

## High-conviction ideas

| Company Name    | Rating | M Cap (Rs mn) | CMP (Rs) * | Target Price | Upside (%) |
|-----------------|--------|---------------|------------|--------------|------------|
| ACC Ltd         | Buy    | 270,147       | 1,439      | 1,620        | 12.6       |
| Bajaj Auto      | Buy    | 592,739       | 2,048      | 2,350        | 14.7       |
| FIEM Industries | Buy    | 5,587         | 467        | 595          | 27.4       |
| GPIL            | Buy    | 5,891         | 180        | 225          | 25.1       |
| NMDC            | Buy    | 756,666       | 191        | 235          | 23.1       |
| Pfizer          | Buy    | 36,474        | 1,222      | 1,630        | 33.4       |

\* as on 6 June, 2014



INDIA

9 June 2014

# High-conviction ideas

CENTRUM

ACC

BUY

|                     |                |
|---------------------|----------------|
| <b>Target Price</b> | <b>Rs1,620</b> |
| CMP*                | Rs1,439        |
| Upside              | 12.6%          |

## Key Data

|                          |              |
|--------------------------|--------------|
| Bloomberg Code           | ACC IN       |
| Curr Shares O/S (mn)     | 187.7        |
| Diluted Shares O/S (mn)  | 187.7        |
| Mkt Cap (Rsbn/USDbn)     | 270.1/4.6    |
| 52 Wk H / L (Rs)         | 1460/897.5   |
| 5 Year H / L (Rs)        | 1483.1/608.8 |
| Daily Vol. (3M NSE Avg.) | 408580       |

## Price Performance (%)

|        | 1M   | 6M   | 1Yr  |
|--------|------|------|------|
| ACC IN | 11.4 | 28.9 | 19.1 |
| Nifty  | 12.9 | 21.1 | 28.1 |

## Centrum vs. Bloomberg Consensus\*

| Particulars<br>(Rs bn) | CY14E   |       |         | CY15E   |       |         |
|------------------------|---------|-------|---------|---------|-------|---------|
|                        | Centrum | BBG   | Var (%) | Centrum | BBG   | Var (%) |
| Sales                  | 120.6   | 120.7 | (0.1)   | 138.3   | 136.4 | 1.4     |
| EBITDA                 | 15.8    | 17.2  | (7.9)   | 21.5    | 22.6  | (4.9)   |
| PAT                    | 10.0    | 11.0  | (9.3)   | 13.8    | 14.0  | (0.9)   |

## Bloomberg Consensus\*

| BUY | SELL | HOLD | Target Price | Centrum Target Price | Variance |
|-----|------|------|--------------|----------------------|----------|
|     |      |      | (Rs)         | (Rs)                 | (%)      |
| 20  | 14   | 18   | 1,386        | 1620                 | 16.8     |

\*as on 6 June 2014; Source: Bloomberg, Centrum Research

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- Improvement in industry utilization rate to help pricing power:** We believe that the resolution of 150 stalled projects with cumulative investment of Rs5tn by UPA government and creation of Telangana state for which Rs200bn per year have been earmarked for five years will help cement demand growth. At the same time, we expect the pace of capacity addition to slow down post FY15E which would lead to improvement in utilization rate for the sector. Post the decline in industry utilization rate to 72.9% in FY15E against 73.4% in FY14; we expect gradual improvement to 75%/78.9% in FY16E/FY17E. Moreover, utilization rate ex-South region is expected to be at 81.4%/85.7% in FY16E/FY17E against 79.9% in FY15E. Apart from that, some players recently started to acquire units of other cement plants which may lead to higher consolidation in the industry and hence give better pricing power to cement manufacturers.
- To get the benefits of capacity expansion in the East region:** The company has lagged behind its peers like UltraTech, Shree Cement and others in terms of capacity expansion. However, we believe that the ongoing expansion of 5mt (including split grinding units) in Jamul, Chhattisgarh would help volume growth from 2HCY15E. This expansion plan is on track and more than 50% of the project work is complete. Due to our expectation of slowing down in the pace of capacity addition post FY15E, we believe the company would benefit from the capacity addition leading to higher volume growth for the company.
- Increased focus on operating performance:** The company increased pet coke usage to 11% in CY13, which is likely to go up further to 20% going forward. It also expects to increase usage of alternative fuel to 5% from 2% in CY13. It commissioned its first waste heat recovery plant of 7.5MW capacity at Galgal cement plant in Q1CY14. The company reduced its lead distance by ~15km in CY13 and expects the savings in freight cost to continue due to direct despatches (instead of routing via the warehouse).
- Valuation and key risks:** The company is trading at 27x/19.5x/15.4x CY14E/CY15E/CY16E EPS and 15.5x/11.4x/8.7x CY14E/CY15E/CY16E EV/EBITDA. We believe volume growth for the industry may improve significantly by Q4CY15E led by NDA government's focus on infrastructure growth promised in its manifesto, recent clearance of stalled projects and demand due to the creation of Telangana state, which would in turn benefit the company. We value the company at 12x Mar-16E EBITDA and arrive at a price target of Rs1,620. The key downside risk to our estimates could be slowdown in the infrastructure sector and sharp rise in energy costs.

## Company background

ACC is the second largest producer of cement in India with an installed capacity of ~30mt. Established in 1936, ACC has been the pioneer and trend-setter in cement and concrete technology. ACC's operations are spread across the country with 17 cement factories, 40 Ready-mix concrete plants and 21 sales offices. The company has 20% of its capacities in the East region, 20% in the North region, 32% in the South region, 13% in the West region and 15% in the Central region. It has a countrywide distribution network of 9,000 dealers.

## Summary financials

| Y/E Dec (Rs bn) | Revenue | YoY (%) | EBITDA | EBITDA (%) | Adj. PAT | YoY (%) | Adj. EPS (Rs) | RoE (%) | RoCE (%) | PE (x) | EV/EBITDA (x) |
|-----------------|---------|---------|--------|------------|----------|---------|---------------|---------|----------|--------|---------------|
| CY12            | 111.3   | 18.0    | 19.7   | 17.7       | 13.2     | 25.7    | 70.4          | 18.2    | 13.5     | 20.4   | 12.3          |
| CY13            | 109.1   | (2.0)   | 13.7   | 12.5       | 8.8      | (33.6)  | 46.8          | 11.6    | 8.6      | 30.8   | 18.0          |
| CY14E           | 120.6   | 10.6    | 15.8   | 13.1       | 10.0     | 13.6    | 53.1          | 12.5    | 8.1      | 27.1   | 15.5          |
| CY15E           | 138.3   | 14.6    | 21.5   | 15.5       | 13.8     | 38.7    | 73.7          | 16.5    | 12.0     | 19.5   | 11.4          |
| CY16E           | 159.7   | 15.5    | 27.0   | 16.9       | 17.5     | 26.7    | 93.4          | 19.5    | 14.8     | 15.4   | 8.7           |

