

Hindustan Constructions

Q3FY11 Result Review

24 January 2011

Buy

Target Price: Rs54

From Rs69 earlier

CMP: Rs40

Upside: 34%

*as on 21 January 2011

"Environment" hobbles growth

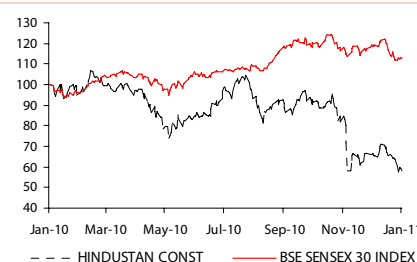
Order-intake and execution environment were at the core of the Q3FY11 results & outlook discussions at the analysts' meet apart from Lavasa. HCC's order-intake was NIL. Slower execution was on account of environmental issues/clearances as HCC's major order-book share is in environmentally sensitive Hydro-power projects. Revenue was in-line at Rs10bn (10% off from street), EBITDA slightly below at Rs1.3bn whereas adj. PAT were 32% & 45% below ours & street expectations. On Lavasa, HCC is ready to approach MoEF to sort out issues (next hearing 27th Jan) and seems positive on the outcome. We reduce FY12 earnings by 33% on disappointing order-intake in H2FY11 & execution challenges. Maintain Buy (TP Rs54).

- **Order-book:** HCC has not bagged any orders in Q3, and is also concerned over Q4FY11 outlook. Lack/Deferred decision making by clients are impacting order-intake for the construction industry.
- **Financial Position** – FCCB, due in couple of months, seemed to be a secondary issue from HCC's point of view after Lavasa. Cash of Rs3.8bn + undrawn credit limit of Rs3bn is enough to redeem Rs4.4bn FCCB.
- **Maintain Buy – with downward revision in estimates:** We maintain a positive view on HCC on reasonable valuations, but downgrade earnings sharply for FY12 on lame H2FY11 order-intake & execution challenges. We also reduce P/E multiple ascribed to it from 14X to 10X for core EPC business, with no change in valuation of Lavasa (HCC's share Rs20bn). Our new target price is Rs54.
- **Lavasa remains a key near-term trigger:** Lavasa project now contributes ~2/3rd of our HCC valuation; any material news would impact HCC's share price.

Key Data

| | |
|--------------------------|------------|
| Bloomberg Code | HCC IN |
| Reuters Code | HCNS.BO |
| Current Shares O/S (mn) | 606.5 |
| Diluted Shares O/S (mn) | 606.5 |
| Mkt Cap (Rsbn/USDmn) | 24.4/536.2 |
| 52 Wk H / L (Rs) | 75/37 |
| Daily Vol. (3M NSE Avg.) | 7,168,809 |
| Face Value (Rs) | 1 |
| USD = Rs45.6 | |

One Year Indexed Stock Performance



Price Performance (%)

| | 1M | 6M | 1Yr |
|---------|--------|--------|--------|
| HCC Ltd | (10.5) | (40.1) | (41.6) |
| NIFTY | (4.6) | 5.6 | 13.6 |

