



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Charulata Gaidhani (022) 67141446

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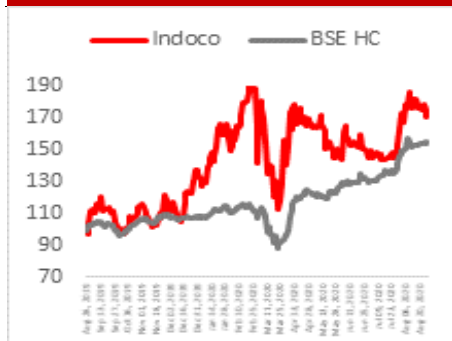
BUY on Dips

Current Price	221
Target Price	258
Upside	17%
52 Week Range	133/285

Key Share Data

Market Cap (Rs.bn)	22
Market Cap (US\$bn)	301
No of o/s shares (mn)	92
Face Value	2
Monthly Avg.vol (BSE+NSE) Nos'000	262
BSE Code	532612
NSE Code	INDOCO
Bloomberg	INDR:IN

Price performance



Consistent earnings growth ahead

Post USFDA clearance to Goa plant 2 & 3, Indoco has launched 5 products in the US over the last few quarters, including a few injectables. We believe Indoco will benefit as a fully integrated low cost player in exports to the regulated markets. We expect the traction in existing products in the US and new launches will help improve profitability. Further, Indoco's strategy to move from contract manufacturing to own filings in Europe will improve profitability in the long run. **India legacy brands like Cyclopm, Febrex Plus, Sensodent K, ATM, Cital continue to grow with 8 chronic launches in FY20.** We believe Indoco's earnings will grow 96% CAGR to Rs 925 mn by FY22, and will consistently grow over the next 3-5 years. **We initiate coverage on Indoco Remedies with BUY on Dips.**

Ramp up in US and Europe through existing and new launches

US contribution to increase from 5% in FY20 to 15% by FY22. Indoco has 23 ANDAs pending USFDA approval, including 7 injectables and 3 ophthalmic products. US revenues to grow 72% CAGR to Rs 1676 mn by FY22E. Regulated market revenues to grow 27% CAGR to Rs 4251 mn by FY22E. In Emerging markets, revenues to grow at 8% CAGR to Rs 871 mn by FY22E.

India growth from legacy products, lockdown challenges

India (66% of total) revenues will be flattish in FY21 due to lower patient footfalls, impacting acute therapy (90% of India sales). Indoco has forayed into diabetes and cardiovascular and expects chronic contribution to increase from 10% to 15% over 2-3 years. India revenues to grow 5% CAGR to Rs 8042 mn by FY22E.

Profitability to improve through better product mix

Sales +13% CAGR to Rs 13.8 bn by FY22. In view of better product mix and lower expenses due to the lockdown, we believe EBITDA margins will increase 370 bps to 14.8% in FY21. We expect PAT to grow 96% CAGR to Rs 925 mn by FY22E.

Outlook & Valuation

At Rs 221, Indoco trades at 22x FY22E EPS of Rs 10.1. We have valued Indoco by DCF and arrived at a target price of **Rs 258**.

We recommend investors to **BUY on Dips**.

% Shareholding	Jun-20	Mar-20
Promoters	58.68	58.68
FII	2.00	1.97
DII	14.52	15.51
Others	24.77	23.78
Total	100	100

Key Financials

Year	Net sales	% Growth	EBIDTA	OPM (%)	PAT	% Growth	EPS	PE (x)	RoE (%)	RoCE (%)
FY18	10,453	(4.7)	1,349	12.9	411	(47)	4.5	50	6.1	7.1
FY19	9,684	(7.4)	767	7.9	(29)		(0.3)	(700)	(0.4)	0.6
FY20	11,066	14.3	1,232	11.1	241		2.6	84	3.5	5.9
FY21E	12,490	12.9	1,843	14.8	603	150	6.5	34	8.6	11.4
FY22E	14,132	13.1	2,289	16.2	925	53	10.0	22	12.1	15.1



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Indoco Remedies is a small manufacturer of pharmaceutical formulations and active pharmaceutical ingredients (API) in India. The company's manufacturing facilities are at Goa, Baddi, Waluj and Patalganga. Indoco has been a product development partner to few clients in Europe & US and also has filed its own ANDAs. US launches have been through a marketing partner.