Source: Company, Centrum Research Estimates

## Financials

## Exhibit 1: Income Statement

| Y/E Dec (Rsmn)    | CY12            | CY13            | CY14E           | CY15E           | CY16E           |
|-------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Net Sales</b>  | <b>1,11,305</b> | <b>1,09,084</b> | <b>1,20,595</b> | <b>1,38,261</b> | <b>1,59,705</b> |
| Raw Materials     | 16,902          | 18,478          | 20,337          | 23,588          | 27,333          |
| as % of sales     | 15.2            | 16.9            | 16.9            | 17.1            | 17.1            |
| Power & Fuel      | 23,823          | 23,823          | 25,065          | 27,955          | 32,348          |
| as % of sales     | 21.4            | 21.8            | 20.8            | 20.2            | 20.3            |
| Freight cost      | 22,212          | 23,161          | 26,205          | 29,078          | 32,728          |
| as % of sales     | 20.0            | 21.2            | 21.7            | 21.0            | 20.5            |
| <b>EBITDA</b>     | <b>19,681</b>   | <b>13,683</b>   | <b>15,833</b>   | <b>21,487</b>   | <b>26,955</b>   |
| EBITDA margin (%) | 17.7            | 12.5            | 13.1            | 15.5            | 16.9            |
| Depreciation      | 5,589           | 5,740           | 5,972           | 6,308           | 6,895           |
| EBIT              | 14,092          | 7,943           | 9,861           | 15,179          | 20,060          |
| Interest          | 1,147           | 517             | 600             | 700             | 800             |
| Other income      | 4,923           | 4,843           | 5,000           | 5,300           | 5,800           |
| PBT               | 17,869          | 12,270          | 14,261          | 19,779          | 25,060          |
| Tax               | 3,903           | 1,312           | 4,278           | 5,934           | 7,518           |
| Tax rate (%)      | 21.8            | 10.7            | 30.0            | 30.0            | 30.0            |
| Rep PAT           | 10,612          | 10,958          | 9,982           | 13,845          | 17,542          |
| EO items          | 2,621           | (2,167)         | -               | -               | -               |
| <b>Adj PAT</b>    | <b>13,233</b>   | <b>8,790</b>    | <b>9,982</b>    | <b>13,845</b>   | <b>17,542</b>   |

Source: Company, Centrum Research Estimates

## Exhibit 2: Key Ratios

| Y/E Dec (Rsmn)               | CY12   | CY13   | CY14E  | CY15E  | CY16E  |
|------------------------------|--------|--------|--------|--------|--------|
| <b>Growth Metrics (%)</b>    |        |        |        |        |        |
| Net Sales                    | 18.0   | (2.0)  | 10.6   | 14.6   | 15.5   |
| EBITDA                       | 16.5   | (30.5) | 15.7   | 35.7   | 25.4   |
| Adj Net Profit               | 25.7   | (33.6) | 13.6   | 38.7   | 26.7   |
| <b>Profitability Metrics</b> |        |        |        |        |        |
| EBIT margin (%)              | 12.7   | 7.3    | 8.2    | 11.0   | 12.6   |
| EBITDA per Tonne (Rs)        | 815.9  | 573.5  | 630.7  | 798.2  | 930.7  |
| PBT margin (%)               | 16.1   | 11.2   | 11.8   | 14.3   | 15.7   |
| Adj PAT margin (%)           | 11.9   | 8.1    | 8.3    | 10.0   | 11.0   |
| <b>Return Ratios</b>         |        |        |        |        |        |
| RoE (%)                      | 18.2   | 11.6   | 12.5   | 16.5   | 19.5   |
| RoCE (%)                     | 13.5   | 8.6    | 8.1    | 12.0   | 14.8   |
| RoIC (%)                     | 21.2   | 13.0   | 11.5   | 16.7   | 21.8   |
| <b>Turnover (no of days)</b> |        |        |        |        |        |
| Inventory period             | 37.5   | 35.6   | 35.6   | 35.6   | 35.6   |
| Collection period            | 10.1   | 12.6   | 12.6   | 12.6   | 12.6   |
| Creditors period             | 80.9   | 79.5   | 80.0   | 80.0   | 80.0   |
| Net WC days                  | (57.0) | (33.9) | (33.0) | (38.5) | (39.6) |
| <b>Solvency Ratio</b>        |        |        |        |        |        |
| D/E (x)                      | 0.02   | 0.00   | 0.00   | 0.00   | 0.00   |
| Net D/E (x)                  | (0.4)  | (0.3)  | (0.3)  | (0.3)  | (0.4)  |
| Interest coverage (x)        | 12.3   | 15.4   | 16.4   | 21.7   | 25.1   |
| Current Ratio (x)            | 0.78   | 0.88   | 0.79   | 0.74   | 0.75   |
| <b>Dividend</b>              |        |        |        |        |        |
| DPS (Rs)                     | 30.0   | 30.0   | 32.0   | 40.0   | 45.0   |
| Dividend yield (%)           | 2.1    | 2.1    | 2.2    | 2.8    | 3.1    |
| Dividend pay-out (%)         | 61.7   | 60.1   | 70.5   | 63.5   | 56.4   |
| <b>Per share (Rs)</b>        |        |        |        |        |        |
| Basic EPS- reported          | 56.5   | 58.3   | 53.1   | 73.7   | 93.4   |
| Basic EPS- adjusted          | 70.4   | 46.8   | 53.1   | 73.7   | 93.4   |
| FDEPS- reported              | 56.5   | 58.3   | 53.1   | 73.7   | 93.4   |
| FDEPS- adjusted              | 70.4   | 46.8   | 53.1   | 73.7   | 93.4   |
| CEPS                         | 86.2   | 88.9   | 84.9   | 107.3  | 130.1  |
| BVPS                         | 392.9  | 416.4  | 432.1  | 459.0  | 499.7  |
| <b>Valuations Metrics</b>    |        |        |        |        |        |
| P/E (x)                      | 20.4   | 30.8   | 27.1   | 19.5   | 15.4   |
| Price/BV (x)                 | 3.7    | 3.5    | 3.3    | 3.1    | 2.9    |
| EV/Sales (x)                 | 2.2    | 2.3    | 2.0    | 1.8    | 1.5    |
| EV/EBITDA (x)                | 12.3   | 18.0   | 15.5   | 11.4   | 8.7    |
| M-Cap/Sales (x)              | 2.4    | 2.5    | 2.2    | 2.0    | 1.7    |
| EV/ton (USD)                 | 135.4  | 137.5  | 137.7  | 124.4  | 119.8  |