Source: Bloomberg, Centrum Research
*as on 21 January 2011

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| Y/E March (Rsmn) (Standalone) | Q3FY11A | Q3FY10A | YoY% | Q2FY11A | QoQ% | Q3FY11E | Var (%) |
|-----------------------------------|---------------|--------------|--------------------|--------------|------------------|---------------|--------------------|
| Net sales | 10,025 | 9,026 | 11.1 | 8,888 | 12.8 | 10,334 | (3.0) |
| Consumption of RM | 7,561 | 6,861 | 10.2 | 6,524 | 15.9 | 7,606 | (0.6) |
| % of sales / bps | 75.4 | 76.0 | (60) bps | 73.4 | 202 bps | 73.6 | 182 bps |
| Employee Costs & SG&A | 1,205 | 992 | 21.4 | 1,189 | 1.3 | 1,383 | (12.9) |
| % of sales / bps | 12.0 | 11.0 | 102 bps | 13.4 | (136) bps | 13.4 | (136) bps |
| EBITDA | 1,259 | 1,172 | 7.4 | 1,175 | 7.2 | 1,345 | (6.4) |
| EBITDA Margin (%) / bps | 12.6 | 13.0 | (43) bps | 13.2 | (66) bps | 13.0 | (46) bps |
| Dep and Amortisation | 382 | 322 | 18.6 | 359 | 6.5 | 298 | 28.2 |
| Interest | 748 | 496 | 50.7 | 671 | 11.5 | 764 | (2.0) |
| EBT | 129 | 354 | (63.5) | 146 | (11.4) | 284 | (54.5) |
| Other income | (56) | 41 | (236.8) | 61 | (192.2) | 46 | (222.7) |
| PBT | 73 | 395 | (81.6) | 207 | (64.8) | 330 | (77.9) |
| Exceptional item (reported) | 69 | (18) | (492.9) | (40) | (272.0) | | |
| Provision for tax | 55 | 92 | (40.9) | 43 | 26.0 | 112 | (51.4) |
| Effective Tax Rate % / bps | 19.8 | 38.5 | (1,869) bps | 26.3 | (648) bps | 34.0 | (1,420) bps |
| JV partner's share in profit/Loss | 61 | (155) | (139.5) | (42) | (245.3) | 0 | |
| PAT (reported) | 79 | 148 | (46.2) | 121 | (34.6) | 218 | (63.5) |
| PAT (adjusted) | 148 | 130 | 14.1 | 81 | 82.4 | 218 | (31.9) |
| NPM (%) / bps | 1.5 | 1.4 | 4 bps | 0.9 | 56 bps | 2.1 | (63) bps |
| EPS (adjusted) | 0.24 | 0.45 | (47.3) | 0.19 | 22.2 | 0.35 | (31.9) |

Source: Company, Centrum Research

| Y/E Mar (Rsmn) | Revenue | YoY (%) | EBITDA | EBITDA (%) | Adj PAT | YoY (%) | EPS (Rs) | RoE (%) | RoCE (%) | P/E (x) | EV/EBITDA (x) |
|----------------|---------|---------|--------|------------|---------|---------|----------|---------|----------|---------|---------------|
| FY09 | 33,137 | 7.5 | 4,314 | 13.0 | 506 | (9.6) | 0.9 | 5.1 | 10.2 | 44.5 | 10.6 |
| FY10 | 36,442 | 10.0 | 4,429 | 12.2 | 1,175 | 132.4 | 1.9 | 9.4 | 8.9 | 21.4 | 11.4 |
| FY11E | 41,449 | 13.7 | 5,271 | 12.7 | 914 | (22.2) | 1.5 | 5.9 | 9.2 | 27.6 | 10.4 |
| FY12E | 48,106 | 16.1 | 6,010 | 12.5 | 911 | (0.3) | 1.5 | 5.7 | 9.5 | 27.7 | 9.6 |
| FY13E | 55,590 | 15.6 | 6,834 | 12.3 | 1,135 | 24.6 | 1.8 | 6.7 | 10.3 | 22.2 | 8.8 |

