

Nagarjuna Constructions

Q3FY11 Results Update

7 February 2011

Buy

Target Price: Rs135

CMP: Rs104*

Upside: 30%

*as on 4th February 2011

Mixed Q3, -ve's factored-in, Maintain Buy

Nagarjuna Constructions Company's Q3FY11 results were mixed with revenue in line while lower operating margins hit Adj.PAT (off by 16%). However, order-book intake was surprisingly robust at Rs27bn, unlike peers. Order-flow outlook is strong with power orders itself expected to bring in Rs80bn in the next 6months. Performance was impressive overall but PAT miss in the quarter was one off. At CMP, we believe, NCC is one stock investors should consider in infrastructure construction space (EPC trading at 7.5X FY12 P/E). Few companies offer comfort on operational parameters which NCC does like diversified OB (~L&T) allaying downside fears, robust order inflow outlook and management transparency. Buy, Target Rs135 (+30%).

- **Results summary:** Q3FY11 results were mixed v/s our expectations but lower than that of the street (Rev, EBITDA & PAT off by 11%, 15% and 25% respectively).
- **Order inflow:** Order inflow during Q3 was surprisingly strong at Rs27bn and the company cited strong inflow outlook with power orders itself worth Rs80bn expected in the next 6months. This is very positive.
- **Estimates revised downwards:** We adjust operating margins downwards by 50bps for FY11E & FY12E each, interest expenses upward revision by 26% effectively reducing PAT estimated by 26% for FY12E.
- **Buy:** We believe NCC is trading at attractive valuations (7.5X FY12 P/E) with favorable risk-reward. NCC presents a strong execution profile, diversified order-book allaying slowdown concerns, and management transparency. We do not see major downside further from current levels and believe it is a preferred construction exposure.

Manish Kayal

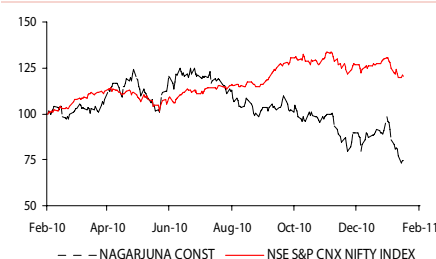
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Key Data

| | |
|--------------------------|------------|
| Bloomberg Code | NJCC IN |
| Reuters Code | NGCN.BO |
| Current Shares O/S (mn) | 256.6 |
| Diluted Shares O/S(mn) | 256.6 |
| Mkt Cap (Rsbn/USDmn) | 26.7/586.9 |
| 52 Wk H / L (Rs) | 198/102 |
| Daily Vol. (3M NSE Avg.) | 1,138,419 |
| Face Value (Rs) | 2 |

USD = Rs45.6

One Year Indexed Stock Performance



Price Performance (%)

| | 1M | 6M | 1Yr |
|-------|--------|--------|--------|
| NJCC | (21.2) | (36.8) | (33.6) |
| NIFTY | (8.0) | (0.2) | 15.1 |