Source: Company, Centrum Research Estimates

## Exhibit 3: Balance Sheet

| Y/E Dec (Rsmn)                 | CY12          | CY13          | CY14E         | CY15E         | CY16E         |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Sources of Funds</b>        |               |               |               |               |               |
| Share Capital                  | 1,880         | 1,880         | 1,880         | 1,880         | 1,880         |
| Reserves                       | 71,949        | 76,369        | 79,317        | 84,369        | 92,019        |
| Shareholders Fund              | 73,828        | 78,248        | 81,196        | 86,248        | 93,898        |
| Debt                           | 1,631         | 350           | -             | -             | -             |
| Net deferred tax               | 5,169         | 5,073         | 5,073         | 5,073         | 5,073         |
| <b>Total Liabilities</b>       | <b>80,628</b> | <b>83,671</b> | <b>86,269</b> | <b>91,321</b> | <b>98,971</b> |
| Gross Block                    | 1,02,188      | 1,03,996      | 1,17,192      | 1,30,192      | 1,40,192      |
| Accumulated Depn               | 43,549        | 48,956        | 54,928        | 61,236        | 68,131        |
| Net Fixed Assets               | 58,639        | 55,040        | 62,264        | 68,955        | 72,061        |
| Capital WIP                    | 3,113         | 8,196         | 5,000         | 5,000         | 3,000         |
| Investments                    | 25,536        | 21,940        | 23,940        | 25,940        | 33,940        |
| <b>Current Assets</b>          |               |               |               |               |               |
| Inventories                    | 11,336        | 11,215        | 11,215        | 12,639        | 14,549        |
| Sundry Debtors                 | 3,035         | 3,972         | 3,972         | 4,477         | 5,153         |
| Cash & Bank balances           | 6,784         | 5,034         | 2,379         | 1,999         | 3,037         |
| Loans & Advances               | 8,875         | 12,262        | 12,779        | 14,402        | 16,579        |
| Other Current Assets           | 288           | 195           | 195           | 195           | 195           |
| Total Current Assets           | 30,317        | 32,678        | 30,539        | 33,712        | 39,513        |
| Sundry creditors               | 24,422        | 25,179        | 25,179        | 28,368        | 32,654        |
| Other liabilities & provisions | 14,212        | 12,085        | 13,386        | 17,001        | 19,971        |
| Total Current Liabilities      | 38,635        | 37,265        | 38,556        | 45,369        | 52,625        |
| Net Current Assets             | (8,318)       | (4,587)       | (8,017)       | (11,657)      | (13,112)      |
| <b>Total Assets</b>            | <b>80,628</b> | <b>83,671</b> | <b>86,269</b> | <b>91,321</b> | <b>98,971</b> |

Source: Company, Centrum Research Estimates

## Exhibit 4: Cash Flow

| Y/E Dec (Rsmn)                     | CY12    | CY13    | CY14E    | CY15E    | CY16E    |
|------------------------------------|---------|---------|----------|----------|----------|
| PBT                                | 14,515  | 12,270  | 14,261   | 19,779   | 25,060   |
| Add: Depreciation                  | 5,589   | 5,740   | 5,972    | 6,308    | 6,895    |
| Add: Interest                      | 1,147   | 517     | 600      | 700      | 800      |
| Add: Others                        | (2,319) | (1,593) | -        | -        | -        |
| Operating profit before WC changes | 18,931  | 16,933  | 20,833   | 26,787   | 32,755   |
| Trade & other receivables          | (2,150) | (2,989) | (517)    | (2,128)  | (2,852)  |
| Inventories                        | (218)   | 121     | -        | (1,425)  | (1,910)  |
| Trade payables                     | (2,088) | 991     | (2)      | 3,564    | 4,731    |
| Net change - WC                    | (4,455) | (1,877) | (519)    | 11       | (31)     |
| Direct taxes                       | (2,059) | (4,286) | (5,845)  | (4,444)  | (6,092)  |
| Dividend & Others                  | 2,252   | (769)   | (600)    | (700)    | (800)    |
| Net cash from operating activities | 14,668  | 10,001  | 13,869   | 21,655   | 25,831   |
| Capital expenditure                | (5,684) | (9,478) | (10,000) | (13,000) | (8,000)  |
| Others                             | 1,785   | 1,555   | (2,000)  | (2,000)  | (8,000)  |
| Net Cash from investing activities | (3,107) | (8,521) | (12,000) | (15,000) | (16,000) |
| Net free cash flows                | 8,984   | 523     | 3,869    | 8,655    | 17,831   |
| Debt change                        | (3,477) | (1,280) | (350)    | -        | -        |
| Dividend paid                      | (6,082) | (6,559) | (4,173)  | (7,034)  | (8,793)  |
| Others                             | -       | -       | -        | -        | -        |
| Net cash from financing activities | (9,558) | (7,840) | (4,524)  | (7,034)  | (8,793)  |
| Net change in cash                 | 2,003   | (6,360) | (2,655)  | (380)    | 1,038    |

Source: Company, Centrum Research Estimates



INDIA

9 June 2014

# High-conviction ideas

CENTRUM

## Bajaj Auto

BUY

|              |         |
|--------------|---------|
| Target Price | Rs2,350 |
| CMP*         | Rs2,048 |
| Upside       | 15%     |

### Key Data

|                          |             |
|--------------------------|-------------|
| Bloomberg Code           | BJAUT IN    |
| Curr Shares O/S (mn)     | 289.4       |
| Diluted Shares O/S (mn)  | 289.4       |
| Mkt Cap (Rsbn/USDbn)     | 592.7/10    |
| 52 Wk H / L (Rs)         | 2195/1680.1 |
| 5 Year H / L (Rs)        | 2195/407.9  |
| Daily Vol. (3M NSE Avg.) | 314985      |

### Price Performance (%)

|          | 1M   | 6M   | 1Yr  |
|----------|------|------|------|
| BJAUT IN | 6.7  | 3.5  | 17.4 |
| Nifty    | 11.3 | 20.0 | 29.8 |

### Centrum vs. Bloomberg Consensus\*

| Particulars<br>(Rs mn) | FY15E   |         |         | FY16E   |         |         |
|------------------------|---------|---------|---------|---------|---------|---------|
|                        | Centrum | BBG     | Var (%) | Centrum | BBG     | Var (%) |
| Sales                  | 231,084 | 225,825 | 2.3     | 259,051 | 255,342 | 1.5     |
| EBITDA                 | 48,924  | 46,375  | 5.5     | 53,792  | 52,365  | 2.7     |
| PAT                    | 38,684  | 36,597  | 5.7     | 43,243  | 41,317  | 4.7     |

### Bloomberg Consensus\*

| BUY | SELL | HOLD | Centrum Target Price (Rs) |                           | Variance (%) |
|-----|------|------|---------------------------|---------------------------|--------------|
|     |      |      | Target Price (Rs)         | Centrum Target Price (Rs) |              |
| 32  | 7    | 24   | 2,111                     | 2,350                     | 11.3         |