Source: Company, Centrum Research Estimates

Please refer to important disclosures/disclaimers in Appendix A

Q3FY11 Results Review – Revenue Inline, PAT Impacted By Various Items

- **Order-book:** Q3FY11 order-intake was NIL for the company as L1 during Q2FY11 was not converted in to orders due to delayed decision making by the client and it still stands in L1. Order-intake outlook too was not strong and the reasons were similar to what L&T said in its Q3 results review such as political log-jam, slow decision making at the client side, state specific issues, etc. However, the company expects FY12 to be better.
- **Revenue** at Rs 10bn is in-line with our estimate but 10% below street expectation. The company expected better revenue for the quarter and cites challenging execution environment all over India for the deficit like J&K turmoil, political instability in AP, etc. However, going forward the management is confident of execution of its large projects like Kishanganga (Hydro-Power project), NH-34 (Road Project), Rajasthan Atomic Power Project (Nuclear segment), etc which should drive FY12 numbers.
- **Profit after tax:** Variance at net profit level was mainly due to higher depreciation & lower other income at Rs382mn & Rs6.5mn (adjusted for forex loss) respectively where we modeled Rs298mn & Rs46mn. EBITDA margins at 12.6% was 43bps & 36bps lower than our & street expectations respectively. Interest expense of Rs748mn was inline with our expectation of 764mn.
- **Overall Impact was inline at revenue level, but other expense impacted PAT** – Though revenue was off by just 3%, other impacts such as 43bps gap in EBITDA margins, lower other income and higher depreciation impacted PAT which came at Rs148mn (adjusted) v/s our expectation of Rs218mn and street expectation of Rs271mn.

Exhibit 1: Q3FY11 Order-book & Order-Intake Review

| Order - Book Details | Q3FY11A | Q3FY10A | YoY (%) | Q2FY11A | QoQ (%) | Q3FY11E | Var (%) | Comments |
|--------------------------|----------------|----------------|----------------|------------------|----------------|----------------|---------------|--|
| Order-Book | 185,050 | 157,030 | 17.8 | 197,350 | (6.2) | 212,092 | (12.8) | Lame Q3FY11, expect better FY12. Expect FY11 close of Rs200bn |
| Power Sector | 103,628 | 87,270 | 18.7 | 110,516 | (6.2) | 117,996 | (12.2) | |
| Nuclear | 24,057 | 6,420 | 274.7 | 25,656 | (6.2) | 27,195 | (11.5) | RPP 7&8 expected to ramp-up |
| Hydel | 79,572 | 80,850 | (1.6) | 84,861 | (6.2) | 90,801 | (12.4) | Sawalkote projects in initial phases, execution ramp-up expected in Rs19bn Kishenganga HEP project to ramp-up. |
| Water | 37,010 | 46,300 | (20.1) | 39,470 | (6.2) | 41,049 | (9.8) | |
| Transport | 44,412 | 23,460 | 89.3 | 47,364 | (6.2) | 53,048 | (16.3) | Execution ramp-up in NH34 expected |
| Others (EPC, etc) | - | - | NA | - | NA | - | NA | |
| Order-Intake | - | 8,020 | (100.0) | 11,780.00 | (100.0) | 4,408 | NA | No orders during the quarter |