Source: Bloomberg, Centrum Research
*as on 4th February 2011

| Y/E March (Rsmn) (Standalone) | Q3FY11 | Q3FY10 | YoY (%) | Q2FY11 | QoQ (%) | Q3FY11E | Variance (%) |
|--------------------------------|---------------|---------------|--------------|---------------|---------------|---------------|---------------|
| Net sales | 13,355 | 10,670 | 25.2 | 12,013 | 11.2 | 13,940 | (4.2) |
| Consumption of RM | 11,114 | 8,871 | 25.3 | 9,817 | 13.2 | 11,638 | (4.5) |
| % of sales | 83.2 | 83.1 | | 81.7 | | 83.5 | |
| Employee costs & SG&A | 965 | 711 | 35.7 | 963 | 0.2 | 885 | 9.1 |
| % of sales | 7.2 | 6.7 | | 8.0 | | 6.3 | |
| EBITDA | 1,276 | 1,089 | 17.2 | 1,234 | 3.4 | 1,417 | (9.9) |
| EBITDA Margin (%) / bps | 9.6 | 10.2 | | 10.3 | | 10.2 | |
| Dep and amortisation | 175 | 129 | 35.6 | 168 | 3.8 | 198 | (11.6) |
| Interest | 438 | 322 | 35.9 | 375 | 17.0 | 440 | (0.5) |
| EBT | 663 | 637 | 4.0 | 691 | (4.0) | 779 | (14.9) |
| Other income | 23 | 8 | 174.2 | 54 | (57.8) | 26 | (10.9) |
| PBT | 686 | 646 | 6.2 | 745 | (8.0) | 804 | (14.7) |
| Provision for tax | 282 | 206 | 36.4 | 285 | (1.3) | 273 | 3.0 |
| Effective Tax Rate %/bps | 41.0 | 32.0 | | 38.3 | | 34.0 | |
| PAT (reported) | 404 | 439 | (8.0) | 460 | (12.1) | 531 | (23.9) |
| PAT (adjusted) | 444 | 439 | 1.1 | 500 | (11.1) | 531 | (16.3) |
| NPM (%) / bps | 3.3 | 4.1 | | 4.2 | | 3.8 | |
| EPS (adjusted) | 1.7 | 1.85 | (6.4) | 1.95 | (11.1) | 2.1 | (16.3) |

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 | 41,514 | 19.4 | 3,737 | 9.0 | 1,539 | (5.0) | 6.7 | 9.4 | 11.9 | 15.5 | 9.7 |
| FY10 | 47,778 | 15.1 | 4,834 | 10.1 | 1,998 | 29.9 | 7.8 | 11.8 | 12.9 | 13.4 | 8.7 |
| FY11E | 54,675 | 14.4 | 5,347 | 9.8 | 2,072 | 3.7 | 8.1 | 8.6 | 10.8 | 12.9 | 9.6 |
| FY12E | 64,564 | 18.1 | 6,273 | 9.7 | 2,055 | (0.8) | 8.0 | 8.3 | 10.7 | 13.0 | 8.8 |
| FY13E | 75,398 | 16.8 | 7,250 | 9.6 | 2,339 | 13.8 | 9.1 | 8.8 | 11.0 | 11.4 | 8.2 |

* Standalone; Source: Company, Centrum Research Estimates

Please refer to important disclosures/disclaimers in Appendix A

Key takeaways from the conference call

Q3FY11 was a mixed bag - Revenue in-line, margins lower impacts PAT by 16%

NCC's revenue at Rs13.3bn was 4% lower than our expectation, however lower by 11% on street's expectation. Operating margins at 9.6% declined by 65bps YoY and were below Centrum's expectations of 10.2%. Lower operating margins were due to few projects where execution was not up to expectations. Company expects margins to be stable going forward at 10.2%, however we factor 9.8% & 9.7% for FY11E & FY12E respectively given increasing competitive intensity for orders. Interest expenses were in-line with our expectations at Rs438mn v/s estimate of Rs440mn. Management cited increase in cost of debt from 8% couple of quarters back to 10% now. On the Income-tax raid conducted in Q2FY11, company expects total charge in FY11 to be of Rs150mn out of which total Rs40mn has already been charged in Q2 & Q3 each. Rest to take effect in Q4FY11E.

Management reduces guidance by 10% on account of domestic operations: NCC reduces its revenue guidance for FY11 by 10% on account of extended impact of monsoons in Q3 (which we factored in) and overall execution environment leading to revenue loss of Rs6.5bn of the guidance of Rs58bn. 9months revenue deficit of Rs6.5bn was on account of issues mentioned below (mostly out of company's control) in Exhibit 1. Though international project execution is in line with expectation, the management has surprisingly revised the guidance from Rs15bn earlier to Rs12bn.

Exhibit 1: Downward revision in revenue guidance for FY11 because of...

| Particulars (Rsmn) | 3QFY11 | 9MFY11 |
|--|--------------|--------------|
| Extended monsoon | 700 | 1,730 |
| Delay in client payments impacting execution | 850 | 3,270 |
| Regulatory clearances & other issues impacting execution | 400 | 1,500 |
| Total revenue shortfall | 1,950 | 6,500 |

Source: Company, Centrum Research

Power venture update

The management is confident of achieving financial closure of 1,320MW power venture which it acquired from Nelcast Energy Ltd for Rs1.5bn. The SPV has all clearances (including environmental) and has requested Coal India Ltd to transfer coal linkages to the new plant from the earlier one in Sompeta (scrapped for environmental reasons).