\*as on 6 June 2014; Source: Bloomberg, Centrum Research

### Ajay Shethiya

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- **New Discover launches to help regain lost ground:** BAL lost 440bps in the overall domestic motor cycle (MC) segment in FY14 vs. FY13. We believe new Discover launches will help the company regain its lost ground as the key reason for the drop in the market share was the sharp underperformance of the Executive segment. With the help of recently launched Discover 125cc, the management expects the monthly run rate of Discover family to inch up to 120-125k units from current 75-80k units.
- **Export momentum to continue:** Management has guided for a 20% volume growth in Exports for FY15E. In terms of near term triggers, the company will resume exporting vehicles to Egypt from June 2014 onwards. We understand that Bajaj Auto's distributors have placed orders for 5,500 three-wheelers and about 3,500 motorcycles for June, which are almost the normalized levels of monthly sales to Egypt.
- **Margins in FY15E to remain healthy despite higher contribution from Discover:** Though we expect EBITDA margins to trend marginally lower from current levels given higher contribution from Discover family going forward, we see a cushion to margins in form of 1.) Recovery in 3W sales (driven by new permits in Maharashtra, new permits are likely to open up in Delhi for 50,000 units) and 2.) Management indication that it had hedged 65% of its targeted exports for FY15E and expects the Re/\$ rate to be at 61.5 for FY15E compared to 60 in FY14.
- **Valuation and Recommendations:** We retain Buy rating on the stock on reasonable valuations. We believe the domestic market share loss in the MC segment has bottomed out and export volumes are likely to improve further. Our TP of Rs2,350 is based on 15x March '15 Core EPS + Rs453 of cash and cash equivalents and stake in KTM. Key downside risks are 1) Lower than expected response to new Discover launches and 2) Regulatory/political uncertainty in its key export markets.

## Company background

Bajaj Auto is India's second-largest two-wheeler company by volume. It is the market leader in the domestic three-wheeler market. Bajaj is the largest exporter of two wheelers and three-wheelers in India, and generates more than one-third of its sales from exports. Bajaj also owns a 47% stake in KTM Austria (a motorcycle and offroad vehicle manufacturer).

## Summary financials

| Y/E Mar (Rs mn) | Revenue | YoY (%) | EBITDA | EBITDA (%) | Adj. PAT | YoY (%) | Adj. EPS (Rs) | RoE (%) | RoCE (%) | PE (x) | EV/EBITDA (x) |
|-----------------|---------|---------|--------|------------|----------|---------|---------------|---------|----------|--------|---------------|
| FY13            | 203,511 | 2.8     | 39,897 | 19.6       | 30,436   | (1.7)   | 105.2         | 43.7    | 42.8     | 19.5   | 13.4          |
| FY14            | 203,948 | 0.2     | 44,278 | 21.7       | 32,419   | 6.5     | 112.0         | 37.7    | 37.0     | 18.0   | 11.6          |
| FY15E           | 231,084 | 13.3    | 48,924 | 21.2       | 38,684   | 19.3    | 133.7         | 36.6    | 36.1     | 15.3   | 10.2          |
| FY16E           | 259,051 | 12.1    | 53,792 | 20.8       | 43,243   | 11.8    | 149.4         | 34.4    | 34.0     | 13.7   | 8.8           |
| FY17E           | 291,942 | 12.7    | 60,447 | 20.7       | 49,090   | 13.5    | 169.6         | 33.1    | 32.8     | 12.1   | 7.5           |

Source: Company, Centrum Research Estimates

## Financials

## Exhibit 5: Income Statement

| Y/E March (Rsmn)                | FY13           | FY14           | FY15E          | FY16E          | FY17E          |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Net Sales</b>                | <b>203,511</b> | <b>203,948</b> | <b>231,084</b> | <b>259,051</b> | <b>291,942</b> |
| Raw Materials                   | 145,304        | 140,020        | 159,756        | 179,704        | 202,344        |
| % of sales                      | 71.4           | 68.7           | 69.1           | 69.4           | 69.3           |
| Personnel                       | 6,395          | 7,266          | 8,356          | 9,609          | 11,050         |
| % of sales                      | 3.1            | 3.6            | 3.6            | 3.7            | 3.8            |
| Manufact. & Other Exp.          | 11,915         | 12,384         | 14,048         | 15,947         | 18,100         |
| % of sales                      | 5.9            | 6.1            | 6.1            | 6.2            | 6.2            |
| <b>EBITDA</b>                   | <b>39,897</b>  | <b>44,278</b>  | <b>48,924</b>  | <b>53,792</b>  | <b>60,447</b>  |
| EBITDA Margin (%)               | 19.6           | 21.7           | 21.2           | 20.8           | 20.7           |
| Depn.& Amortn                   | 1,640          | 1,796          | 1,989          | 2,124          | 2,259          |
| <b>EBIT</b>                     | <b>38,257</b>  | <b>42,482</b>  | <b>46,936</b>  | <b>51,668</b>  | <b>58,188</b>  |
| Interest Expenses               | 5              | 5              | 2              | 2              | 2              |
| <b>EBT</b>                      | <b>38,252</b>  | <b>42,477</b>  | <b>46,933</b>  | <b>51,666</b>  | <b>58,186</b>  |
| Other Income                    | 4,411          | 4,611          | 6,794          | 8,394          | 9,994          |
| Extraord. (Income)/Exp.         | -              | -              | -              | -              | -              |
| <b>PBT</b>                      | <b>42,662</b>  | <b>47,089</b>  | <b>53,728</b>  | <b>60,060</b>  | <b>68,181</b>  |
| Tax-Total                       | 12,227         | 14,093         | 15,044         | 16,817         | 19,091         |
| Tax Rate (%) - Total            | 28.7           | 29.9           | 28.0           | 28.0           | 28.0           |
| Extraord. items -Adj. -Post tax | -              | -              | -              | -              | -              |
| <b>Adjusted PAT</b>             | <b>30,436</b>  | <b>32,996</b>  | <b>38,684</b>  | <b>43,243</b>  | <b>49,090</b>  |
| Extraord. items -Adj.           | -              | (576)          | -              | -              | -              |
| <b>Reported PAT</b>             | <b>30,436</b>  | <b>32,419</b>  | <b>38,684</b>  | <b>43,243</b>  | <b>49,090</b>  |