Source: Company, Centrum Research

Exhibit 2: Q3FY11 Results Review

| Y/E March (Rsmn) (Standalone) | Q3FY11A | Q3FY10A | YoY% | Q2FY11A | QoQ% | Q3FY11E | Var (%) | Q3FY11E Street | Var (%) | Comments |
|-----------------------------------|---------------|--------------|----------------|--------------|-----------------|---------------|------------------|----------------|----------------|--|
| Net sales | 10,025 | 9,026 | 11.1 | 8,888 | 12.8 | 10,334 | (3.0) | 11,087 | (9.6) | Inline with our expectation |
| Consumption of RM | 7,561 | 6,861 | 10.2 | 6,524 | 15.9 | 7,606 | (0.6) | | | |
| % of sales (Change in bps) | 75.4 | 76.0 | (60)bps | 73.4 | 202bps | 73.6 | 182bps | | | |
| Employee Costs & SG&A | 1,205 | 992 | 21.4 | 1,189 | 1.3 | 1,383 | (12.9) | | | |
| % of sales (Change in bps) | 12.0 | 11.0 | 102bps | 13.4 | (136)bps | 13.4 | (136)bps | | | |
| EBITDA | 1,259 | 1,172 | 7.4 | 1,175 | 7.2 | 1,345 | (6.4) | 1,433 | (12.1) | Execution issues impacted margins |
| EBITDA Margin (% / bps) | 12.6 | 13.0 | (43)bps | 13.2 | (66)bps | 13.0 | (46)bps | 12.9 | (36)bps | |
| Dep and Amortisation | 382 | 322 | 18.6 | 359 | 6.5 | 298 | 28.2 | | | Higher than our expectation |
| Interest | 748 | 496 | 50.7 | 671 | 11.5 | 764 | (2.0) | | | We modeled higher interests already |
| EBT | 129 | 354 | (63.5) | 146 | (11.4) | 284 | (54.5) | | | |
| Other income | (56) | 41 | NM | 61 | (192.2) | 46 | (222.7) | | | Surprise and impacted overall PAT |
| PBT | 73 | 395 | (81.6) | 207 | (64.8) | 330 | (77.9) | | | |
| Exceptional item (reported) | 69 | (18) | NM | (40) | (272.0) | | | | | |
| Provision for tax | 55 | 92 | (40.9) | 43 | 26.0 | 112 | (51.4) | | | |
| Effective Tax Rate (% / bps) | 19.8 | 38.5 | (18.7) | 26.3 | (648)bps | 34.0 | (1420)bps | | | |
| JV partner's share in profit/Loss | 61 | (155) | NM | (42) | (245.3) | | | | | |
| PAT (reported) | 79 | 148 | (46.2) | 121 | (34.6) | 218 | (63.5) | 271 | (70.7) | |
| PAT (adjusted) | 148 | 130 | 14.1 | 81 | 82.4 | 218 | (31.9) | 271 | (45.3) | |
| NPM (in % / Change in bps) | 1.5 | 1.4 | 4bps | 0.9 | 56bps | 2.1 | (63)bps | 2.4 | (96)bps | |
| EPS (adjusted) | 0.24 | 0.45 | (47.3) | 0.19 | 22.2 | 0.35 | (31.9) | 0.43 | (45.3) | |

Source: Company, Bloomberg, Centrum Research Estimates

Revenue Revised downwards by 2% & 4%, Earnings by 13% & 33% for FY11 & FY12 - On order-inflow uncertainty & execution issues.

- Downward revision of revenue is mainly on account of adverse order-intake environment in Q3 and the outlook for Q4FY11 is too contingent on many issues. The company's previous order-book guidance was Rs240bn for FY11, but it is now expecting Rs200bn and we model in a similar number.
- We have factored in slightly lesser operating margins in our model given that new orders (of which part of it would be executed in FY12) may come on lower profitability (increasing competition intensity) and rising raw material price environment (1/5th OB on fixed price). We model operating margin of 12.7% 12.5% for FY11 & FY12 v/s our earlier expectation of 13% & 12.8%.
- Our net profit assumption gets a hit of 13% for FY11 & 33% for FY12. This is on account of a combination of factors – For FY12, its on account of 4% revenue downwards revision, 29bps lower margin, 6% & 4% higher depreciation & interest expenses respectively.

