun Pharma, We are assuming that Cipla will maintain its investment in non-current as the % of Net revenue.
Long term loans and Advances: Subsidiary	518.30	Decreases by 518.3 crore each year	Long term loan and Advances majorly consists of interest free loan to subsidiary amounted to 259.15 crore. This loan to be repaid in next 3-6 years. We are assuming that it will be paid in next five years. Also we do not have intention to give further loan to any subsidiary which is interest free.

Items	Assumptions	Reason	Source
Long Term Loans and Advances: Others	3.13%	% of Net revenue (Last year percentage)	We have divided Long term loans and advances to subsidiary and to others. "Long Term Loans and Advances: Others" will remain constant as the % of net Revenue.
Other Non-Current Assets	0.64%	% of Net revenue (Last year percentage)	Other Non-current Assets as % of Net Revenue remain to be constant
Current Investments	3.79%	% of Net revenue (Last year percentage)	We are assuming that current investments in the company remain same as the % of the revenue. It has investment in mutual funds which has expected to give return of 13-15% in the long term which is more than the cost of long term debt and also after-tax cost of short term debt. Company has very low short term debt as well as long term debt, we purpose that company will increase both to take advantage of tax shield.
Inventories		From Cash Conversion Cycle Schedule	Inventories is calculated from the assumption of Inventory conversion cycle. Inventory conversion cycle of the CIPLA is very high as compared to industry and we supposed that it will reach sector inventory conversion cycle in next five year gradually decreasing.
Trade Receivables		From Cash Conversion Cycle Schedule	Trade Receivables is calculated from the assumption of Receivables conversion cycle. Receivables conversion period of the CIPLA is low as compared to the sector and we supposed that it will continue to maintain the current receivables conversion period.
Cash and Bank Balances		From Cash Flow Statement	It is a balancing figure obtained from Cash Flow statement.
Short Term Loans and Advances	5.82%	% of Net revenue(Last year percentage)	Short Term Loans and Advances as % of Net Revenue remains to be constant
Other Current Assets	1.52%	% of Net revenue(Last year percentage)	Other current Assets as % of Net Revenue remains to be constant

5. DEFENSE TAKEOVER MECHANISM

5.1 Option 1: Attack the logic of the bid

By attacking the logic of the bid, CIPLA is trying to persuade the shareholders that a takeover will have a harmful outcome on both the company and the stock price. The bid by the party is too low and is not adequately representative of the real value of the firm. We have to use the DCF method on standalone financials of Cipla to value the company and find out the intrinsic value of the firm. We have calculated the WACC which is 11.29%. The non-current investment and cash are added in the free cash flow of the CIPLA for calculation of the final intrinsic value. The non-current investment is consisting of investment in subsidiaries and added at book value in the balance sheet. The Intrinsic value is coming to be around is Rs 878.25 in 2015 which is at a 20% upside to the current price and Rs 967.75 estimated in 2016. Also if investors hold on to CIPLA and do not sell their stakes they will get more than 11% annual return. This is in addition to the dividend which the company is paying yearly. We believe that CIPLA has very high potential and it will continue to grow very rapidly. India is a very young country and demand for pharmaceutical would be very high in coming 10-20 years when this young population grows old. *The acquirer's offer of 15% premium to the current shareholders hugely undermines the potential return that CIPLA could give to the shareholders in the future years*.

Terms	**2015 A**	**2016 E**	**2017 E**	**2018 E**	**2019 E**	**2020 E**
Net Sales	*102,796.90*	*120,365.50*	*139,623.99*	*161,963.82*	*187,878.03*	*217,938.52*
EBIT	16,760.20	22,028.85	27,754.25	35,642.09	45,307.60	55,638.04
NOPAT	**10,959.49**	**14,404.67**	**18,148.50**	**23,306.36**	**29,626.64**	**36,381.71**
Add: Depreciation	4,332.00	5,290.31	5,819.33	6,401.26	7,041.38	7,745.51
Gross Cash Flow	**15,291.49**	**19,694.98**	**23,967.84**	**29,707.62**	**36,668.02**	**44,127.22**
Capex	5,219.50	4,205.80	5,810.34	6,391.37	7,030.51	7,733.56
Operating Wkg. Capital	38,932.90	41,705.96	45,622.03	49,868.08	54,486.87	61,586.46
Change in Op. Wkg. Cap	6,400.00	2,773.06	3,916.08	4,246.05	4,618.79	7,099.59
Gross Investment	**11,619.50**	**6,978.86**	**9,726.42**	**10,637.42**	**11,649.30**	**14,833.15**
Free Cash Flow	**3,671.99**	**12,716.12**	**14,241.42**	**19,070.20**	**25,018.72**	**29,294.07**
Terminal Value	1,037,235.73					
EV	677,715.62	741,532.91	811,031.69	883,550.08	958,309.35	1,037,235.73
Debt	13,806.10	22,389.50	26,546.90	30,601.46	35,838.32	42,123.31
Non-Current Investment	40,369.90	46,829.08	54,321.74	63,013.22	73,095.33	84,790.58
Cash	827.60	11,003.46	17,677.10	27,531.90	42,766.96	61,273.95
Equity	**705,107.02**	**776,975.96**	**856,483.63**	**943,493.74**	**1,038,333.33**	**1,141,176.95**
Intrinsic Value per Share	**878.25**	**967.75**	**1,066.75**	**1,175.00**	**1,293.25**	**1,421.25**
Share Price Date	*31-Mar-15*					

5.1Table : Intrinsic value of stock(in mn)

Sources of Capital	*Market Value 2015 ($ Million)*	*Weights*	*Before-Tax Cost*	*After-Tax Cost*
Short-term Debt(Book Value)	13,802.00	2.36%	13.00%	8.50%
Long-term Debt(Book Value)	4.10	0.00%	7.91%	5.17%
Equity	570,876.83	97.64%	11.36%	11.36%
Total	584,682.93	100.00%	**WACC**	**11.29%**

Table 5.2 WACC Calculation of Cipla Limited

5.2 Option 2: Leveraged Recapitalization

As we have seen that the intrinsic value of equity of the company is about 20% more than the market value of equity i.e. the shares are deeply undervalued. Therefore, we propose that Cipla announce a buyback of shares at 20% premium over the market price. This will serve two purposes. First we will be able to send a signal to the investors about the future growth prospects and also that the management believes in the valuation of the company. Secondly since the premium we are offering is higher than the acquirer's 15%, it will deter shareholders from approving the acquisition.