In FY20, Indoco sales were at Rs 11 bn, spread across India (66% of sales), Europe (14%), US (5%), South Africa (1%), Emerging markets (8%) and APIs(7%).

US business to grow multifold with traction in existing products and new launches

In March'19, Indoco received clearance from USFDA for Goa plant 2 & 3. The company commenced Glimipride supplies to the US from Q2FY20 resulting in 127% growth in US revenues to Rs 565 mn in FY20. In Q1FY21, US sales were 10x higher yoy on low base at Rs 268 mn and sequentially flat due to the lockdown.

FY20 US launches include Glimipride and Zoledronic. In FY21, Indoco launched Rasagline Mesylate, Glycopyrate injection and Allopurinol in the US. As of now, Indoco has 5 own products in the US, with more launches coming up. The launch of injectables and ophthalmic products will improve product mix leading to higher margins. We expect US sales to grow at 72% CAGR from Rs 565 mn in FY20 to Rs 1676 mn by FY22.

US Portfolio

Generic	Market size	Treatment	Number of players	Launch	Indian players
Glimepiride	\$42 mn	Diabetes	17	Q2FY20	Dr. Reddy's, AUrobindo, Sun
Rasagiline Mesylate	\$ 106 mn	Parkinsons	7	Apr'20	Alkem
Glycopyrolate Inj.	\$ 120 mn	Peptic Ulcers	14	Apr'20	Aurobindo, Piramal, Gland Pharma
Allopurinol	\$107 mn	Gout, Kidney stones	4	Apr'20	IPCA, Zydus
Febuxostat	\$500 mn	Prevention of Gout	7		Sun, Alembic
Succinylcholine Chloride	\$72 mn	Muscle relaxant - Intravenous	18		Dr. Reddy's, Zydus, Gland Pharma
Tranexamic Inj.			13		Aurobindo, Gland, Zydus
Brimonidine Tartrate	\$150 mn	Ophthalmic	7		Indoco
Zoledronic Inj.		Gynecology	20		Sun, Dr. Reddy's, Shilpa, Gland Aurobindo
Olapatidine	FTF	Ophthalmic			
Olanzapine	\$65 mn		13		Auro, DRL, Zydus, Alkem, Sun, Cipla, Torrent
Linezolid	Pending approval	Anti infective			
Brinzolamide	Pending approval	Ophthalmic			

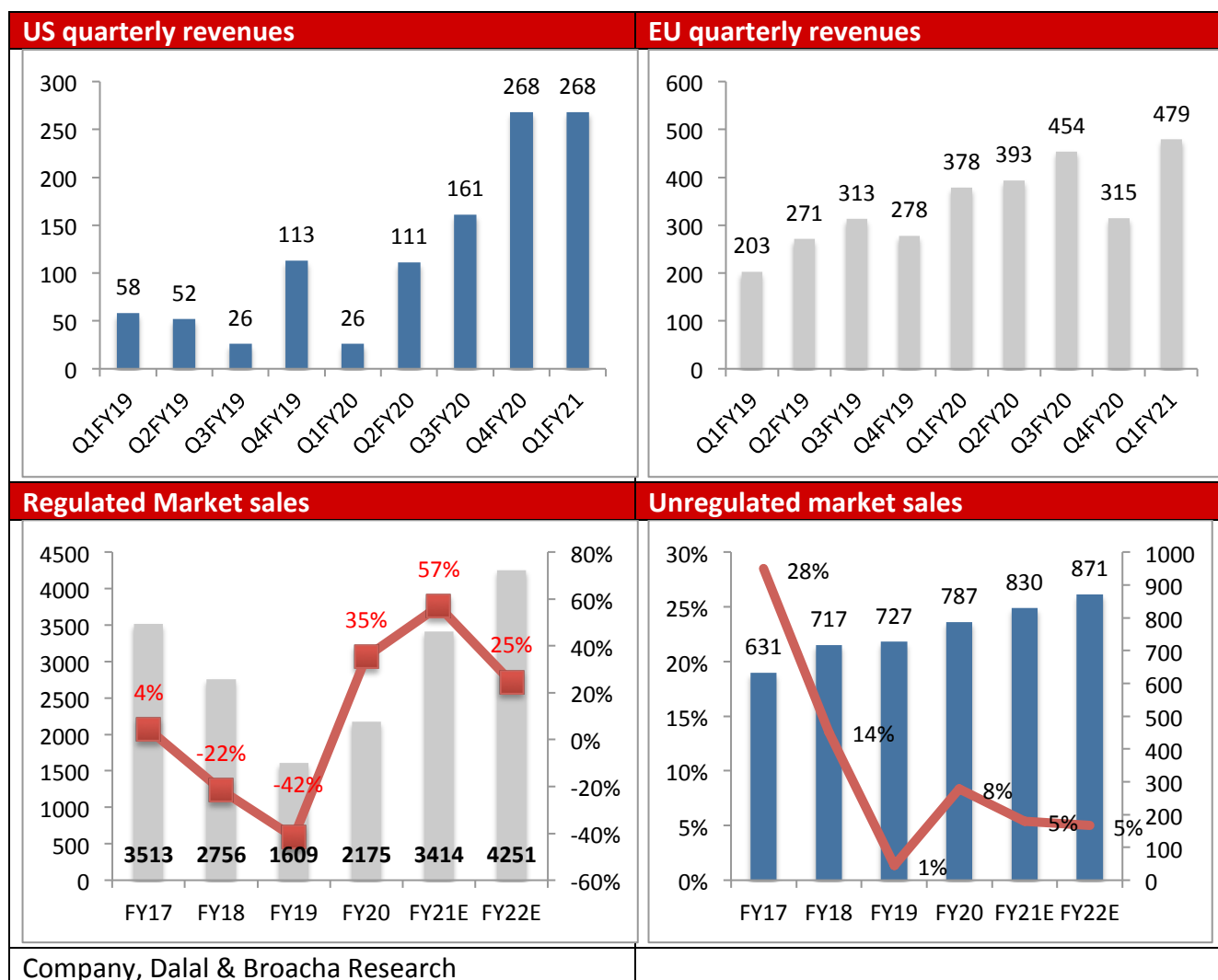
Indoco has 23 ANDAs (own) pending USFDA approval of which 7 are injectables, 3 ophthalmic and 13 oral solids.