Exhibit 2: Financing details of power venture

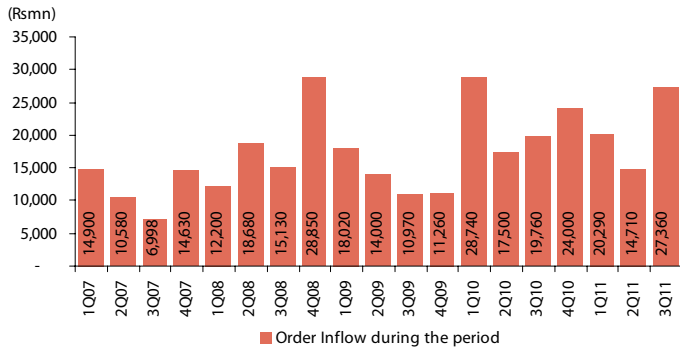
| Particulars | Amount (Rsmn) | Comments |
|--|---------------|---|
| Total project cost | 70,000 | Mentioned by the company |
| Equity Requirement | 17,150 | 24.5% |
| Debt | 52,850 | 75.5% |
| Equity Details | | |
| NCC's share of 55% | 9,500 | Other partners of 45% is Gayathri Projects Ltd |
| Required up to the time of Financial closure | 3,500 | |
| Already Invested | 1,500 | Invested while acquiring Nelcast |
| Required in the next two months for FC | 2,000 | Arrangement from internal accruals and other sources. |
| Remaining to be invested over period of 4 years | 6,000 | Various alternatives available |
| Debt Details | | |
| Financial closure will be completed by March'11 | | |
| ICICI | 10,000 | Negotiations Ongoing |
| SBI | 10,000 | Initial sanction letter given to the company |
| REC / PFC | 32,000 | Sanctioned by these two companies |

Source: Company, Centrum Research

Order Intake scenario robust

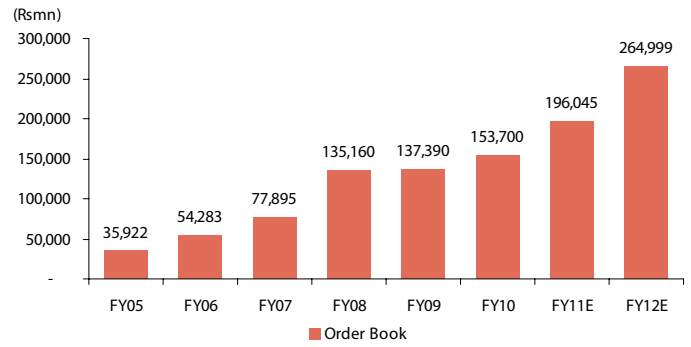
The management said that Rs30bn worth of orders in the power segment was already being negotiated with clients and it was just a matter of time before these get into the order-book of NCC. This is separate from Rs50bn worth of EPC work that will emerge from the 1,320MW power venture of the group. The management expects to get these orders in March'11 or latest by June'11. Please note that Rs27bn worth of order intake during Q3 was a surprise as the industry is reeling under issues including that of clients delaying decision (private & govt) and rising interest rate environment making clients uncomfortable on project viability, etc. Also, the management guidance which earlier was Rs100bn has been raised to Rs130bn (Rs67bn bagged in 9mFY11).