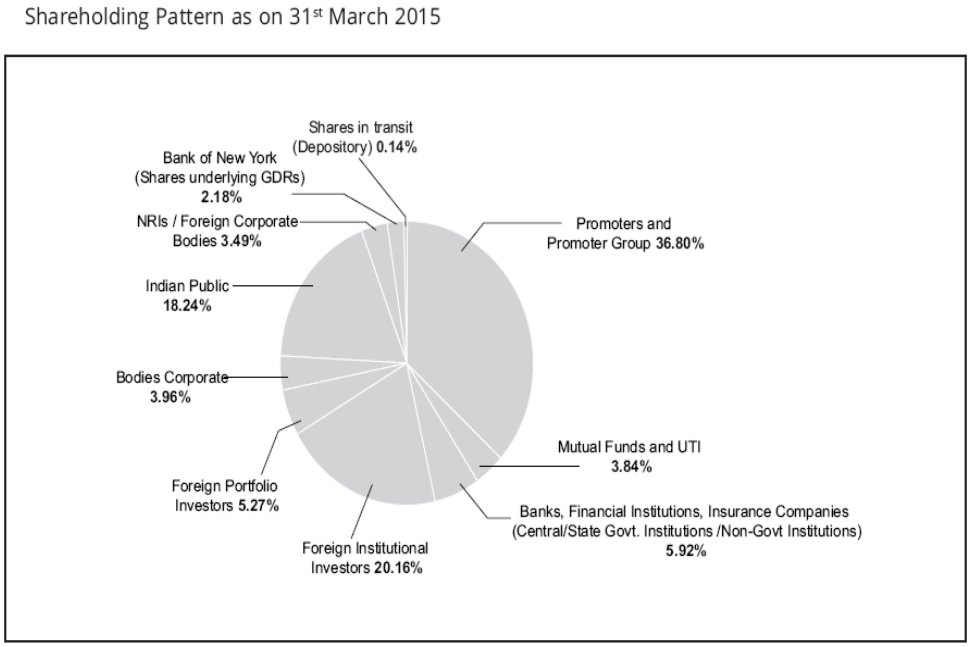


Fig 5.1 Shareholding Pattern

In order to increase promoter's stake in the company to a point that hostile takeover of the company becomes difficult, we estimate that Cipla will have to buy back 114.01 million shares from the public and institutional investors. Promoters have a 36.80% stake in the company. After buyback the promoter stake will increase to 51%. Also we propose that the company will continue to distribute Rs. 1,606 million (last three years' dividend) as dividends to its shareholders as our purpose is to keep the shareholder's happy and prevent them from accepting any takeover bids.

For buyback, the company needs Rs. 97,277.41 million. We propose to fund a portion of this requirement by liquidating current investments worth Rs. 3,841.10 million. The company will raise a long term debt of Rs. 93,436.31 million to fund the remaining requirement. With a CRISIL rating of AAA the cost of debt for long term borrowing is estimated as 7.91%. Because the loan amount is huge, we estimate that the company will have to pay a slightly higher interest rate of 9% for this loan. Given that the company has strong cash flows from operations to pay back the debt, we see no issues with raising this huge amount of capital from banks. The principal component of the loan will be repaid in equal installments of Rs 9,343.63 million in 10 years starting 2016.

Total shares (in millions)	802.92	
Total Promoter shares (in millions)	295.47	36.80%
Remaining Shares (in millions)	507.45	63.20%
For 51% Stake (in millions)	409.49	
Share to be bought back (in millions)	114.01	
Share Price (As on 31th march 2015)	711	
20% premium	853.2	
Funds Required for buyback (in millions)	97,277.41	
Current Investment Dilution	3,841.10	
Long Term Borrowings	93,436.31	

Table 5.3 Share Buyback Schedule

By our forecasts, the company's interest coverage ratio after buyback will decline from 12.32 in 2015 to 2.24 in 2016. But as the company will pay back the loan in the next 10 years, the ratio will gradually improve to 9.96 by 2022. Similarly, DSCR will go down below 1 in 2016 but will gradually improve to a healthy figure of 1.73 by 2022. The D/E ratio will shoot up close to 5

immediately after it raises debt but decline to a much comfortable figure of 0.49 by 2022 which is close to the industry average.

Ratios	**Formula Used**	**2015**	***2016***	***2017***	***2018***	***2019***	***2020***	***2021***	***2022***
Debt/Equity	(LT+ ST)/Total Equity	0.12	5.26	3.50	2.32	1.57	1.04	0.71	0.49
DSCR	CGFO/(ST+Principle payment + Interest Payment)	1.38	0.53	0.62	0.74	0.87	1.09	1.37	1.73
Interest Coverage	EBIT/ Interest Expense	12.32	2.24	2.81	3.58	4.50	5.81	7.57	9.96

Table 5.4 Effect of Debt in long run

As the company takes on loan there is a higher proportion of debt in the capital structure which reduces the WACC for the company. By our estimates, the WACC for the company reduces to 10.46% from around 11.29% initially. Also as we buy back the shares, number of shares outstanding will go down from 802.92 million to 688.93 million.