Exhibit 3: Estimate Change Table

| Particulars | Actual | | | Old Est. | New Estimates | | Old Est. | | New Estimates | | | |
|---|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | Q1FY11 | Q2FY11 | Q3FY11 | Q4FY11E | Q4FY11E | Var % | FY11E | FY12E | FY11E | Var (%) | FY12E | Var (%) |
| Income from Operations | 9,924 | 8,888 | 10,025 | 13,048 | 12,612 | (3.3) | 42,194 | 50,183 | 41,449 | (1.8) | 48,106 | (4.1) |
| <i>Growth (in % YoY) / (Change in bps)</i> | 13.7 | 13.6 | 11.1 | 20.1 | 16.1 | (401)bps | 15.8 | 18.9 | 13.7 | (205)bps | 16.1 | (287)bps |
| EBITDA (Rsmn) | 1,228 | 1,175 | 1,259 | 1,725 | 1,609 | (6.7) | 5,473 | 6,414 | 5,271 | (3.7) | 6,010 | (6.3) |
| <i>EBITDA Margins (in %) / (Change in bps)</i> | 12.4 | 13.2 | 12.6 | 13.2 | 12.8 | (46)bps | 13.0 | 12.8 | 12.7 | (25)bps | 12.5 | (29)bps |
| Depreciation | 347 | 359 | 382 | 376 | 244 | (35.2) | 1,277 | 1,418 | 1,331 | 4.2 | 1,496 | 5.5 |
| Interest Expenses | 577 | 671 | 748 | 732 | 832 | 13.6 | 2,744 | 3,154 | 2,828 | 3.1 | 3,272 | 3.8 |
| Profit Before Tax (Rsmn) | 364 | 165 | 134 | 674 | 577 | (14.3) | 1,635 | 2,046 | 1,240 | (24.1) | 1,380 | (32.6) |
| PBT Margin | 3.7 | 1.9 | 1.3 | 5.2 | 4.6 | (59)bps | 3.9 | 4.1 | 3.0 | (88)bps | 2.9 | (121)bps |
| Tax Expenses | 81 | 43 | 55 | 229 | 196 | (14.3) | 466 | 696 | 375 | (19.4) | 469 | (32.6) |
| <i>Effective Tax Rate (in % Change in bps)</i> | 22.3 | 26.3 | 40.7 | 34.0 | 34.0 | 0 | 28.5 | 34.0 | 30.2 | NA | 34.0 | NA |
| Reported Profit After Tax (Rsmn) | 283 | 121 | 107 | 445 | 381 | (14.3) | 1,170 | 1,351 | 914 | (21.9) | 911 | (32.6) |
| Adj. Profit After Tax (Rsmn) | 303 | 81 | 148 | 445 | 381 | (14.3) | 1,047 | 1,351 | 914 | (12.7) | 911 | (32.6) |
| <i>Net Profit Margin (in %) (Change in bps)</i> | 3.1 | 0.9 | 1.5 | 3.4 | 3.0 | (39)bps | 2.5 | 2.7 | 2.2 | (28)bps | 1.9 | (80)bps |
| EPS - Diluted | 0.45 | 0.19 | 0.17 | 0.71 | 0.61 | (14.3) | 1.7 | 2.2 | 1.5 | (12.7) | 1.5 | (32.6) |

Source: Company, Centrum Research Estimates

Analysts' Meet Takeaways

EPC Business Takeaways

- **FCCB payment of Rs4.4bn due in a couple of months would not be a strain on financials** - Cash of Rs3.8bn + undrawn bank credit of Rs3bn would be used to repay FCCB worth Rs4.4bn due in Feb'11 and the management seems to be comfortable on the issue.
- **Working Capital measures showing results** – The management in its Q2FY11 analysts' meet gave a list of areas out of which working capital can be reduced (payment issues from client totaling ~Rs15bn) which would eventually ensure reduction in debt level. During the quarter, HCC was able to get Rs650mn as settlement from Naphta Jhakri project and expects Rs2bn more in the next 6months from these.

We had suggested measures on working capital as highlighted by the management in Oct'10, in our Aug'10 sector initiation report as a major way out for HCC to reduce its elevated debt levels and these seem to be taking shape. It may be recalled that HCC's Incremental WC/ Incremental sales was more than 100% in FY09 & FY10, whereas historically it used to be around 50% and hence we expect these measures to help HCC get back to mean level.

- HCC cited low order-inflow scenario from its legacy sectors such as Hydro-power & Roads for entry in to sectors like **thermal power projects (highly competitive) & hydrocarbons (moderate competition intensity)** which offer huge opportunity in India.
- **Karl Steiner AG may surprise by the year-end** – The management said that the performance of Karl Steiner AG, a company acquired by HCC this year at Rs1.5bn, is above expectation and can surprise in Q4FY11 results. We don't assign any value to this company wherein HCC holds 55% right now.