Exhibit 3: Quarterly order-Intake Trend



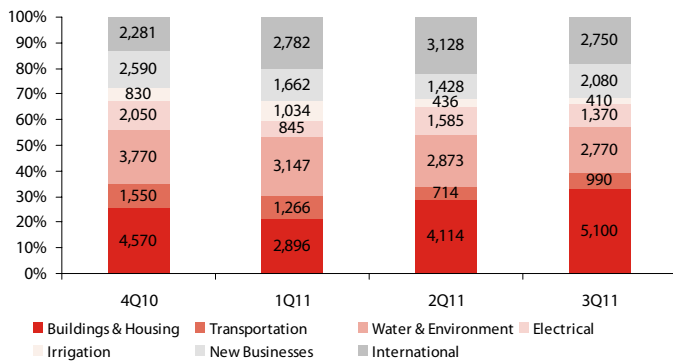
Source: Company, Centrum Research

Exhibit 4: Yearly order-book trend



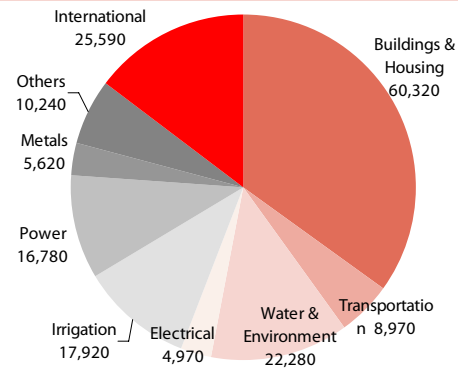
Source: Company, Centrum Research

Exhibit 5: Order-Book Mix over last 4 quarters



Source: Company, Centrum Research

Exhibit 6: Order-book as on Q3FY11



Source: Company, Centrum Research Estimates

Order book profile better than that of peers

Nagarjuna Constructions' order-book profile shows that of the 160 orders under execution, the largest one in hand today is an irrigation project (Lift irrigation - worth Rs9.8bn) in Andhra Pradesh followed by KVK Nilachal (Rs9bn). Few orders in the profile are prone to execution issues which other infrastructure construction companies face. Please note that there is no order in the total order book which is above Rs10bn. We do not think this is a negative; on the other hand, we think these orders which are external and of medium size are the best in the order book profile. On the execution front too, we believe, Nagarjuna Constructions has a much better record v/s peers.

Exhibit 7: Top 15 orders being executed by Nagarjuna Constructions (In descending order)

| Segment Order pertains to | Details of the Orders | Amount (Rsmn) | % in total Gross Order Book |
|---------------------------|--|---------------|-----------------------------|
| Irrigation | J.Chokka Rao GLIS - Warangal - Phase-II-Devadula Phase - II | 9,806 | 4.6 |
| Power | KVK Neelachal Power (P) Ltd. Neelanchal,Orissa - Thermal Power Project at Cuttack | 8,995 | 4.3 |
| Metals | SAIL - IISCO Steel Plant - ISP - BFP - 2.5 MTPA new stream expansion & ISP-Setting UP of blast furnace Complex. | 7,190 | 3.4 |
| Buildings | ESI - Gulbarga - Constn.of ESIC Medical College, Dental College and 500 bedded hospital and allied works at Gulbarga | 7,112 | 3.4 |
| Buildings | NBCC - ESI Hospital - New Delhi -Constn.of ESIC medical college comprising of hospitals Bldg., Medical and Nursing college hostels, Residential Complex | 6,006 | 2.8 |
| Power | NAGAI Power (P)Ltd. -Pulvarised Coal fired electric Power plant at Okkur Village in Nagai Pattinam Dist. - Tamilnadu | 5,490 | 2.6 |
| Irrigation | J.Chokkarao Devadula Phase III, Pkg. IV-Devadula Phase II | 4,707 | 2.2 |
| Water & Environment | GANDAK CANAL Project - Bihar-Execution of restoration of Eastern Gandak canal system | 4,488 | 2.1 |
| Water & Environment | HMWSSB - HYD. - (GDWSP Yellampally)-Transmission of Godavari Water from Yellampally Barrage for drinking water needs of Hyderabad | 4,010 | 1.9 |
| Buildings | Rajiv Swagraha - Visakhapatnam- Township at Vizag, Anakapally | 3,800 | 1.8 |
| Roads | BASTI-LMNHP-UP5(NHAI 28 LUCKNOW-MUZAFFARPUR)-Lucknow-Mujaffarpur National Highway Project on NH-28 | 3,726 | 1.8 |
| Mining | SCCL - Opencast Project ,Kothagudem - Blast hole drilling, controlled blasting with shock tube initiation, excavation, loading, Transportation and dumping | 3,600 | 1.7 |
| Metals | SAIL IISCO Steel Plant - Burnpur - 48 A - 2 - Structural works for Basic Oxyzen furnace,continous casting plant and Line & Domestic Plant | 3,484 | 1.6 |
| Roads | HGCL - Kesara to Ghatkesar Constn.of access controlled expressway as outer ring road | 3,479 | 1.6 |
| Water & Environment | BWS&SB - Bangalore-Constn.of procurement,Fabrication and laying of clear water main from Vajarahalli to GKV - Bangalore | 3,278 | 1.6 |
| Total | | 79,171 | 37.5 |