Sources of Capital	***Market Value 2016 ($ Million)***	***Weights***	***Before-Tax Cost***	***After-Tax Cost***
Short-term Debt(Book Value)	13,802.00	2.33%	13.00%	8.50%
Long-term Debt1(Book Value)	5,810.34	0.98%	7.91%	5.17%
Long-term Debt2(Book Value)	84,092.68	14.17%	9.00%	5.89%
Equity	489,812.32	82.53%	11.36%	11.36%
Total	593,517.34	100.00%	**WACC**	**10.46%**

Table 5.5 WACC Calculation of Cipla Limited (after share buyback)

This causes the intrinsic value of the company to spike to Rs 1224 per share by the end of 2016, an upside of 30% over the estimated price without buyback. Performing a leveraged recapitalization by buying back shares will create huge value for the remaining shareholders and is our most preferred route for mounting a defense against the acquirer.

The only downside of the buyback route is that the company will face a cash crunch for the next 3-4 years immediately after buyback due to increased finance cost and principal repayment of loan. As a result, the company will not invest in non-current investments till 2018.

	2015 A	**2016 E**	**2017 E**	**2018 E**	**2019 E**	**2020 E**	**2021 E**	**2022 E**
Net Sales	*102,797*	*120,366*	*139,624*	*161,964*	*187,878*	*217,939*	*252,809*	*293,258*
EBIT	16,760	22,029	27,754	35,642	45,308	55,638	68,810	85,625
NOPAT	10,959	14,405	18,149	23,306	29,627	36,382	44,995	55,990
Add: Depreciation	4,332	5,290	5,819	6,401	7,041	7,746	8,520	9,372
Gross Cash Flow	15,291	19,695	23,968	29,708	36,668	44,127	53,515	65,362
Capex	5,219	5,946	5,810	6,391	7,031	7,734	8,507	9,358
Operating Wkg. Capital	38,932	41,098	44,917	49,050	53,538	60,486	69,977	80,867
Change in Op. Wkg. Cap	6,400.00	2,165	3,819	4,133	4,488	6,948	9,491	10,890
Gross Investment	11,620	8,111	9,629	10,525	11,518	14,681	17,998	20,248
Free Cash Flow	3,672	11,584	14,339	19,183	25,150	29,446	35,517	45,114
Terminal Value	1,294,493							
EV	858,544	936,743	1,020,364	1,107,887	1,198,595	1,294,493	1,394,348	1,495,048
Debt	13,806	103,705	103,410	103,022	102,727	97,806	92,851	87,953
Non-Current Investment	40,370	40,370	40,370	40,370	73,095	84,791	98,357	114,094
Cash	828	1,315	7,060	17,475	1,124	5,762	14,339	30,688
Equity	885,936	874,723	964,385	1,062,710	1,170,087	1,287,240	1,414,193	1,551,877
Intrinsic Value per Share	**1,286**	**1,270**	**1,400**	**1,543**	**1,699**	**1,869**	**2,053**	**2,253**

Table 5.5 FCF Valuation(in mn)

5.2.1 Various Schedule are attached below

i) Income Statement Projection

	2015 A	**2016 E**	**2017 E**	**2018 E**	**2019 E**	**2020 E**	**2021 E**	**2022 E**
Net Revenue from Operations	101,318	117,529	136,333	158,147	183,450	212,802	246,850	286,346
	8.01%	*16.00%*	*16.00%*	*16.00%*	*16.00%*	*16.00%*	*16.00%*	*16.00%*
Other Income	1,479	2,837	3,291	3,817	4,428	5,137	5,958	6,912
% of Net Income from Operations	*1.46%*	*2.41%*	*2.41%*	*2.41%*	*2.41%*	*2.41%*	*2.41%*	*2.41%*
Total	*102,797*	*120,366*	*139,624*	*161,964*	*187,878*	*217,939*	*252,809*	*293,258*
Expenditure								
Raw Material Consumed	34,267	37,635	41,202	44,948	48,838	52,821	56,829	60,768
% of Net Income from Operations	*34%*	32%	30%	28%	27%	25%	23%	21%
Purchase of Trading Goods	9,034	10,099	11,715	13,590	15,764	18,287	21,212	24,606
% of Net Income from Operations	*8.92%*	*8.59%*	*8.59%*	*8.59%*	*8.59%*	*8.59%*	*8.59%*	*8.59%*
Changes in inventory (except raw material inventory)	-3,491	140	733	599	419	1,657	2,560	2,830
Employee Benefit Expenses	15,056	15,196	17,628	20,448	23,720	27,515	31,918	37,025
% of Net Income from Operations	*14.86%*	*12.93%*	*12.93%*	*12.93%*	*12.93%*	*12.93%*	*12.93%*	*12.93%*
Other Expenses	26,838	29,976	34,772	40,335	46,789	54,275	62,959	73,032
% of Net Income from Operations	*26.11%*	*24.90%*	*24.90%*	*24.90%*	*24.90%*	*24.90%*	*24.90%*	*24.90%*
Total	*81,705*	*93,046*	*106,050*	*119,920*	*135,529*	*154,555*	*175,478*	*198,261*
EBITDA	**21,092**	**27,319**	**33,574**	**42,043**	**52,349**	**63,384**	**77,330**	**94,997**
(Depreciation and Amortization)	4,332	5,290	5,819	6,401	7,041	7,746	8,520	9,372
EBIT	**16,760**	**22,029**	**27,754**	**35,642**	**45,308**	**55,638**	**68,810**	**85,625**
(Interest Charges)	1,361	9,822	9,891	9,969	10,073	9,581	9,088	8,598
PBT before Exceptional Items	15,400	12,207	17,863	25,673	35,235	46,057	59,723	77,027
Exceptional Items	0	0	0	0	0	0	0	0
PBT	**15,400**	**12,207**	**17,863**	**25,673**	**35,235**	**46,057**	**59,723**	**77,027**
(Tax Charges)	3,589	4,225	6,182	8,885	12,195	15,940	20,670	26,659
PAT	**11,811**	**7,982**	**11,681**	**16,787**	**23,040**	**30,116**	**39,053**	**50,368**
Dividend	1,606	1,606	1,606	1,606	1,606	1,606	1,606	1,606
Tax on Dividend	273	273	273	273	273	273	273	273
Income to Reserve and Surplus	9,932	6,103	9,802	14,909	21,162	28,238	37,174	48,489