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In Europe, Indoco has presence as a contract manufacturer in UK and other parts of Europe. Indoco has benefitted from **higher demand for paracetamol in UK** and other European markets. In FY20, Europe revenues grew 45% to Rs 1540 mn. In Q1FY21 Europe revenues grew 27% to Rs 479 mn. The company has strategised to move from contract manufacturing to its own products, in order to improve profitability. Indoco has filed its own dossiers and will commence launches in FY22. **We expect Europe revenues to grow at 27% CAGR from Rs 1540 mn in FY20 to Rs 2499 mn by FY22E.**

In South Africa, Indoco is a contract manufacturer and has scaled down its operations. We expect revenues from South Africa to grow from Rs 70 mn in FY20 to Rs 75 mn by FY22E.



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FY20 regulated market revenues grew 35% to Rs 2175 mn. In Q1FY21, revenue growth was at 77% to Rs 765 mn. **We expect regulated market revenues to grow 27% CAGR from Rs 2175 mn in FY20 to Rs 4251 mn by FY22E.**

Growth in Emerging markets thru own dossiers

In FY20 revenues from Emerging markets grew 8% to Rs 787 mn. In Q1FY21 18% to Rs 190 mn. **We expect emerging markets to grow 8% CAGR to Rs 871 mn by FY22E.**

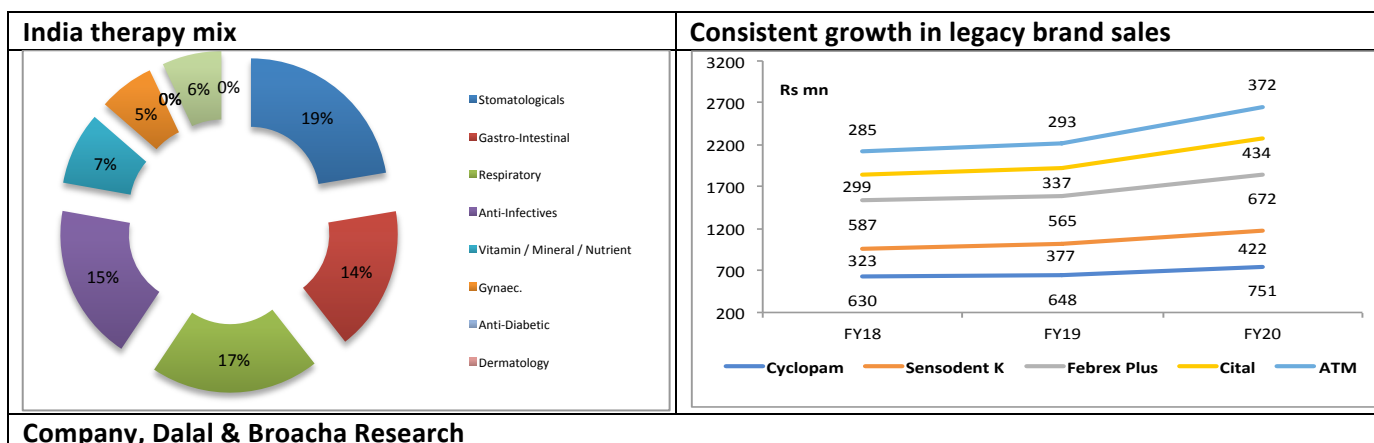
India business to grow through legacy brands and new chronic launches