Source: Company, Centrum Research Estimates

## Exhibit 6: Key Ratios

| Y/E March                        | FY13   | FY14   | FY15E  | FY16E  | FY17E  |
|----------------------------------|--------|--------|--------|--------|--------|
| <b>Growth Metrics (%)</b>        |        |        |        |        |        |
| Net sales                        | 2.8    | 0.2    | 13.3   | 12.1   | 12.7   |
| EBITDA                           | (0.1)  | 11.0   | 10.5   | 9.9    | 12.4   |
| Adjusted PAT                     | 1.3    | 8.4    | 17.2   | 11.8   | 13.5   |
| <b>Profitability metrics (%)</b> |        |        |        |        |        |
| EBITDA Margin                    | 19.6   | 21.7   | 21.2   | 20.8   | 20.7   |
| EBIT Margin                      | 18.8   | 20.8   | 20.3   | 19.9   | 19.9   |
| PAT Margin                       | 15.0   | 16.2   | 16.7   | 16.7   | 16.8   |
| <b>Return Ratio (%)</b>          |        |        |        |        |        |
| ROE                              | 43.7   | 37.7   | 36.6   | 34.4   | 33.1   |
| ROcE                             | 42.8   | 37.0   | 36.1   | 34.0   | 32.8   |
| ROIC                             | 223.5  | 349.7  | 308.3  | 359.2  | 438.4  |
| <b>Turnover Ratios</b>           |        |        |        |        |        |
| Inventory period                 | 11.9   | 11.8   | 12.0   | 12.0   | 12.0   |
| Debtors period                   | 14.4   | 14.7   | 14.0   | 14.0   | 14.0   |
| WC Turnover (days)               | (16.4) | (24.0) | (19.0) | (19.1) | (19.0) |
| Net working capital days         | (16.4) | (24.0) | (19.0) | (19.1) | (19.0) |
| <b>Solvency ratio (%)</b>        |        |        |        |        |        |
| Debt-equity (x)                  | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    |
| Net Debt-equity (x)              | (0.7)  | (0.8)  | (0.8)  | (0.9)  | (0.9)  |
| Liquidity ratio (x)              | 0.9    | 0.8    | 0.8    | 0.8    | 0.9    |
| Interest coverage ratio (%)      | 7,085  | 8,670  | 22,335 | 24,587 | 27,690 |
| <b>Dividend</b>                  |        |        |        |        |        |
| DPS (Rs.)                        | 45.0   | 50.0   | 58.6   | 65.5   | 74.4   |
| Dividend Yield (%)               | 2.2    | 2.4    | 2.9    | 3.2    | 3.6    |
| Dividend Payout (%)              | 42.8   | 43.1   | 43.8   | 43.8   | 43.8   |
| <b>Per share (Rs)</b>            |        |        |        |        |        |
| Basic EPS - Reported             | 105.2  | 112.0  | 133.7  | 149.4  | 169.6  |
| Basic EPS - Adjusted             | 105.2  | 114.0  | 133.7  | 149.4  | 169.6  |
| Fully diluted EPS - Reported     | 105.2  | 112.0  | 133.7  | 149.4  | 169.6  |
| Fully diluted EPS - Adjusted     | 105.2  | 114.0  | 133.7  | 149.4  | 169.6  |
| Book value                       | 273.1  | 332.0  | 397.6  | 470.9  | 554.1  |
| <b>Valuation metrics (x)</b>     |        |        |        |        |        |
| P/E                              | 19.5   | 18.0   | 15.3   | 13.7   | 12.1   |
| P/BV                             | 7.5    | 6.2    | 5.2    | 4.4    | 3.7    |
| EV/EBITDA                        | 13.4   | 11.6   | 10.2   | 8.8    | 7.5    |
| EV/Sales                         | 2.7    | 2.6    | 2.2    | 1.9    | 1.6    |
| Mcap/Sales                       | 2.9    | 2.9    | 2.6    | 2.3    | 2.0    |

Source: Company, Centrum Research Estimates

## Exhibit 7: Balance Sheet

| Y/E March (Rsmn)                           | FY13           | FY14           | FY15E          | FY16E          | FY17E          |
|--|----------------|----------------|----------------|----------------|----------------|
| <b>Y/E March (Rsmn)</b>                    |                |                |                |                |                |
| <b>Sources of funds</b>                    |                |                |                |                |                |
| Capital                                    | 2,894          | 2,894          | 2,894          | 2,894          | 2,894          |
| Reserves & Surplus                         | 76,126         | 93,187         | 112,156        | 133,361        | 157,433        |
| <b>Shareholders' Funds</b>                 | <b>79,020</b>  | <b>96,080</b>  | <b>115,050</b> | <b>136,255</b> | <b>160,327</b> |
| <b>Minority Interest</b>                   | -              | -              | -              | -              | -              |
| Secured Loans                              | -              | -              | -              | -              | -              |
| Unsecured Loans                            | 1,933          | 1,452          | 1,452          | 1,452          | 1,452          |
| <b>Total Loan Funds</b>                    | <b>1,933</b>   | <b>1,452</b>   | <b>1,452</b>   | <b>1,452</b>   | <b>1,452</b>   |
| Deferred Tax Liabi. - Net                  | 1,151          | 1,432          | 1,432          | 1,432          | 1,432          |
| <b>Total</b>                               | <b>82,104</b>  | <b>98,964</b>  | <b>117,933</b> | <b>139,138</b> | <b>163,210</b> |
| <b>Application of funds</b>                |                |                |                |                |                |
| Gross Block                                | 38,289         | 42,692         | 45,692         | 48,692         | 51,692         |
| Accumulated Dep.                           | (20,244)       | (22,040)       | (24,029)       | (26,153)       | (28,411)       |
| Capital WIP                                | 2,233          | 100            | 100            | 100            | 100            |
| <b>Net Fixed Assets</b>                    | <b>20,277</b>  | <b>20,752</b>  | <b>21,763</b>  | <b>22,640</b>  | <b>23,381</b>  |
| <b>Investments</b>                         | <b>64,305</b>  | <b>85,496</b>  | <b>105,496</b> | <b>125,496</b> | <b>145,496</b> |
| Inventories                                | 6,363          | 6,397          | 6,483          | 7,334          | 8,219          |
| Sundry Debtors                             | 7,676          | 7,962          | 7,563          | 8,556          | 9,589          |
| Other Current Assets                       | 713            | 748            | 786            | 825            | 866            |
| Cash & Bank Balances                       | 5,589          | 4,955          | 1,475          | 3,286          | 8,159          |
| Loans and Advances                         | 19,864         | 21,165         | 19,718         | 22,308         | 25,000         |
| <b>Tot. Curr. Assets, Loans &amp; Adv.</b> | <b>40,204</b>  | <b>41,227</b>  | <b>36,024</b>  | <b>42,309</b>  | <b>51,834</b>  |
| Current Liabilities                        | 25,258         | 28,775         | 27,605         | 31,231         | 35,001         |
| Provisions                                 | 17,425         | 19,737         | 17,746         | 20,077         | 22,500         |
| <b>Total Current Liab. &amp; Prov.</b>     | <b>42,683</b>  | <b>48,512</b>  | <b>45,351</b>  | <b>51,307</b>  | <b>57,501</b>  |
| <b>Net Current Assets</b>                  | <b>(2,478)</b> | <b>(7,285)</b> | <b>(9,327)</b> | <b>(8,998)</b> | <b>(5,667)</b> |
| Miscellaneous Expend.                      | -              | -              | -              | -              | -              |
| <b>Total assets</b>                        | <b>82,104</b>  | <b>98,963</b>  | <b>117,933</b> | <b>139,138</b> | <b>163,210</b> |