Table 5.6 Income Statement Projection(in mn)

ii) Balance Sheet Projection

	2015 A	*2016 E*	*2017 E*	*2018 E*	*2019 E*	*2020 E*	*2021 E*	*2022 E*
Equity and Shareholder's Funds & Liabilities								
Share Capital	1,606	1,378	1,378	1,378	1,378	1,378	1,378	1,378
Reserves and Surpluses	109,29	18,349	28,151	43,060	64,222	92,459	129,633	178,122
	110,90	*19,727*	*29,529*	*44,438*	*65,599*	*93,837*	*131,011*	*179,500*
Non-Current Liabilities								
Long Term Borrowings	4	89,903	85,789	81,268	76,485	71,564	66,609	61,712
Deferred Tax Liabilities(Net)	3,306	3,835	4,448	5,160	5,986	6,944	8,054	9,343
% of Net Income from Operations	*3.26%*	*3.26%*	*3.26%*	*3.26%*	*3.26%*	*3.26%*	*3.26%*	*3.26%*
Other Long Term Liabilities	400	464	538	624	724	840	975	1,130
% of Net Income from Operations	*0.39%*	*0.39%*	*0.39%*	*0.39%*	*0.39%*	*0.39%*	*0.39%*	*0.39%*
Long Term Provisions	1,519	1,762	2,044	2,371	2,751	3,191	3,702	4,294
% of Net Income from Operations	*1.50%*	*1.50%*	*1.50%*	*1.50%*	*1.50%*	*1.50%*	*1.50%*	*1.50%*
Current Liabilities								
Short Term borrowings	13,802	13,802	17,621	21,754	26,242	26,242	26,242	26,242
Trade payables	14,966	16,498	18,290	20,232	22,328	24,576	26,973	29,507
Other current liabilities	3,524	4,088	4,742	5,501	6,381	7,402	8,586	9,960
% of Net Income from Operations	*3.48%*	*3.48%*	*3.48%*	*3.48%*	*3.48%*	*3.48%*	*3.48%*	*3.48%*
Short Term Provisions	3,495	3,495	3,495	3,495	3,495	3,495	3,495	3,495
% of Net Income from Operations	*3.45%*	*2.97%*	*2.56%*	*2.21%*	*1.91%*	*1.64%*	*1.42%*	*1.22%*
	35,787	*24,081*	*44,147*	*50,982*	*58,446*	*61,715*	*65,296*	*69,204*
Total	151,91	153,574	166,496	184,843	209,991	238,091	275,646	325,183
Assets								
Non-Current Assets								
Tangible Assets	34,683	35,303	35,986	36,736	37,561	38,469	39,468	40,566
Intangible Assets	1,253	1,288	1,326	1,368	1,414	1,465	1,521	1,583
Capital Work in Progress	3,390	3,390	3,390	3,390	3,390	3,390	3,390	3,390
% of Net Income from Operations	*3.35%*	*2.88%*	*2.49%*	*2.14%*	*1.85%*	*1.59%*	*1.37%*	*1.18%*
Intangible Assets Under Development	217	217	217	217	217	217	217	217
% of Net Income from Operations	*0.21%*	*0.18%*	*0.16%*	*0.14%*	*0.12%*	*0.10%*	*0.09%*	*0.08%*
Non-Current Investments	40,370	40,370	40,370	40,370	73,095	84,791	98,357	114,094
% of Net Income from Operations	*39.84%*	*34.35%*	*29.61%*	*25.53%*	*39.84%*	*39.84%*	*39.84%*	*39.84%*
Loans to Subsidiaries	2,592	2,073	1,555	1,037	518	0	0	0
Long Term Loans and Advances to others	3,176	3,684	4,273	4,957	5,750	6,670	7,737	8,975
% of Net Income from Operations	*3.13%*	*3.13%*	*3.13%*	*3.13%*	*3.13%*	*3.13%*	*3.13%*	*3.13%*
Other Non-Current Assets	651	756	876	1,017	1,179	1,368	1,587	1,841
% of Net Income from Operations	*0.64%*	*0.64%*	*0.64%*	*0.64%*	*0.64%*	*0.64%*	*0.64%*	*0.64%*
Current Assets								
Current Investments	3,841	0	0	0	0	0	0	0
% of Net Income from Operations	*3.79%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*
Inventories	32,892	33,277	34,437	35,350	35,946	38,196	42,025	46,103
% of Net Income from Operations	*32.46%*	*28.31%*	*25.26%*	*22.35%*	*19.59%*	*17.95%*	*17.02%*	*16.10%*
Trade Receivables	20,589	23,883	27,705	32,137	37,279	43,244	50,163	58,189
% of Net Income from Operations	*20.32%*	*20.32%*	*20.32%*	*20.32%*	*20.32%*	*20.32%*	*20.32%*	*20.32%*
Cash and Bank Balances	828	1,315	7,060	17,475	1,124	5,762	14,339	30,688
	2015 A	***2016 E***	***2017 E***	***2018 E***	***2019 E***	***2020 E***	***2021 E***	***2022 E***
Short Term Loans and Advances	5,900	6,844	7,939	9,209	10,682	12,391	14,374	16,674

% of Net Income from Operations	*5.82%*	*5.82%*	*5.82%*	*5.82%*	*5.82%*	*5.82%*	*5.82%*	*5.82%*
Other Current Assets	1,537	1,175	1,363	1,581	1,834	2,128	2,469	2,863
% of Net Income from Operations	*1.52%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*
	65,587	*66,494*	*78,503*	*95,753*	*86,866*	*101,721*	*123,369*	*154,517*
Total	151,91	153,574	166,496	184,843	209,991	238,091	275,646	325,183