Exhibit 4: Working Capital Measures status



Progress on Working Capital Reduction

| Project | Description | Status |
|---|---|--|
| Bandra-Worli Sea Link | Compensation for delays | Expert Committee examining the submission. |
| Ennore Port | Aribitration award and bill payments | Negotiations under progress for settlement. |
| NJJV | Extension of time and all other claims | All claims settled and collected. |
| NHAI | | |
| West Bengal Road - Pkg II | EOT Cost and other claims | Court has upheld arbitration award in favour. |
| Allahabad Bypass | Arbitration awards | NHAI has challenged Arbitration award in Delhi High Court. |
| Andhra Pradesh | | |
| Godavari Lift Irrigation Scheme - Phase I | Reimbursement of VAT | Under Government Consideration. |
| Godavari Lift Irrigation Scheme - Phase II | Ghanpur tank and epoxy coating of pipes | Under Government Consideration. |

- **Rs. 65 Crs (NJJV) collected, Rs. 200 Crs expected in next 6 months**
- **Company Senior Management focused on liquidation**

| | | |
|----|-----------------|--------------------------|
| 14 | 21 January 2011 | Analyst Meet Q3 FY 10-11 |
|----|-----------------|--------------------------|

Source: Company Presentation

Lavasa Project Takeaways

- **Ready to close the chapter with MoEF** – HCC said that they were ready to interact with MoEF to close issues related to Lavasa Project as MoEF's final order provides a way out for Lavasa. However, when questions related to creation of fund & levy of penalty was raised, the management went aback and said such a situation should not arise as they were not in violation and had kept all litigation options open, and were ready to take corrective measures if there was any major violation. Next hearing on the matter is on 27th January'2011.
- **Loss of Rs20mn not impacting financials much** – Lavasa still has Rs3.3bn worth of bank limit which can be drawn and hence it can sustain itself for some time.

Financials (Standalone)

Exhibit 5: Income Statement

| Y/E March (Rsmn) | FY09 | FY10 | FY11E | FY12E | FY13E |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenues | 33,137 | 36,442 | 41,449 | 48,106 | 55,590 |
| Growth in revenue | 7.5 | 10.0 | 13.7 | 16.1 | 15.6 |
| Cost of Raw Material | 25,074 | 28,070 | 31,174 | 36,431 | 42,210 |
| % of Revenue | 75.7 | 77.0 | 75.2 | 75.7 | 75.9 |
| Employee cost | 3,749.0 | 3,943.5 | 5,003.8 | 5,664.6 | 6,545.9 |
| % of Sales | 11.3 | 10.8 | 12.1 | 11.8 | 11.8 |
| EBITDA | 4,314 | 4,429 | 5,271 | 6,010 | 6,834 |
| EBITDA Margin (%) | 13.0 | 12.2 | 12.7 | 12.5 | 12.3 |
| Depreciation | 1,152 | 1,139 | 1,331 | 1,496 | 1,618 |
| PBIT | 3,162 | 3,290 | 3,941 | 4,514 | 5,216 |
| Interest expenses | 2,105 | 2,052 | 2,828 | 3,272 | 3,640 |
| PBIT from operations | 1,057 | 1,238 | 1,112 | 1,242 | 1,576 |
| Other non operating income | 588 | 130 | 79 | 138 | 143 |
| PBT before ext.od items | 1,645 | 1,368 | 1,192 | 1,380 | 1,719 |
| Extra-ordinary income/ (exp) | (0.6) | 149.9 | (48.5) | - | - |
| PBT | 1,645 | 1,218 | 1,240 | 1,380 | 1,719 |
| Provision for tax | 392 | 404 | 375 | 469 | 584 |
| Effective tax rate (%) | 23.8 | 33.2 | 30.2 | 34.0 | 34.0 |
| Minority interest | | | | | |
| PAT | 1,253 | 814 | 865 | 911 | 1,135 |
| Adjustment for Ext.Od items | (748) | 360 | 48 | (0) | - |
| Adjusted PAT | 506 | 1,175 | 914 | 911 | 1,135 |
| Growth in PAT (%) | (9.6) | 132.4 | (22.2) | (0.3) | 24.6 |
| PAT margin (%) | 1.5 | 3.2 | 2.2 | 1.9 | 2.0 |