In FY20, Indoco's India business grew 10% to Rs 7257 mn. The 13% growth in formulations to Rs 6862 mn was partially offset by 11% degrowth in APIs to Rs 289 mn and 44% degrowth in research services (CRO) to Rs 109 mn.

In Q1FY21, India business degrew 9% to Rs 1576 mn due to 9% degrowth in formulations to Rs 1475 mn, 8% degrowth in APIs to Rs 84 mn and 36% degrowth in CRO to Rs 17 mn. The business was impacted due to the lockdown leading to low footfalls at the retail chemists.

With 90% of India formulations in the acute category, **Indoco's India business comprises legacy brands (55-60% of India sales), like Cyclopham, Febrex Plus, Sensodent K, Cital, ATM, to name some. Growth brands include Sensodent K and extensions, Febrex Plus, ATM, Karvol to name a few.**

By therapy, **stomatologicals is the largest therapy followed by Gastrointestinal, respiratory and anti infectives.** In the current Covid19 related environment, Indoco's stomatologicals and respiratory therapies have continued growth in FY21.





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Indoco has strategised to launch new chronic products mainly in Diabetes and cardiovascular therapies. In FY20 Indoco launched 8 new products in chronic therapies. The company has launched Alogliptin a first to market product in diabetes. Indoco also launched APIXABID, which has a stay from the Delhi High Court. The company plans to increase its contribution of chronic products from 10% to 15% over the next 2-3 years. **We expect India business to grow at 5% CAGR from Rs 7257 mn in FY20 to Rs 8042 mn by FY22E.**

TOP INDOCO BRANDS IN INDIA

Cyclopam (dicyclomine and paracetamol) used in the treatment of mild to moderate pain. FY20 Cyclopam sales were Rs. 750-800 Mn growing at 16% YoY.

Febrex Plus (Chlorpheniramine maleate, Paracetamol and Phenylephrine) used in the treatment of common cold and fever. FY20 Febrex Plus sales Rs. 670-700 Mn growing at 19% YoY.

Cital (Disodium Hydrogen Citrate) used in the treatment of gout and kidney. FY20 Cital sales were Rs. 430-450 Mn growing at 29% YoY.

Sensodent K (Potassium nitrate) used to provide long lasting sensitivity relief and cavity protection. FY20 Sensodent K sales were Rs. 420-450 Mn growing at 12% YoY. In Q1FY21, Sensodent K grew 21% to Rs 141 mn.

Oxipod (Cefpodoxime Proxetil) used to treat bacterial infections in your body. FY20 Oxipod sales were Rs. 390-430 Mn growing at 23% YoY.

ATM (Azithromycin) used to treat various types of bacterial infections of the respiratory tract, ears, skin, etc. in adults and children. FY20 ATM sales were Rs. 370-400 Mn growing at 27% YoY.

Karvol (CAMPHOR, Chlorothymol, Eucalyptol, MENTHOL and Terpeneol) used to treat nasal congestion. FY20 Karvol sales were Rs. 220-250 Mn growing at 12% YoY.

Methycal (Calcium Carbonate, Vitamin D, Folic acid, Methylcobalamin and Vitamin B6) used as a stimulus for regeneration and efficient conduction of nerve cells. FY20 Methycal sales were Rs. 160-200 Mn declining by -16% YoY.

Sensodent (potassium nitrate topical and sodium monofluoro phosphate topical) helps in repairing sensitive areas of teeth and prevent cavities. FY20 Sensodent KF sales were Rs. 200-250 Mn growing at 12% YoY.