Table 5.7 Balance Sheet Projections(in mn)

iii) Cash Flow Projection

Cash Flow Statement (Fig. in Millions)								
	2015A	***2016 E***	***2017 E***	***2018 E***	***2019 E***	***2020 E***	***2021 E***	***2021 E***
A) Cash Flow From Operating Activities								
Net Profit Before Tax	15400	12207	17863	25673	35235	46057	59723	77027
Adjustments For								
Finance Cost	1355	9822	9891	9969	10073	9581	9088	8598
Depreciation	4332	5290	5819	6401	7041	7746	8520	9372
Loss on Sale of Fixed Assets	177							
Operating Profits Before Working Capital Changes (i.e. FGFO)	20910	*27319*	*33574*	*42043*	*52349*	*63384*	*77330*	*94997*
Adjustments For								
Increase in Current Assets (Other than Cash)	(14240)	(420)	(6264)	(6834)	(7464)	(10217)	(13072)	(14798)
Increase in Current Liabilities	6255	2096	2446	2701	2976	3269	3581	3908
Deferred Tax Liabilities(Net)	194	529	614	712	826	958	1111	1289
Increase/(Decrease) in Other Non-Current Liabilities	879	307	356	413	479	556	645	748
Cash Generated From Operations	**13998**	***29831***	***30725***	***39035***	***49166***	***57950***	***69595***	***86144***
(Income Tax Paid)	3484	4225	6182	8885	12195	15940	20670	26659
Net Cash Flow From Operating Activities	**10514**	**25606**	**24542**	**30150**	**36971**	**42009**	**48925**	**59485**
B) Cash Flow From Investing Activities								
Purchase of Fixed Assets	(5326)	(5946)	(6540)	(7194)	(7913)	(8704)	(9575)	(10532)
Non-current asset	(102)	(94)	(192)	(306)	(437)	(590)	(1286)	(1492)

Purchase of Non-Current Investment	(6514)	0	0	0	(32725)	(11695)	(13566)	(15737)
Net Cash Flow From Investing Activities	**(11942)**	**(6040)**	**(6732)**	**(7499)**	**(41076)**	**(20990)**	**(24427)**	**(27761)**
C) Cash Flow From Financing Activities								
Issue of Equity Shares	0	(228)	0	0	0	0	0	0
Share buyback		(97049)						
From Issuance/(Repayment) of Short-Term Debt	5029	0	3819	4133	4488	0	0	0
From Issuance/(Repayment) of Long-Term Debt	(0)	89899	(4114)	(4521)	(4783)	(4921)	(4955)	(4897)
Interest	(1355)	(9822)	(9891)	(9969)	(10073)	(9581)	(9088)	(8598)
Dividend	(1606)	(1606)	(1606)	(1606)	(1606)	(1606)	(1606)	(1606)
Tax on Dividend	(273)	(273)	(273)	(273)	(273)	(273)	(273)	(273)
Net Cash Flow From Financing Activities	1795	**(19079)**	**(12066)**	**(12236)**	**(12246)**	**(16381)**	**(15921)**	**(15374)**
Net Increase in Cash & Cash Equivalents	**367**	***487***	***5745***	***10415***	***(16351)***	***4638***	***8576***	***16349***
Reconciliation								
Cash & Cash Equivalents at the beginning of the year	460	828	1315	7060	17475	1124	5762	14339
Cash & Cash Equivalents at the end of the year	**828**	**1315**	**7060**	**17475**	**1124**	**5762**	**14339**	**30688**

Table 5.8 Cash Flow Projections(in mn)

iv) Debt Repayment Schedule

	2015	2016	2017	2018	2019	2020	2021	2022
Long Term Debt								
Opening Debt1		0	5,810	11,040	15,862	20,423	24,846	29,234
Issuance Debt1		5,810	6,391	7,031	7,734	8,507	9,358	10,293
(Repayment Debt1)		0	1,162	2,208	3,172	4,085	4,969	5,847
Closing Debt1	*4*	*5,810*	*11,040*	*15,862*	*20,423*	*24,846*	*29,234*	*33,681*
Opening Debt 2		0	84,093	74,749	65,405	56,062	46,718	37,375
Issuance Debt 2		93,436	0	0	0	0	0	0
(Repayment Debt 2)		9,344	9,344	9,344	9,344	9,344	9,344	9,344
Closing Debt2	*0*	*84,093*	*74,749*	*65,405*	*56,062*	*46,718*	*37,375*	*28,031*
Total LT Debt	*4*	*89,903*	*85,789*	*81,268*	*76,485*	*71,564*	*66,609*	*61,712*
Short Term Debt								
Opening		13,802	13,802	17,621	21,754	26,242	26,242	26,242
Issuance		0	3,819	4,133	4,488	0	0	0
Repayment		0	0	0	0	0	0	0
Closing Debt	*13,802*	*13,802*	*17,621*	*21,754*	*26,242*	*26,242*	*26,242*	*26,242*

Table 5.9 Debt Repayment Schedule(in mn)

5.3 Option 3: White Knight Defense

The acquirer is offering the shareholders a 15% premium over the market value of the shares. To prevent the hostile takeover, we intend to start a bidding war. We propose to ask one of our friendly parties (the white knight) to takeover Cipla at a higher premium of 20%. The acquirer will then have to bid a higher premium than 20% and this will increase the cost of acquiring for the acquirer. This bidding war will hopefully discourage a takeover by the acquirer.

A somewhat similar solution will be to go for a White Squire Defense where we will ask the friendly party to acquire a minority interest in Cipla at a higher premium than offered by the acquirer. This again will discourage the acquirer from taking over.

5.4 Option 4: PAC- Man Defense

The Pac-Man defense is a strategy in which a company that is facing a hostile takeover from another company essentially turns the tables and attempts to purchase the would-be buyer. The defensive strategy gets its name from the popular arcade video game of the 1980s - Pac-Man. In the game, Pac-Man's initial goal is to evade the enemies chasing him. However, when Pac-Man consumes the "power pill", he is able to turn around and eat the enemies that once had been in pursuit of him.