Source: Company, Centrum Research Estimates

Exhibit 6: Balance Sheet

| Y/E March (Rsmn) | FY09 | FY10 | FY11E | FY12E | FY13E |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|
| Share Capital | 256 | 303 | 607 | 607 | 607 |
| Stock Options / Warrants | 152 | - | - | - | - |
| Reserves | 9,640 | 14,869 | 15,019 | 15,781 | 16,731 |
| Shareholders' fund | 10,049 | 15,172 | 15,626 | 16,388 | 17,338 |
| Debt | 23,218 | 25,147 | 29,873 | 32,673 | 34,973 |
| Deferred Tax Liability | 1,132 | 1,426 | 1,494 | 1,494 | 1,494 |
| Minority Interest | | | | | |
| Total Capital Employed | 34,398 | 41,745 | 46,992 | 50,554 | 53,804 |
| Gross Block | 16,828 | 18,142 | 19,442 | 20,872 | 22,445 |
| Accumulated dep. | 5,547 | 6,645 | 7,976 | 9,472 | 10,936 |
| Net Block | 11,282 | 11,497 | 11,466 | 11,400 | 11,509 |
| Capital WIP | 464 | 349 | 348 | 346 | 344 |
| Total Fixed Assets | 11,746 | 11,845 | 11,814 | 11,745 | 11,853 |
| Investments | 3,655 | 4,087 | 5,924 | 7,224 | 8,424 |
| Deferred Tax Asset | | | | | |
| Inventories | 27,766 | 35,652 | 39,443 | 42,547 | 45,677 |
| Debtors | 47 | 27 | 31 | 34 | 39 |
| Cash & bank balances | 1,539 | 1,883 | 1,775 | 940 | 1,048 |
| Loans and Advances | 5,284 | 8,633 | 11,763 | 15,419 | 17,663 |
| Other Current Assets | 38 | 48 | 66 | 73 | 84 |
| Total current assets | 34,674 | 46,242 | 53,078 | 59,012 | 64,512 |
| Current lia & provisions | 15,677 | 20,430 | 23,823 | 27,426 | 30,985 |
| Net current assets | 18,997 | 25,813 | 29,255 | 31,585 | 33,527 |
| Misc. Expenditure | | | | | |
| Total Assets | 34,398 | 41,745 | 46,992 | 50,554 | 53,804 |

Source: Company, Centrum Research Estimates

Exhibit 7: Cash flow Statement

| Y/E March (Rsmn) | FY09 | FY10 | FY11E | FY12E | FY13E |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|
| CF from operating | | | | | |
| Profit before tax | 1,645 | 1,218 | 1,240 | 1,380 | 1,719 |
| Depreciation | 1,152 | 1,139 | 1,331 | 1,496 | 1,618 |
| Interest expenses | 2,244 | 2,262 | 2,828 | 3,272 | 3,640 |
| OP profit before WC change | 4,455 | 4,587 | 5,399 | 6,148 | 6,977 |
| Working capital adjustment | (3,071) | (3,608) | (3,550) | (3,166) | (1,833) |
| Gross cash from operations | 1,384 | 979 | 1,849 | 2,982 | 5,144 |
| Direct taxes paid | (338) | (411) | (375) | (469) | (584) |
| Cash from operations | 1,046 | 568 | 1,474 | 2,513 | 4,560 |
| CF from investing | | | | | |
| Capex | (1,231) | (2,574) | (1,299) | (1,428) | (1,572) |
| Investment | (683) | (365) | (1,837) | (1,300) | (1,200) |
| Others | (1,169) | (1,205) | - | - | - |
| Cash from investment | (3,083) | (4,144) | (3,136) | (2,728) | (2,772) |
| CF from financing | | | | | |
| Proceeds from sh cap & prem. | - | 4,679 | - | - | - |
| Borrowings/ (Repayments) | 4,781 | 1,939 | 4,726 | 2,800 | 2,300 |
| Interest paid | (2,204) | (2,229) | (2,828) | (3,272) | (3,640) |
| Dividend paid | (204) | (204) | (141) | (148) | (185) |
| Others | (1,440) | (264) | (357) | - | - |
| Cash from financing | 932 | 3,921 | 1,399 | (620) | (1,525) |
| Net cash increase/ (dec) | (1,105) | 345 | (263) | (835) | 263 |