Sensoform (Strontium chloride) used in treatment of gingivitis and pyorrhea. FY20 Sensoform sales were Rs. 200-230 Mn growing at 5% YoY.

Regulatory - USFDA clearance to Goa plant I

Indoco has appointed consultants for remediation of Goa plant 1, which is currently under Warning letter from the USFDA.



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Key risks

1. Impact on anti infectives due to lower monsoon
2. Delays in USFDA approvals to ANDAs
3. Delays in clearance to Warning letter for Goa plant 1.

Valuation

We have valued Indoco Remedies using DCF and arrived at a **target price of Rs 258 per share.**

DCF Calculation	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY28E	FY28E	FY28E
PBIT	570.9	676.0	704.3	913.2	1201.3	1113.2	971.5	719.1	112.2	548.3	1078.6	1458.6	1802.1	2075.4	2409.3	2836.7	3382.6	4016.5	4751.7	5603.8	6590.7
	24%	18%	4%	30%	32%	-7%	-13%	-26%	-84%	389%	97%	35%	24%	15%	16%	18%	19%	19%	18%	18%	18%
PBIT*(1-Tax Rate)	515.8	611.1	620.3	733.0	908.1	922.0	823.2	611.5	35.0	462.7	798.2	1079.4	1333.5	1535.8	1782.9	2099.2	2503.2	2972.2	3516.2	4146.8	4877.1
Change in working capital: (Incr)/Decr	(509.3)	27.2	(126.6)	195.5	(394.2)	31.3	(317.8)	1892.7	825.3	(67.0)	(289.6)	(154.5)	47.9	91.8	122.6	(128.8)	(135.2)	(142.0)	(149.1)	(156.5)	(164.4)
Capex	(508.7)	(881.7)	(487.0)	(413.6)	(797.5)	14.8	(1217.1)	(900.0)	0.0	(1660.7)	(500.0)	(800.0)	(1000.0)	(1200.0)	(1200.0)	(1200.0)	(1200.0)	(1200.0)	(1200.0)	(1200.0)	(1200.0)
GFA	2958.8	4035.8	4469.4	4816.8	5474.6	5459.8	7245.8	7129.7	7129.7	8790.4	9290.4	10090.4	11090.4	12290.4	13490.4	14690.4	15890.4	17090.4	18290.4	19490.4	20690.4
Asset TO	1.6	1.4	1.4	1.5	1.6	1.8	1.5	1.5	1.4	1.3	1.3	1.4	1.4	1.4	1.4	1.5	1.6	1.7	1.9	2.0	2.2
-FCFF	(502.2)	(243.4)	6.7	514.9	(283.6)	968.1	(711.7)	1604.2	860.3	(1265.0)	8.6	124.8	381.5	427.6	705.6	770.4	1167.9	1630.2	2167.2	2790.3	3512.8
-FCFF Growth Rate	2035.9%	-51.5%	-102.8%	7581.0%	-155.1%	-441.3%	-173.5%	-325.4%	-46.4%	-247.0%	-100.7%	1357.8%	205.6%	12.1%	65.0%	9.2%	51.6%	39.6%	32.9%	28.8%	25.9%
-Cost of Capital (%)	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%	12.2%	12.2%	12.2%	12.2%	12.2%	12.2%	12.2%	12.2%	12.2%	12.2%	12.2%	12.2%	12.2%	12.2%	12.2%
-Weight Assigned	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0
-Present Value	(502.2)	(243.4)	6.7	514.9	(283.6)	968.1	(711.7)	1604.2	860.3	(1265.0)	8.1	111.3	303.0	302.7	445.2	433.3	585.4	728.3	862.9	990.2	1111.0
Sum of PV of FCF	5881																				
Calculation of Terminal Value																					
Terminal Year Free Cash Flow	3688																				
Terminal Growth Rate	5.0%																				
Terminal Enterprise Value	51228																				
Terminal Value	16202																				
Enterprise Value	22084																				
Add: Cash & Investments	3720																				
Less: Debt	2029																				
Market Capitalisation	23774																				
No. of shares	92.2																				
Value per share	258																				
CMP	221																				
% upside	17																				
WACC for explicit forecast																					
Expected Market Return (Rm)	15.0%																				
Risk Free Rate (Rf)	8.0%																				
Country Premium (Rm-Rf)	7.0%																				
Beta	0.6																				
Cost of Equity	12.2%																				
Cost of Debt	13.0%																				
Tax rate	26.0%																				
Post Tax Cost of Debt	9.6%																				
WACC	11.6%																				
Debt	2029.1																				
Equity	6795.7																				
Total	8824.8																				