Source: Company, Centrum Research Estimates

## Exhibit 8: Cash Flow

| Y/E March (Rsmn)                               | FY13            | FY14            | FY15E           | FY16E           | FY17E           |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Y/E March (Rsmn)</b>                        |                 |                 |                 |                 |                 |
| Pre-tax profit                                 | 42,662          | 47,089          | 53,728          | 60,060          | 68,181          |
| Total tax paid                                 | (11,560)        | (13,812)        | (15,044)        | (16,817)        | (19,091)        |
| Depreciation                                   | 1,640           | 1,796           | 1,989           | 2,124           | 2,259           |
| Chg in debtors                                 | (3,448)         | (286)           | 399             | (993)           | (1,033)         |
| Chg in inventory                               | 423             | (34)            | (85)            | (851)           | (885)           |
| Chg in loans & advances                        | (681)           | (1,300)         | 1,447           | (2,590)         | (2,693)         |
| Chg in other current assets                    | -               | -               | -               | -               | -               |
| Chg in creditors                               | (235)           | (40)            | 232             | 2,625           | 2,730           |
| Chg in provisions                              | (4,324)         | 2,312           | (1,991)         | 2,331           | 2,424           |
| Chg in other current liabilities               | (1,700)         | 3,558           | (1,403)         | 1,000           | 1,040           |
| Net chg in working capital                     | (9,965)         | 4,209           | (1,401)         | 1,522           | 1,583           |
| Chg in other non-current assets                | (691)           | (36)            | (37)            | (39)            | (41)            |
| <b>Cash flow from operating activities (a)</b> | <b>22,086</b>   | <b>39,246</b>   | <b>39,234</b>   | <b>46,850</b>   | <b>52,890</b>   |
| Capital expenditure                            | (6,705)         | (2,271)         | (3,000)         | (3,000)         | (3,000)         |
| Chg in marketable securities                   | (15,477)        | (21,192)        | (20,000)        | (20,000)        | (20,000)        |
| <b>Cash flow from investing activities (b)</b> | <b>(22,181)</b> | <b>(23,463)</b> | <b>(23,000)</b> | <b>(23,000)</b> | <b>(23,000)</b> |
| Dividend (incl. tax)                           | (15,134)        | (16,816)        | (19,715)        | (22,038)        | (25,018)        |
| Other financing activities                     | 3,307           | 881             | -               | -               | -               |
| <b>Cash flow from financing activities (c)</b> | <b>(10,868)</b> | <b>(16,416)</b> | <b>(19,715)</b> | <b>(22,038)</b> | <b>(25,018)</b> |
| <b>Net chg in cash (a+b+c)</b>                 | <b>(10,964)</b> | <b>(633)</b>    | <b>(3,480)</b>  | <b>1,811</b>    | <b>4,872</b>    |

Source: Company, Centrum Research Estimates



INDIA

9 June 2014

# High-conviction ideas

FIEM

CENTRUM

BUY

|                     |              |
|---------------------|--------------|
| <b>Target Price</b> | <b>Rs595</b> |
| CMP*                | Rs467        |
| Upside              | 27%          |

## Key Data

|                          |             |
|--------------------------|-------------|
| Bloomberg Code           | FIEM IN     |
| Curr Shares O/S (mn)     | 12.0        |
| Diluted Shares O/S (mn)  | 12.0        |
| Mkt Cap (Rsbn/USDmn)     | 5.6/94.6    |
| 52 Wk H / L (Rs)         | 479.9/178.1 |
| 5 Year H / L (Rs)        | 479.9/42.7  |
| Daily Vol. (3M NSE Avg.) | 48668.8     |

## Price Performance (%)

|         | 1M   | 6M   | 1Yr   |
|---------|------|------|-------|
| FIEM IN | 6.9  | 47.1 | 146.7 |
| Nifty   | 11.2 | 19.9 | 29.7  |

## Centrum vs. Bloomberg Consensus\*

| Particulars<br>(Rs mn) | FY15E   |       |         | FY16E   |       |         |
|------------------------|---------|-------|---------|---------|-------|---------|
|                        | Centrum | BBG   | Var (%) | Centrum | BBG   | Var (%) |
| Sales                  | 8,469   | 8,465 | 0.0     | 9,899   | 9,975 | (0.8)   |
| EBITDA                 | 1,056   | 1,046 | 0.9     | 1,237   | 1,244 | (0.5)   |
| PAT                    | 506     | 463   | 9.4     | 646     | 588   | 9.9     |

## Bloomberg Consensus\*

| BUY | SELL | HOLD | Centrum Target Price (Rs) |                           | Variance (%) |
|-----|------|------|---------------------------|---------------------------|--------------|
|     |      |      | Target Price (Rs)         | Centrum Target Price (Rs) |              |
| 2   | 0    | 0    | 522                       | 595                       | 14.1         |

\*as on 6 June 2014; Source: Bloomberg, Centrum Research

## Ajay Shethiya

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- **Momentum in core business to continue:** HMSI, which currently accounts for 40% of FIEM's revenues, has targeted 25% volume growth for FY15E vs. FY14. Also, the next big client TVS Motors is gearing up for new product launches in both motorcycle (re-launch of Victor in the Executive segment) and scooter segments. TVS has guided for volume growth of 25% for FY15E over FY14. Given the strong volume outlook for its key client, we believe that momentum in core business of FIEM will gain further traction.
- **Foraying into LED segment to drive growth:** FIEM has diversified into LED luminaries and Integrated passenger information system (IPIS), which we believe will be the new growth driver. Based on industry sources, the overall LED lighting market in India is likely to reach Rs105bn by 2016E. We believe FIEM is well placed to capitalize on the LED opportunity given its focus on high growth segments. FIEM has received approval for IPIS from Ministry of Railways - RDSO and can now bid railway tenders.
- **Balance sheet strengthens further:** Despite capex of ~Rs407mn, it has paid off debt by Rs211mn in FY14. Resultant, debt/equity for FY14 stands at 0.4x vs. to 0.6x in FY13. Given the strong cash flow from operations, the gearing is likely to further get better over FY15-16E. Also the working capital cycle has turned negative for FY14. Final dividend stands at of Rs6/share FY14 vs. Rs4/share for FY13.
- **Valuation & Risks:** At CMP, the stock currently trades at 11.0x/8.6x FY15E/FY16E EPS. We retain Buy with TP of Rs 595 (based on 11x FY16E EPS). We expect the company to register strong earnings CAGR of 31% over FY14-FY16E and ROE to improve to 25% in FY16E from 20% in FY14. Key risks 1) High client concentration 2) Failure to gain traction in LED segment and 3) Delay in tendering of contracts and receipt of payments from the Indian Railways.