Source: Company, Centrum Research. Please ask the analyst for the complete list of projects being executed by the company.

Changes in estimates

We revise our numbers downwards considering the industry's aggressive nature of pricing new orders and raw material prices rises (NCC fixed price share of total OB is larger at around 30% with international orders completely on fixed price basis). We reduce our revenue growth expectation from 17% & 21.6% in FY11 & FY12 to 14.4% & 18.1% respectively. Though the management seemed comfortable on achieving Rs20bn revenue in Q4FY11, we however, factor in 7%-8% lower at Rs18.4bn from Rs19.1bn earlier. For FY12, the company cited a growth target of 22%-25% which we think is slightly on the higher side. We factor in a moderate growth of 18%.

We also revise our EBITDA margins downwards from 10.3% & 10.2% for FY11 & FY12 earlier to 9.8% & 9.7%. Also, interest expenses have been revised upwards by 6% & 26% for the two years. The cumulative effect of the above changes is a downward revision in net profit by 12% & 26% respectively for the two years.

Exhibit 8: Financial estimate revision

| 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 | 10,865 | 12,013 | 13,355 | 19,146 | 18,442 | (3.7) | 55,964 | 68,048 | 54,675 | (2.3) | 64,564 | (5.1) |
| <i>Growth (in % YoY) / bps</i> | 8.5 | 12.6 | 12.5 | 25.7 | 21.1 | | 17.1 | 21.6 | 14.4 | | 18.1 | |
| EBITDA (Rsmn) | 1,058 | 1,234 | 1,276 | 2,035 | 1,780 | (12.5) | 5,743 | 6,912 | 5,347 | (6.9) | 6,273 | (9.3) |
| EBITDA Margins (in %) | 9.7 | 10.3 | 9.6 | 10.6 | 9.7 | | 10.3 | 10.2 | 9.8 | | 9.7 | |
| Depreciation | 156 | 168 | 175 | 198 | 198 | 0.1 | 720 | 883 | 698 | (3.2) | 801 | (9.2) |
| Interest Expenses | 293 | 375 | 438 | 440 | 536 | 21.8 | 1,549 | 1,990 | 1,643 | 6.1 | 2,505 | 25.9 |
| Other Income | 13 | 54 | 23 | 42 | 36 | (14.0) | 135 | 160 | 126 | (6.5) | 146 | (8.5) |
| Profit Before Tax (Rsmn) | 621 | 745 | 686 | 1,439 | 1,082 | (24.8) | 3,609 | 4,199 | 3,133 | (13.2) | 3,113 | (25.9) |
| PBT Margin | 5.7 | 6.2 | 5.1 | 7.5 | 5.9 | | 6.4 | 6.2 | 5.7 | | 4.8 | |
| Tax Expenses | 207 | 285 | 282 | 489 | 368 | (24.8) | 1,254 | 1,427 | 1,141 | (9.0) | 1,058 | (25.9) |
| <i>Effective Tax Rate (in %)</i> | 33.3 | 38.3 | 41.0 | 34.0 | 34.0 | - | 34.8 | 34.0 | 36.4 | | 34.0 | |
| Reported Profit After Tax (Rsmn) | 414 | 460 | 404 | 950 | 714 | (24.8) | 2,354 | 2,772 | 1,992 | (15.4) | 2,055 | (25.9) |
| Adj. Profit After Tax (Rsmn) | 414 | 500 | 444 | 950 | 714 | (24.8) | 2,394 | 2,772 | 2,072 | (13.5) | 2,055 | (25.9) |
| <i>Net Profit Margin (in %)</i> | 3.8 | 4.2 | 3.3 | 5.0 | 3.9 | | 4.5 | 4.1 | 3.8 | | 3.2 | |
| EPS - Diluted | 1.61 | 1.95 | 1.73 | 3.70 | 2.78 | (24.8) | 9.2 | 10.8 | 8.1 | (12.0) | 8.0 | (25.9) |