258.0	WACC				
	11.3%	12.3%	12.2%	13.2%	14.2%
3.0%	248	214	217	190	168
4.0%	272	232	235	203	178
5.0%	304	254	258	220	190
6.0%	347	283	288	241	205
7.0%	411	323	330	269	225

WACC for terminal growth	
Expected Market Return (Rm)	15.0%
Risk Free Rate (Rf)	8.0%
Country Premium (Rm-Rf)	7.0%
Beta	0.6
Cost of Equity	12.2%
Cost of Debt	13.0%
Tax rate	26.0%
Post Tax Cost of Debt	9.6%
Long term debt to capital ratio	
WACC	12.2%



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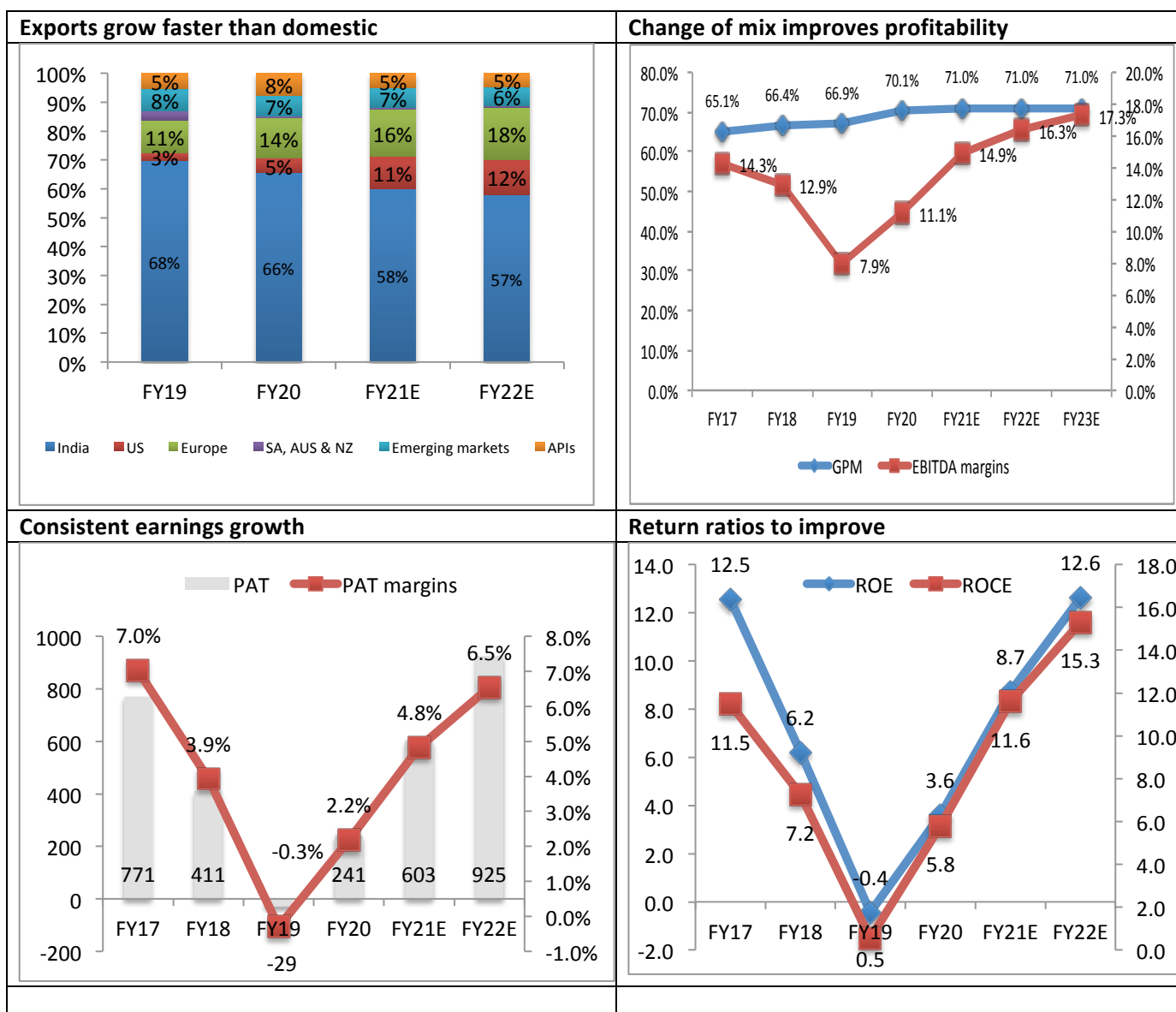
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Financials

Sales : We expect Indoco revenues to grow at 13% CAGR to Rs 13.8 bn in FY22, driven by exports to regulated markets (+27%), unregulated markets (+8%) and India (+5% CAGR) business.