## Company background

The Company was originally incorporated in India as Rahul Auto Private Limited on February 6, 1989 in New Delhi and was founded by Dr. J.K. Jain, a first generation entrepreneur. FIEM is one of the leading manufacturers of automotive lighting & signalling equipment's and rear view mirrors in India. Its major business comes from the two-wheeler segment of the vehicle industry. After strengthening its position in the Automotive Industry, FIEM decided to go for L diversification in two more additional segments: LED luminaries for indoor and outdoor applications and LED Integrated Passenger Information Systems for railways and buses.

## Summary financials

| Y/E Mar (Rs mn) | Revenue | YoY (%) | EBITDA | EBITDA (%) | Adj. PAT | YoY (%) | Adj. EPS (Rs) | RoE (%) | RoCE (%) | PE (x) | EV/EBITDA (x) |
|-----------------|---------|---------|--------|------------|----------|---------|---------------|---------|----------|--------|---------------|
| FY13            | 6,022   | 12.9    | 699    | 11.6       | 273      | 29.2    | 22.8          | 17.5    | 12.9     | 20.5   | 9.5           |
| FY14            | 7,184   | 19.3    | 885    | 12.3       | 374      | 36.9    | 31.3          | 20.5    | 17.0     | 14.9   | 7.3           |
| FY15E           | 8,469   | 17.9    | 1,056  | 12.5       | 506      | 35.3    | 42.3          | 23.5    | 19.9     | 11.0   | 5.9           |
| FY16E           | 9,899   | 16.9    | 1,237  | 12.5       | 646      | 27.7    | 54.0          | 25.3    | 22.3     | 8.6    | 4.6           |
| FY17E           | 11,637  | 17.6    | 1,464  | 12.6       | 815      | 26.1    | 68.1          | 26.5    | 24.6     | 6.9    | 3.5           |

Source: Company, Centrum Research Estimates

## Financials

## Exhibit 9: Income Statement

| Y/E March (Rsmn)       | FY13         | FY14         | FY15E        | FY16E        | FY17E         |
|------------------------|--------------|--------------|--------------|--------------|---------------|
| <b>Net Sales</b>       | <b>6,022</b> | <b>7,184</b> | <b>8,469</b> | <b>9,899</b> | <b>11,637</b> |
| Raw Materials          | 3,746        | 4,480        | 5,249        | 6,138        | 7,218         |
| % of sales             | 62.2         | 62.4         | 62.0         | 62.0         | 62.0          |
| Personnel              | 708          | 838          | 989          | 1,167        | 1,377         |
| % of sales             | 11.8         | 11.7         | 11.7         | 11.8         | 11.8          |
| Manufact. & Other Exp. | 870          | 981          | 1,175        | 1,358        | 1,578         |
| % of sales             | 14.4         | 13.7         | 13.9         | 13.7         | 13.6          |
| <b>EBITDA</b>          | <b>699</b>   | <b>885</b>   | <b>1,056</b> | <b>1,237</b> | <b>1,464</b>  |
| EBITDA Margin (%)      | 11.6         | 12.3         | 12.5         | 12.5         | 12.6          |
| Depn. & Amortn         | 183          | 218          | 229          | 244          | 260           |
| <b>EBIT</b>            | <b>515</b>   | <b>667</b>   | <b>827</b>   | <b>992</b>   | <b>1,204</b>  |
| Interest Expenses      | 129          | 144          | 108          | 74           | 48            |
| <b>EBT</b>             | <b>386</b>   | <b>523</b>   | <b>719</b>   | <b>918</b>   | <b>1,156</b>  |
| Other Income           | 4            | 7            | 9            | 12           | 16            |
| <b>PBT</b>             | <b>389</b>   | <b>529</b>   | <b>728</b>   | <b>930</b>   | <b>1,172</b>  |
| Tax-Total              | 116          | 155          | 222          | 284          | 358           |
| Tax Rate (%) - Total   | 29.9         | 29.3         | 30.5         | 30.5         | 30.5          |
| <b>Reported PAT</b>    | <b>273</b>   | <b>374</b>   | <b>506</b>   | <b>646</b>   | <b>815</b>    |
| Extraord. items - Adj. | -            | -            | -            | -            | -             |
| <b>Adjusted PAT</b>    | <b>273</b>   | <b>374</b>   | <b>506</b>   | <b>646</b>   | <b>815</b>    |

Source: Company, Centrum Research Estimates

## Exhibit 10: Key Ratios

| Y/E March                          | FY13  | FY14  | FY15E | FY16E | FY17E   |
|------------------------------------|-------|-------|-------|-------|---------|
| <b>Growth ratios (%)</b>           |       |       |       |       |         |
| Net sales & operating other income | 12.9  | 19.3  | 17.9  | 16.9  | 17.6    |
| EBITDA                             | 3.3   | 26.6  | 19.4  | 17.1  | 18.4    |
| Adjusted Nt Profit                 | 29.2  | 36.9  | 35.3  | 27.7  | 26.1    |
| <b>Margin Ratio (%)</b>            |       |       |       |       |         |
| EBITDA Margin                      | 11.6  | 12.3  | 12.5  | 12.5  | 12.6    |
| EBIT Margin                        | 8.6   | 9.3   | 9.8   | 10.0  | 10.3    |
| PAT Margin                         | 4.5   | 5.2   | 6.0   | 6.5   | 7.0     |
| <b>Return Ratio (%)</b>            |       |       |       |       |         |
| ROE                                | 17.5  | 20.5  | 23.5  | 25.3  | 26.5    |
| ROcE                               | 12.9  | 17.0  | 19.9  | 22.3  | 24.6    |
| ROIC                               | 12.1  | 15.2  | 17.5  | 20.6  | #DIV/0! |
| <b>Turnover Ratio days (days)</b>  |       |       |       |       |         |
| Inventory Period                   | 26.9  | 19.6  | 25.0  | 25.0  | 25.0    |
| Debtors Period                     | 38.0  | 35.4  | 39.0  | 39.0  | 39.0    |
| Net working capital                | 2.8   | (1.4) | 3.0   | 3.0   | 3.0     |
| <b>Solvency Ratio (%)</b>          |       |       |       |       |         |
| Debt-equity (x)                    | 0.6   | 0.4   | 0.3   | 0.2   | 0.1     |
| Net Debt-equity (x)                | 0.6   | 0.4   | 0.3   | 0.1   | (0.1)   |
| Liquidity ratio (x)                | 1.0   | 1.0   | 1.1   | 1.2   | 1.3     |
| Interest coverage ratio (%)        | 4.0   | 4.6   | 7.7   | 13.3  | 24.9    |
| O/s Shares                         | 12    | 12    | 12    | 12    | 12      |
| Fully Diluted Shares               | 12    | 12    | 12    | 12    | 12      |
| <b>Dividend</b>                    |       |       |       |       |         |
| Dividend per share                 | 4.0   | 6.0   | 10.6  | 13.5  | 17.0    |
| Dividend Payout (%)                | 17.5  | 19.2  | 25.0  | 25.0  | 24.6    |
| Dividend Yield (%)                 | 0.9   | 1.3   | 2.3   | 2.9   | 3.6     |
| <b>Per share (Rs)</b>              |       |       |       |       |         |
| Basic (end point) EPS - reported   | 22.8  | 31.3  | 42.3  | 54.0  | 68.1    |
| Basic (end point) EPS - adjusted   | 22.8  | 31.3  | 42.3  | 54.0  | 68.1    |
| FDEPS - Reported                   | 22.8  | 31.3  | 42.3  | 54.0  | 68.1    |
| FDEPS - Adjusted                   | 22.8  | 31.3  | 42.3  | 54.0  | 68.1    |
| CEPS                               | 38.2  | 49.5  | 61.4  | 74.5  | 89.9    |
| Book value                         | 140.6 | 164.8 | 194.7 | 232.9 | 281.1   |
| <b>Valuation</b>                   |       |       |       |       |         |
| P/E                                | 20.5  | 14.9  | 11.0  | 8.6   | 6.9     |
| P/BV                               | 3.3   | 2.8   | 2.4   | 2.0   | 1.7     |
| EV/EBITDA                          | 9.5   | 7.3   | 5.9   | 4.6   | 3.5     |
| EV/Sales                           | 1.1   | 0.9   | 0.7   | 0.6   | 0.4     |