Source: Company, Centrum Research Estimates

Exhibit 8: Key Ratios

| Y/E March | FY09 | FY10 | FY11E | FY12E | FY13E |
|---------------------------------|-------|-------|--------|-------|-------|
| Margin Ratios (%) | | | | | |
| EBITDA Margin | 13.0 | 12.2 | 12.7 | 12.5 | 12.3 |
| PBIT Margin | 9.5 | 9.0 | 9.5 | 9.4 | 9.4 |
| PBT Margin | 5.0 | 3.3 | 3.0 | 2.9 | 3.1 |
| PAT Margin | 1.5 | 3.2 | 2.2 | 1.9 | 2.0 |
| Growth Ratios (%) | | | | | |
| Revenues | 7.5 | 10.0 | 13.7 | 16.1 | 15.6 |
| EBITDA | 17.7 | 2.7 | 19.0 | 14.0 | 13.7 |
| Net Profit | (9.6) | 132.4 | (22.2) | (0.3) | 24.6 |
| Return Ratios (%) | | | | | |
| ROCE | 10.2 | 8.9 | 9.2 | 9.5 | 10.3 |
| ROIC | 6.8 | 6.0 | 6.1 | 6.4 | 6.9 |
| ROE | 5.1 | 9.4 | 5.9 | 5.7 | 6.7 |
| Turnover Ratios | | | | | |
| Asset turnover ratio (x) | 1.0 | 0.9 | 0.9 | 1.0 | 1.0 |
| Working Capital Turnover (x) | 1.7 | 1.4 | 1.4 | 1.5 | 1.7 |
| Avg collection period (days) | 0.5 | 0.3 | 0.3 | 0.3 | 0.3 |
| Avg payment period (days) | 177.6 | 211.2 | 219.4 | 217.1 | 244.6 |
| Per share (Rs) | | | | | |
| Fully diluted EPS | 0.9 | 1.9 | 1.5 | 1.5 | 1.8 |
| CEPS | 3.2 | 3.8 | 3.7 | 4.0 | 4.6 |
| Book Value | 19.6 | 26.1 | 26.8 | 28.1 | 29.8 |
| Solvency ratios (x) | | | | | |
| Debt/ Equity | 2.3 | 1.7 | 1.9 | 2.0 | 2.0 |
| Interest coverage ratio | 1.9 | 2.2 | 1.9 | 1.8 | 1.9 |
| Valuation parameters (x) | | | | | |
| P/E | 44.5 | 21.4 | 27.6 | 27.7 | 22.2 |
| P/BV | 2.1 | 1.5 | 1.5 | 1.4 | 1.4 |
| EV/ EBITDA | 10.6 | 11.4 | 10.4 | 9.6 | 8.8 |
| EV/ Sales | 1.4 | 1.4 | 1.3 | 1.2 | 1.1 |
| M-Cap/ Sales | 0.7 | 0.7 | 0.6 | 0.5 | 0.5 |

Source: Company, Centrum Research Estimates

Appendix

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