Two Important assumption related to counter offer:

- We are assuming that acquiring company is Dr. Reddy. So we are making a counter offer to Dr. Reddy Shareholders.
- The share price of Dr. Reddy is the correct intrinsic value

As Institutions have around50.5 % of the Dr. Reddy shares, we are making this offer by focusing on them. We are paying 15% premium on the current price. As the Fitch rating of CIPLA is AAA and its long term borrowings to debt ratios is nearly zero, we may go for this strategy, given that the debt would be available at the favorable rate.***It should be our last resort if none of the above mentioned method works for us. Total amount to be paid is 341,191 million.***

i)Important Assumption:

We are doing this exercise just to show that Cipla has enough cash to acquire Dr. Reddy.

Current Investment: We will liquidate current investment (384 Crore) and no investment will be made in current investment.

Capex: Capex is not made only for the year 2016. Form next year onwards Cipla will invest in capex as required.

Non-current Investment: Non-current investment assumed to be remain constant for the next few years.

Short term loans: Cipla will not give loans to any party. It will remain constant.

Long term loans; We have assumed that long term loan will also be remain constant.

Dividend: Cipla will not pay the dividend as it will generate enough funds for the counter offer.

Tax: As profit will become negative, we expect that Cipla will not pay tax in next three years and will take benefit of accumulated losses. Also tax paid is taken to be average of last 3 years.

Short term borrowing: We have assumed Cipla will not raise additional short term borrowings as the rate is very high 13%.

Long term Borrowing: We have assumed Cipla will borrow the remaining amount from long term sources at the rate 9%.

Loan to subsidiaries: Cipla has given interest free loan to subsidiaries. We assumed that Cipla will make sure it will get that amount as the need is urgent.

We have also assumed that cash can be increased after acquiring the company by making sure that the acquired company pay dividend as historical payout ratio or more than that.

ii)Counter-offer money requirement:

Total shares	170.38
For 50.5% Stake	86.04
Share Price (As on 31th march 2015)	3487
15 % premium	4010.05
Funds Required for buyback	345,032.32
Current Investment Dilution	3,841.10
Long Term Borrowings	341,191.22

Table 5.10 ***Dr. Reddy (all figures in million)***

5.4.1 Various Schedule are attached below

i)P & L

	2013 A	2014 A	2015 A	2016 E	2017 E	2018 E	2019 E	2020 E	2021 E	2022 E
Revenue										
Net Revenue from Operations	82,024	93,803	101,318	117,529	136,333	158,147	183,450	212,802	246,850	286,346
	17.56%	*14.36%*	*8.01%*	*16.00%*	*16.00%*	*16.00%*	*16.00%*	*16.00%*	*16.00%*	*16.00%*
Other Income	2,291	2,803	1,479	2,837	3,291	3,817	4,428	5,137	5,958	6,912
% of Net Income from Operations	*2.79%*	*2.99%*	*1.46%*	*2.41%*	*2.41%*	*2.41%*	*2.41%*	*2.41%*	*2.41%*	*2.41%*
Total	*84,316*	*96,606*	*102,797*	*120,366*	*139,624*	*161,964*	*187,878*	*217,939*	*252,809*	*293,258*
Expenditure										
Raw Material Consumed	26,468	31,453	34,267	37,635	41,202	44,948	48,838	52,821	56,829	60,768
% of Net Income from Operations	*31%*	*34%*	*34%*	32%	30%	28%	27%	25%	23%	21%
Purchase of Trading Goods	7,069	7,734	9,034	10,099	11,715	13,590	15,764	18,287	21,212	24,606
% of Net Income from Operations	*8.62%*	*8.24%*	*8.92%*	*8.59%*	*8.59%*	*8.59%*	*8.59%*	*8.59%*	*8.59%*	*8.59%*
Changes in inventory (except raw material inventory)	-2,908	-1,581	-3,491	140	733	599	419	1,657	2,560	2,830
Employee Benefit Expenses	9,693	12,848	15,056	15,196	17,628	20,448	23,720	27,515	31,918	37,025
% of Net Income from Operations	*11.82%*	*13.70%*	*14.86%*	*12.93%*	*12.93%*	*12.93%*	*12.93%*	*12.93%*	*12.93%*	*12.93%*
Other Expenses	20,510	23,454	26,838	29,976	34,772	40,335	46,789	54,275	62,959	73,032
% of Net Income from Operations	*24.33%*	*24.28%*	*26.11%*	*24.90%*	*24.90%*	*24.90%*	*24.90%*	*24.90%*	*24.90%*	*24.90%*
Total	*60,833*	*73,908*	*81,705*	*93,046*	*106,050*	*119,920*	*135,529*	*154,555*	*175,478*	*198,261*

	2013 A	**2014 A**	**2015 A**	**2016 E**	**2017 E**	**2018 E**	**2019 E**	**2020 E**	**2021 E**	**2022 E**
EBITDA	**23,483**	**22,698**	**21,092**	**27,319**	**33,574**	**42,043**	**52,349**	**63,384**	**77,330**	**94,997**
(Depreciation and Amortization)	3,030	3,236	4,332	5,290	5,819	6,401	7,041	7,746	8,520	9,372
EBIT	**20,452**	**19,462**	**16,760**	**22,029**	**27,754**	**35,642**	**45,308**	**55,638**	**68,810**	**85,625**
(Interest Charges)	334	1,279	1,361	32,847	31,393	28,956	26,536	23,726	20,925	18,136
PBT before Exceptional Items	20,119	18,183	15,400	-10,818	-3,638	6,686	18,772	31,912	47,885	67,489
Exceptional Items	0	0	0	0	0	0	0	0	0	0
PBT	**20,119**	**18,183**	**15,400**	**-10,818**	**-3,638**	**6,686**	**18,772**	**31,912**	**47,885**	**67,489**
(Tax Charges)	5,048	4,300	3,589	0	0	0	4,374	7,435	11,157	15,725
	25.09%	*23.65%*	*23.30%*	*23.30%*	*23.30%*	*23.30%*	*23.30%*	*23.30%*	*23.30%*	23.30%
PAT	**15,071**	**13,883**	**11,811**	**-10,818**	**-3,638**	**6,686**	**14,398**	**24,476**	**36,728**	**51,764**
Dividend	1,606	1,606	1,606		0	0	0	0	0	0
Tax on Dividend	273	273	273		0	0	0	0	0	0
Income to Reserve and Surplus	13,192	12,005	9,932	-10,818	-3,638	6,686	14,398	24,476	36,728	51,764