Profitability improvement – We expect gross margins to increase 100 bps to 71% over FY21 and FY22. We expect EBITDA margins to increase from 11.1% in FY20 to 14.8% in FY21 in view of the lower expenses with the lockdown.





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Indoco will benefit as a fully integrated low cost player in the US. We expect Indoco to benefit from fully integrated operations for its formulations in India as well as exports. **With repayment of debt in FY22, lower interest costs will lead to higher earnings growth.**

Company background

Indoco Remedies Ltd., is a fully integrated, research-oriented manufacturer of pharmaceutical Formulations (Finished Dosage Forms) and Active Pharmaceutical Ingredients (APIs). Indoco has 9 manufacturing facilities, 6 for finished dosages and 3 for APIs, supported by a state-of-the-art R&D centre at Rabale, Navi Mumbai and a Clinical Research Organisation (CRO) at Hyderabad.

In FY20, Indoco Remedies had annual turnover of Rs 11066 Million, 66% from India and balance from exports to regulated and emerging markets. Indoco has 6000 employees including 2300 MRs for the Indian market.

Promoted by Mr. Suresh G. Kare, the Company has transformed into the fully integrated, research oriented pharma organisation, from a contract manufacturing company earlier. The Managing Director at Indoco, Ms. Aditi Kare Panandikar is a third generation entrepreneur who has sharp business acumen, backed by techno-commercial skills.

Year	Company Milestones
2016	Indoco Honoured with the IDMA Best Patent Award for Three International Patents
	Indoco acquires Oral Solid Dosage manufacturing facility in Baddi from Micro Labs Ltd., Bangalore
	Indoco's Allopurinol ANDA gets USFDA approval Acquired CRO for bioequivalence studies from Piramal.
2017	Indoco honoured with the 'Best Patent Award' by PHARMEXCIL in Bulk Drugs
	Indoco receives UKMHRA approval for solid dosages Plant I in Goa
	Indoco receives the IDMA Best Patent Award for four API Process Patents
2018	Indoco receives patent grant for Linezolid & Brinzolamide (FDFs) from United States Patent and Trademark Office (USPTO) Warning Letter to Goa plants I, II and III
	Indoco's API manufacturing facilities at Patalganga and Rabale successfully clear USFDA inspection
	Indoco's Goa plant III receives EU GMP certification
2019	Indoco receives the IDMA Best Indian Patent Award for five API Process Patents
	Indoco's Clinical Research Organisation receives zero 483s from USFDA
	Indoco's new solid dosages facility at Baddi receives UK-MHRA approval
2020	Indoco's Goa Sterile Manufacturing Facility (Plant II) Clears USFDA Inspection Goa Plant III clears USFDA inspection
	Olopatadine ANDA filed from Indoco's Goa Plant II receives USFDA approval
	Indoco receives USFDA approval for Succinylcholine Chloride Injection USP Indoco receives USFDA approval for Olanzapine Tablets