Source: Company, Centrum Research

Valuation appealing at CMP Rs104; Risk-reward most compelling. Advise BUY

At the CMP of Rs104, we believe there is little downside possible (core construction business trading at 7.5X FY12 P/E). We do not see order intake pressure on the company, operating margins (though we revised downwards) are not of concern nor is execution (though, 9MFY11 was mostly affected by monsoons and matters out of the control of the company). We believe, Nagarjuna Constructions Company provides the best play in construction sector with diversified order-book, strong execution track record, robust order intake scenario, and management transparency. Hence advise investors to consider holding NCC in their portfolio. We assign it a value of Rs134 (upside of 29% from current market price of Rs104).

Exhibit 9: Nagarjuna Constructions Valuation Table

| Particulars | Methodology | Multiple | Discount | EPS | Book Value | Total Value |
|----------------------------------|-------------|----------|----------|-----|------------|-------------|
| NCC Core Construction Operations | P/E | 12.0 | NA | 8.0 | NA | 96 |
| NCC International operations | P/E | 8.0 | NA | 1.8 | NA | 15 |
| BOT Projects | | | | | | 15 |
| Power - Under Construction | BV | 1.0 | | NA | 1,660.0 | 6 |
| NCC Urban | BV | 1.0 | 50.0% | NA | 1,571.3 | 3 |
| Total SOTP Value | | | | | | 135 |
| Current Market Price | | | | | | 104 |
| Upside / Downside | | | | | | 30% |

Source: Centrum Research

Financials (Standalone)

Exhibit 10: Income Statement

| Y/E March (Rsmn) | FY09 | FY10 | FY11E | FY12E | FY13E |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenues | 41,514 | 47,778 | 54,675 | 64,564 | 75,398 |
| <i>Growth in revenue</i> | 19.4 | 15.1 | 14.4 | 18.1 | 16.8 |
| Cost of Raw Material | 34,972 | 40,133 | 45,425 | 54,515 | 63,813 |
| <i>% of Revenue</i> | 84.2 | 84.0 | 83.1 | 84.4 | 84.6 |
| Employee cost | 1,885.9 | 1,841.3 | 2,620.3 | 2,394.8 | 2,721.5 |
| <i>% of Sales</i> | 4.5 | 3.9 | 4.8 | 3.7 | 3.6 |
| O&M expenses | 919.5 | 969.4 | 1,283.2 | 1,380.9 | 1,612.6 |
| <i>% of Sales</i> | 2.2 | 2.0 | 2.3 | 2.1 | 2.1 |
| EBITDA | 3,737 | 4,834 | 5,347 | 6,273 | 7,250 |
| <i>EBITDA Margin (%)</i> | 9.0 | 10.1 | 9.8 | 9.7 | 9.6 |
| Depreciation | 533 | 525 | 698 | 801 | 954 |
| PBIT | 3,204 | 4,309 | 4,649 | 5,472 | 6,297 |
| Interst expenses | 964 | 1,322 | 1,643 | 2,505 | 2,925 |
| PBIT from operations | 2,240 | 2,987 | 3,007 | 2,967 | 3,372 |
| Other non operating income | 42 | 48 | 126 | 146 | 171 |
| PBT before ext.od items | 2,282 | 3,035 | 3,133 | 3,113 | 3,543 |
| Extra-ordinary income/ (exp) | | 495.6 | | | |
| PBT | 2,282 | 3,530 | 3,133 | 3,113 | 3,543 |
| Provision for tax | 743 | 1,204 | 1,141 | 1,058 | 1,204 |
| <i>Effective tax rate (%)</i> | 32.6 | 34.1 | 36.4 | 34.0 | 34.0 |
| <i>Minority interest</i> | | | | | |
| PAT | 1,539 | 2,326 | 1,992 | 2,055 | 2,339 |
| Adjustment for Ext.Od items | | 328 | 80 | - | - |
| Adjusted PAT | 1,539 | 1,998 | 2,072 | 2,055 | 2,339 |
| <i>Growth in PAT (%)</i> | (5.0) | 29.9 | 3.7 | (0.8) | 13.8 |
| <i>PAT margin (%)</i> | 3.7 | 4.2 | 3.8 | 3.2 | 3.1 |