Table 5.11 Profit & Loss Statement(in mn)

ii)Balance Sheet

	2015 A	***2016 E***	***2017 E***	***2018 E***	***2019 E***	***2020 E***	***2021 E***	***2022 E***
Equity and Liabilities								
Shareholder's Funds								
Share Capital	1,606	1,606	1,606	1,606	1,606	1,606	1,606	1,606
Reserves and Surpluses	109,296	98,477	94,839	101,525	115,923	140,399	177,127	228,891
	110,902	*100,083*	*96,445*	*103,131*	*117,529*	*142,005*	*178,733*	*230,497*
Non-Current Liabilities								
Long Term Borrowings	4	345,032	326,920	296,169	265,371	234,605	203,942	173,447
Deferred Tax Liabilities(Net)	3,306	3,835	4,448	5,160	5,986	6,944	8,054	9,343
% of Net Income from Operations	*3.26%*	*3.26%*	*3.26%*	*3.26%*	*3.26%*	*3.26%*	*3.26%*	*3.26%*
Other Long Term Liabilities	400	464	538	624	724	840	975	1,130
% of Net Income from Operations	*0.39%*	*0.39%*	*0.39%*	*0.39%*	*0.39%*	*0.39%*	*0.39%*	*0.39%*
Long Term Provisions	1,519	1,762	2,044	2,371	2,751	3,191	3,702	4,294
% of Net Income from	*1.50%*	*1.50%*	*1.50%*	*1.50%*	*1.50%*	*1.50%*	*1.50%*	*1.50%*

Operations								
	2015 A	***2016 E***	***2017 E***	***2018 E***	***2019 E***	***2020 E***	***2021 E***	***2022 E***
Current Liabilities								
Short Term borrowings	13,802	13,802	16,526	19,389	22,403	22,403	22,403	22,403
Trade payables	14,966	16,498	18,290	20,232	22,328	24,576	26,973	29,507
Other current liabilities	3,524	4,088	4,742	5,501	6,381	7,402	8,586	9,960
% of Net Income from Operations	*3.48%*	*3.48%*	*3.48%*	*3.48%*	*3.48%*	*3.48%*	*3.48%*	*3.48%*
Short Term Provisions	3,495	3,495	3,495	3,495	3,495	3,495	3,495	3,495
% of Net Income from Operations	*3.45%*	*2.97%*	*2.56%*	*2.21%*	*1.91%*	*1.64%*	*1.42%*	*1.22%*
	35,787	*24,081*	*43,052*	*48,617*	*54,607*	*57,876*	*61,457*	*65,365*
Total	151,918	489,060	473,449	456,073	446,968	445,461	456,863	484,077
Assets								
Non-Current Assets								
Tangible Assets	34,683	35,303	35,986	36,736	37,561	38,469	39,468	40,566
Intangible Assets	1,253	1,288	1,326	1,368	1,414	1,465	1,521	1,583
Capital Work in Progress	3,390	3,390	3,390	3,390	3,390	3,390	3,390	3,390
% of Net Income from Operations	*3.35%*	*2.88%*	*2.49%*	*2.14%*	*1.85%*	*1.59%*	*1.37%*	*1.18%*
Intangible Assets Under Development	217	217	217	217	217	217	217	217
% of Net Income from Operations	*0.21%*	*0.18%*	*0.16%*	*0.14%*	*0.12%*	*0.10%*	*0.09%*	*0.08%*
Non-Current Investments	40,370	40,370	40,370	40,370	73,095	84,791	98,357	114,094
% of Net Income from Operations	*39.84%*	*34.35%*	*29.61%*	*25.53%*	*39.84%*	*39.84%*	*39.84%*	*39.84%*
Loans to Subsidiaries	2,592	0	0	0	0	0	0	0
Long Term Loans and Advances to others	3,176	3,176	3,176	3,176	3,176	3,176	3,176	3,176
% of Net Income from Operations	*3.13%*	*2.70%*	*2.33%*	*2.01%*	*1.73%*	*1.49%*	*1.29%*	*1.11%*
Other Non-Current Assets	651	756	876	1,017	1,179	1,368	1,587	1,841
% of Net Income from Operations	*0.64%*	*0.64%*	*0.64%*	*0.64%*	*0.64%*	*0.64%*	*0.64%*	*0.64%*
Current Assets								
Current Investments	3,841	0	0	0	0	0	0	0
% of Net Income from Operations	*3.79%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*
Inventories	32,892	33,277	34,437	35,350	35,946	38,196	42,025	46,103
% of Net Income from Operations	*32.46%*	*28.31%*	*25.26%*	*22.35%*	*19.59%*	*17.95%*	*17.02%*	*16.10%*

Trade Receivables	20,589	23,883	27,705	32,137	37,279	43,244	50,163	58,189
	2015 A	***2016 E***	***2017 E***	***2018 E***	***2019 E***	***2020 E***	***2021 E***	***2022 E***
% of Net Income from Operations	*20.32%*	*20.32%*	*20.32%*	*20.32%*	*20.32%*	*20.32%*	*20.32%*	*20.32%*
Cash and Bank Balances	828	340,325	318,704	294,831	245,976	223,119	208,591	206,155
Short Term Loans and Advances	5,900	5,900	5,900	5,900	5,900	5,900	5,900	5,900
% of Net Income from Operations	*5.82%*	*5.02%*	*4.33%*	*3.73%*	*3.22%*	*2.77%*	*2.39%*	*2.06%*
Other Current Assets	1,537	1,175	1,363	1,581	1,834	2,128	2,469	2,863
% of Net Income from Operations	*1.52%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*
	65,587	*404,560*	*388,108*	*369,800*	*326,935*	*312,586*	*309,148*	*319,210*
Total	151,918	489,060	473,449	456,073	446,968	445,461	456,863	484,077