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INDOCO REMEDIES LTD - FINANCIALS											
P&L (Rs mn)	FY18	FY19	FY20	FY21E	FY22E	Cash Flow St. (Rs. mn)	FY18	FY19	FY20	FY21E	FY22E
Net Sales	10,453	9,684	11,066	12,490	14,132	Net Profit	411	(29)	241	603	925
Raw materials	(3,512)	(3,203)	(3,304)	(3,622)	(4,098)	Add: Dep. & Amort.	677	716	708	790	858
Employee costs	(2,209)	(2,317)	(2,565)	(2,822)	(3,104)	Cash profits	1,088	687	949	1,393	1,783
Other Expenses	(3,383)	(3,399)	(3,964)	(4,203)	(4,641)	(Inc)/Dec in					
Cost of sales	(9,104)	(8,918)	(9,834)	(10,647)	(11,843)	-Sundry debtors	62	137	(143)	(294)	(508)
Operating Profit	1,349	767	1,232	1,843	2,289	-Inventories	(64)	99	(249)	(141)	(292)
Depreciation	(677)	(716)	(708)	(790)	(858)	-Loans/advances	311	0	0	(0)	(0)
PBIT	672	51	524	1,054	1,431	-Sundry creditors	(145)	212	(51)	(19)	215
Other income	47	61	24	25	27	-Others	1,729	377	376	164	431
Interest	(236)	(205)	(263)	(264)	(208)	Change in working capital	1,893	825	(67)	(290)	(155)
Profit before tax	483	(93)	286	815	1,250	CF from Oper. activities	2,981	1,512	882	1,103	1,628
Provision for tax	(72)	64	(45)	(212)	(325)	CF from Inv. activities	(1,515)	(1,370)	(322)	(527)	(800)
Reported PAT	411	(29)	241	603	925	CF from Fin. activities	(123)	(293)	(388)	(336)	(655)
Extraordinary Items	-	-	-	-	-	Cash generated/(utilised)	1,343	(152)	173	240	173
Adjusted PAT	411	(29)	241	603	925	Cash at start of the year	2,355	3,699	3,547	3,720	3,960
						Cash at end of the year	3,699	3,547	3,720	3,960	4,133
Balance Sheet	FY18	FY19	FY20	FY21E	FY22E	Ratios	FY18	FY19	FY20	FY21E	FY22E
Equity capital	184	184	184	184	184	OPM	12.9	7.9	11.1	14.8	16.2
Reserves	6,566	6,422	6,611	6,853	7,456	NPM	3.9	(0.3)	2.2	4.8	6.5
Net worth	6,750	6,606	6,796	7,037	7,640	Tax rate	(15.0)	(68.8)	(15.6)	(26.0)	(26.0)
Def. Tax Liab.+Minority Int	96	73	128	154	185	Growth Ratios (%)					
Total debt	2,577	2,421	2,029	2,029	1,665	Net Sales	(5)	(7)	14	13	13
CAPITAL EMPLOYED	9,422	9,100	8,953	9,220	9,490	Operating Profit	(14)	(43)	61	50	24
						PAT	(47)	(107)	(929)	150	53
Gross block	7,130	7,130	8,790	9,290	10,090	Per Share (Rs.)					
Accumulated depreciation	(2,719)	(2,719)	(3,427)	(4,216)	(5,074)	Net Earnings (EPS)	4.5	(0.3)	2.6	6.5	10.0
Net block	4,411	4,411	5,364	5,074	5,016	Cash Earnings (CPS)	11.8	7.5	10.3	15.1	19.3
Capital WIP	758	1,412	73	100	100	Dividend	2.0	2.0	2.0	2.0	2.0
Total fixed assets	5,169	5,823	5,437	5,174	5,116	Book Value	73.2	71.7	73.7	76.4	82.9
Goodwill	1	1	1	1	1	Free Cash Flow	22.6	16.4	(8.4)	6.5	9.0
Investments	0	0	0	0	0	Valuation Ratios					
Inventories	1,934	1,835	2,083	2,224	2,517	P/E(x)	50	(700)	84	34	22
Sundry debtors	2,095	1,958	2,101	2,395	2,904	P/B(x)	3	3	3	3	3
Cash & bank	3,699	3,547	3,720	3,960	4,133	EV/EBIDTA(x)	14	25	15	10	8
Loans & advances	5	4	4	4	5	EV/SALES(x)	2	2	2	1	1
Other current assets	1,217	1,119	1,026	1,129	1,241	Div. Yield(%)	1	1	1	1	1
Sundry creditors	(1,495)	(1,707)	(1,656)	(1,637)	(1,853)	FCF Yield(%)	10	7	(4)	3	4
Acceptances	(2,692)	(2,879)	(3,014)	(3,131)	(3,496)	Return Ratios (%)					
Provisions	(509)	(602)	(749)	(899)	(1,078)	ROE	6.1	(0.4)	3.5	8.6	12.1
Working capital	4,253	3,276	3,515	4,045	4,373	ROCE	7.1	0.6	5.9	11.4	15.1
Deferred Tax Assets	-	-	-	-	-						
Miscellaneous exp.	-	-	-	-	-						
CAPITAL DEPLOYED	9,422	9,100	8,953	9,220	9,490						



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