Source: Company, Centrum Research Estimates

Exhibit 11: Balance Sheet

| Y/E March (Rsmn) | FY09 | FY10 | FY11E | FY12E | FY13E |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|
| Share Capital | 458 | 513 | 513 | 513 | 513 |
| Stock Options | - | - | - | - | - |
| Reserves | 16,398 | 21,943 | 23,453 | 25,042 | 26,925 |
| Shareholders' fund | 16,856 | 22,457 | 23,966 | 25,555 | 27,438 |
| Debt | 12,439 | 15,302 | 24,490 | 28,590 | 32,490 |
| Deferred Tax Liability | 188 | 255 | 278 | 278 | 278 |
| Minority Interest | | | | | |
| Total Capital Employed | 29,482 | 38,013 | 48,734 | 54,423 | 60,206 |
| Gross Block | 6,233 | 7,561 | 9,117 | 10,829 | 12,713 |
| Accumulated dep. | 1,641 | 2,023 | 2,720 | 3,522 | 4,475 |
| Net Block | 4,592 | 5,538 | 6,397 | 7,308 | 8,237 |
| Capital WIP | 281 | 434 | 502 | 573 | 646 |
| Total Fixed Assets | 4,873 | 5,972 | 6,899 | 7,880 | 8,883 |
| Investments | 7,402 | 9,412 | 10,700 | 11,900 | 12,900 |
| Deferred Tax Asset | | | | | |
| Inventories | 7,495 | 7,539 | 10,016 | 11,827 | 13,602 |
| Debtors | 10,260 | 12,995 | 16,117 | 19,984 | 22,851 |
| Cash & bank balances | 1,345 | 1,997 | 1,042 | 1,058 | 1,180 |
| Loans and Advances | 14,484 | 18,520 | 26,546 | 27,873 | 30,273 |
| Other Current Assets | 30 | 32 | 50 | 59 | 69 |
| Total current assets | 33,615 | 41,083 | 53,771 | 60,801 | 67,976 |
| Current lia & provisions | 16,408 | 18,453 | 22,635 | 26,159 | 29,553 |
| Net current assets | 17,206 | 22,629 | 31,136 | 34,642 | 38,423 |
| Total Assets | 29,482 | 38,013 | 48,734 | 54,423 | 60,206 |