Table 5.12 Balance Sheet Projection(in mn)

iii)Cash Flow Statement

	2015A	***2016 E***	***2017 E***	***2018 E***	***2019 E***	***2020 E***	***2020 E***	***2020 E***
A) Cash Flow From Operating Activities								
Net Profit Before Tax	15400	(10818)	(3638)	6686	18772	31912	47885	67489
Adjustments For								
Finance Cost	1355	32847	31393	28956	26536	23726	20925	18136
Depreciation	4332	5290	5819	6401	7041	7746	8520	9372
Loss on Sale of Fixed Assets	177							
Operating Profits Before Working Capital Changes (i.e. FGFO)	20910	*27319*	*33574*	*42043*	*52349*	*63384*	*77330*	*94997*
Adjustments For								
Increase in Current Assets (Other than Cash)	(14240)	524	(5169)	(5564)	(5990)	(8508)	(11089)	(12499)
Increase in Current Liabilities	6255	2096	2446	2701	2976	3269	3581	3908
Deferred Tax Liabilities(Net)	194	529	614	712	826	958	1111	1289
Increase/(Decrease) in Other Non-Current Liabilities	879	307	356	413	479	556	645	748
Cash Generated From Operations	**13998**	***30775***	***31820***	***40305***	***50639***	***59659***	***71578***	***88443***
(Income Tax Paid)	3484	0	0	0	4374	7435	11157	15725
Net Cash Flow From Operating Activities	**10514**	**30775**	**31820**	**40305**	**46266**	**52223**	**60420**	**72719**
B) Cash Flow From Investing Activities								
Purchase of Fixed Assets	(5326)	(5946)	(6540)	(7194)	(7913)	(8704)	(9575)	(10532)
Non-current asset	(102)	2487	(121)	(140)	(163)	(189)	(219)	(254)
Purchase of Non-Current Investment	(6514)	0	0	0	(32725)	(11695)	(13566)	(15737)
Net Cash Flow From Investing Activities	**(11942)**	**(3458)**	**(6661)**	**(7334)**	**(40801)**	**(20588)**	**(23360)**	**(26523)**
C) Cash Flow From Financing Activities								
Issue of Equity Shares	0	0	0	0	0	0	0	0

From Issuance/(Repayment) of Short-Term Debt	5029	0	2724	2863	3015	0	0	0
	2015A	***2016 E***	***2017 E***	***2018 E***	***2019 E***	***2020 E***	***2020 E***	***2020 E***
From Issuance/(Repayment) of Long-Term Debt	(0)	345028	(18112)	(30751)	(30798)	(30766)	(30663)	(30495)
Interest	(1355)	(32847)	(31393)	(28956)	(26536)	(23726)	(20925)	(18136)
Dividend	(1606)	0	0	0	0	0	0	0
Tax on Dividend	(273)		0	0	0	0	0	0
Net Cash Flow From Financing Activities	1795	**312181**	**(46781)**	**(56844)**	**(54320)**	**(54492)**	**(51587)**	**(48632)**
Net Increase in Cash & Cash Equivalents	**367**	***339498***	***(21622)***	***(23873)***	***(48855)***	***(22857)***	***(14527)***	***(2436)***
Reconciliation								
Cash & Cash Equivalents at the beginning of the year	460	828	340325	318704	294831	245976	223119	208591
Cash & Cash Equivalents at the end of the year	**828**	**340325**	**318704**	**294831**	**245976**	**223119**	**208591**	**206155**

Table 5.13 Cash Flow Projection(in mn)

iv) Debt Schedule

	2015A	***2016 E***	***2017 E***	***2018 E***	***2019 E***	***2020 E***	***2020 E***	***2020 E***
Long Term Debt								
Opening Debt1		0	0	16,391	20,144	23,848	27,586	31,426
Issuance Debt1		0	16,391	7,031	7,734	8,507	9,358	10,293
(Repayment Debt1)		0	0	3,278	4,029	4,770	5,517	6,285
Closing Debt1	*4*	*0*	*16,391*	*20,144*	*23,848*	*27,586*	*31,426*	*35,434*
Opening Debt 2		0	345,032	310,529	276,026	241,523	207,019	172,516
Issuance Debt 2		**345,032**	**0**	**0**	**0**	**0**	**0**	**0**
(Repayment Debt 2)			34,503	34,503	34,503	34,503	34,503	34,503
Closing Debt2	*0*	*345,032*	*310,529*	*276,026*	*241,523*	*207,019*	*172,516*	*138,013*
Total LT Debt	*4*	*345,032*	*326,920*	*296,169*	*265,371*	*234,605*	*203,942*	*173,447*
Short Term Debt								
Opening		13,802	13,802	16,526	19,389	22,403	22,403	22,403
Issuance			2,724	2,863	3,015	0	0	0
Repayment		0	0	0	0	0	0	0
Closing Debt	*13,802*	*13,802*	*16,526*	*19,389*	*22,403*	*22,403*	*22,403*	*22,403*
Finance Cost	1,361	32,847	31,393	28,956	26,536	23,726	20,925	18,136
Effective Interest rate	9.86%							
Interest on new short term debt	**13.00%**	SB5-SB6						
Interest on long term debt1	**7.91%**	AAA						
Interest on long term debt2	**9.00%**							

- Debt 2 is for counter offer

Table 5.14 Debt Schedule Projection(in mn)

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DELHI SCHOOL OF MANAGEMENT

MBA Batch 2015-17

Adherence Sheet

S. No	Date	Things to be completed	Mentor's Signature	Scholar's Signature
1	7/2/2017	Title Finalization		
2	1/3/2017	Literature Review & Questionnaire finalization		
3	26/3/2017	Data Collection		
4	13/4/2017	Data Analysis and first draft		
5	24/4/2017	Second Draft		
6	2/5/2017	Final Report		