Source: Company, Centrum Research Estimates

Exhibit 12: Cash flow Statement

| Y/E March (Rsmn) | FY09 | FY10 | FY11E | FY12E | FY13E |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|
| CF from operating | | | | | |
| Profit before tax | 2,282 | 3,530 | 3,133 | 3,113 | 3,543 |
| Depreciation | 533 | 525 | 698 | 801 | 954 |
| Interest expenses | 964 | 1,322 | 1,643 | 2,505 | 2,925 |
| OP profit before WC change | 3,786 | 4,886 | 5,473 | 6,419 | 7,421 |
| Working capital adjustment | (3,955) | (3,345) | (9,461) | (3,491) | (3,658) |
| Gross cash from operations | (169) | 1,541 | (3,988) | 2,928 | 3,763 |
| Direct taxes paid | (1,319) | (1,302) | (1,107) | (1,058) | (1,204) |
| Cash from operations | (1,488) | 238 | (5,095) | 1,870 | 2,558 |
| CF from investing | | | | | |
| Capex | (75) | (1,628) | (1,624) | (1,783) | (1,979) |
| Investment | (1,107) | (2,148) | (1,288) | (1,200) | (1,000) |
| Others | 100 | 12 | - | - | - |
| Cash from investment | (1,082) | (3,763) | (2,912) | (2,983) | (2,979) |
| CF from financing | | | | | |
| Proceeds from sh cap & prem. | 0 | 3,580 | - | - | - |
| Borrowings/ (Repayments) | 3,501 | 2,863 | 9,188 | 4,100 | 3,900 |
| Interest paid | (1,567) | (1,972) | (1,643) | (2,505) | (2,925) |
| Dividend paid | (348) | (294) | (470) | (466) | (455) |
| Cash from financing | 1,586 | 4,177 | 7,075 | 1,129 | 520 |
| Net cash increase/ (dec) | (985) | 652 | (932) | 16 | 99 |

Source: Company, Centrum Research Estimates

Exhibit 13: Key Ratios

| Y/E March | FY09 | FY10 | FY11E | FY12E | FY13E |
|---------------------------------|-------|-------|-------|-------|-------|
| Margin Ratios (%) | | | | | |
| <i>EBITDA Margin</i> | 9.0 | 10.1 | 9.8 | 9.7 | 9.6 |
| <i>PBIT Margin</i> | 7.7 | 9.0 | 8.5 | 8.5 | 8.4 |
| <i>PBT Margin</i> | 5.4 | 6.3 | 5.5 | 4.6 | 4.5 |
| <i>PAT Margin</i> | 3.7 | 4.2 | 3.8 | 3.2 | 3.1 |
| Growth Ratios (%) | | | | | |
| <i>Revenues</i> | 19.4 | 15.1 | 14.4 | 18.1 | 16.8 |
| <i>EBITDA</i> | 2.5 | 29.4 | 10.6 | 17.3 | 15.6 |
| <i>Net Profit</i> | (5.0) | 29.9 | 3.7 | (0.8) | 13.8 |
| Return Ratios (%) | | | | | |
| ROCE | 11.9 | 12.9 | 10.8 | 10.7 | 11.0 |
| ROIC | 18.5 | 19.2 | 15.5 | 16.4 | 16.9 |
| ROE | 9.4 | 11.8 | 8.6 | 8.3 | 8.8 |
| Turnover Ratios | | | | | |
| Asset turnover ratio (x) | 1.4 | 1.3 | 1.1 | 1.2 | 1.3 |
| Working Capital Turnover (x) | 2.4 | 2.1 | 1.8 | 1.9 | 2.0 |
| Avg collection period (days) | 90.2 | 99.3 | 107.6 | 113.0 | 111.0 |
| Avg payment period (days) | 155.8 | 148.7 | 160.0 | 156.5 | 161.5 |
| Per share (Rs) | | | | | |
| Fully diluted EPS | 6.7 | 7.8 | 8.1 | 8.0 | 9.1 |
| CEPS | 9.1 | 9.8 | 10.8 | 11.1 | 12.8 |
| Book Value | 73.7 | 87.5 | 93.4 | 99.6 | 106.9 |
| Solvency ratios (%) | | | | | |
| Debt/ Equity | 0.7 | 0.7 | 1.0 | 1.1 | 1.2 |
| Interest coverage ratio | 3.9 | 3.7 | 3.3 | 2.5 | 2.5 |
| Valuation parameters (x) | | | | | |
| P/E | 15.5 | 13.4 | 12.9 | 13.0 | 11.4 |
| P/BV | 1.4 | 1.2 | 1.1 | 1.0 | 1.0 |
| EV/ EBITDA | 9.7 | 8.7 | 9.6 | 8.8 | 8.2 |
| EV/ Sales | 0.9 | 0.9 | 0.9 | 0.9 | 0.8 |
| M-Cap/ Sales | 0.6 | 0.6 | 0.5 | 0.4 | 0.4 |

Source: Company, Centrum Research Estimates

Appendix

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