Source: Company, Centrum Research Estimates

## Exhibit 11: Balance Sheet

| Y/E March (Rsmn)                              | FY13         | FY14         | FY15E        | FY16E        | FY17E        |
|---|--------------|--------------|--------------|--------------|--------------|
| <b>SOURCES OF FUNDS</b>                       |              |              |              |              |              |
| Capital                                       | 120          | 120          | 120          | 120          | 120          |
| Reserves & Surplus                            | 1,562        | 1,851        | 2,209        | 2,667        | 3,243        |
| <b>Shareholders' Funds</b>                    | <b>1,682</b> | <b>1,971</b> | <b>2,329</b> | <b>2,786</b> | <b>3,363</b> |
| <b>Minority Interest</b>                      | -            | -            | -            | -            | -            |
| Secured Loans                                 | -            | -            | -            | -            | -            |
| Unsecured Loans                               | 1,083        | 872          | 672          | 472          | 272          |
| <b>Total Loan Funds</b>                       | <b>1,083</b> | <b>872</b>   | <b>672</b>   | <b>472</b>   | <b>272</b>   |
| Deferred Tax Liabi. - Net                     | 242          | 275          | 330          | 399          | 487          |
| <b>Total</b>                                  | <b>3,007</b> | <b>3,118</b> | <b>3,331</b> | <b>3,658</b> | <b>4,122</b> |
| <b>APPLICATION OF FUNDS</b>                   |              |              |              |              |              |
| Gross Block                                   | 3,844        | 4,251        | 4,551        | 4,851        | 5,151        |
| Accumulated Dep.                              | (918)        | (1,136)      | (1,365)      | (1,609)      | (1,869)      |
| Capital WIP                                   | 15           | 15           | 15           | 15           | 15           |
| <b>Net Fixed Assets</b>                       | <b>2,941</b> | <b>3,130</b> | <b>3,201</b> | <b>3,257</b> | <b>3,297</b> |
| <b>Investments</b>                            | <b>0</b>     | <b>1</b>     | <b>1</b>     | <b>1</b>     | <b>1</b>     |
| Goodwill                                      | -            | -            | -            | -            | -            |
| Inventories                                   | 487          | 423          | 636          | 744          | 875          |
| Sundry Debtors                                | 688          | 764          | 992          | 1,160        | 1,365        |
| Other Current Assets                          | -            | -            | -            | -            | -            |
| Cash & Bank Balances                          | 15           | 18           | 52           | 310          | 719          |
| Loans and Advances                            | 196          | 211          | 249          | 291          | 342          |
| <b>Total Current Assets, Loans &amp; Adv.</b> | <b>1,386</b> | <b>1,416</b> | <b>1,929</b> | <b>2,505</b> | <b>3,300</b> |
| Current Liabilities                           | 1,240        | 1,320        | 1,672        | 1,955        | 2,299        |
| Provisions                                    | 82           | 109          | 129          | 151          | 177          |
| <b>Total Current Liab. &amp; Prov.</b>        | <b>1,321</b> | <b>1,429</b> | <b>1,801</b> | <b>2,106</b> | <b>2,476</b> |
| <b>Net Current Assets</b>                     | <b>65</b>    | <b>(13)</b>  | <b>128</b>   | <b>400</b>   | <b>824</b>   |
| Miscellaneous Expend.                         | -            | -            | -            | -            | -            |
| <b>Total assets</b>                           | <b>3,007</b> | <b>3,118</b> | <b>3,331</b> | <b>3,658</b> | <b>4,122</b> |

Source: Company, Centrum Research Estimates

## Exhibit 12: Cash Flow

| Y/E March (Rsmn)                               | FY13         | FY14         | FY15E        | FY16E        | FY17E        |
|--|--------------|--------------|--------------|--------------|--------------|
| Pre-tax profit                                 | 389          | 529          | 728          | 930          | 1,172        |
| Total tax paid                                 | (67)         | (122)        | (167)        | (214)        | (270)        |
| Depreciation                                   | 183          | 218          | 229          | 244          | 260          |
| Chg in debtors                                 | (17)         | (76)         | (229)        | (168)        | (204)        |
| Chg in inventory                               | (29)         | 63           | (213)        | (108)        | (131)        |
| Chg in loans & advances                        | (20)         | (15)         | (38)         | (42)         | (51)         |
| Chg in provisions                              | 22           | 28           | 20           | 22           | 27           |
| Chg in other current liabilities               | 166          | 80           | 352          | 283          | 344          |
| Net chg in working capital                     | 122          | 81           | (108)        | (13)         | (16)         |
| <b>Cash flow from operating activities (a)</b> | <b>628</b>   | <b>706</b>   | <b>682</b>   | <b>947</b>   | <b>1,147</b> |
| Capital expenditure                            | (296)        | (407)        | (300)        | (300)        | (300)        |
| <b>Cash flow from investing activities (b)</b> | <b>(296)</b> | <b>(408)</b> | <b>(300)</b> | <b>(300)</b> | <b>(300)</b> |
| Debt raised/(repaid)                           | (335)        | (211)        | (200)        | (200)        | (200)        |
| Dividend (incl. tax)                           | (56)         | (84)         | (148)        | (189)        | (238)        |
| Other financing activities                     | 21           | -            | -            | -            | -            |
| <b>Cash flow from financing activities (c)</b> | <b>(370)</b> | <b>(295)</b> | <b>(348)</b> | <b>(389)</b> | <b>(438)</b> |
| Net chg in cash (a+b+c)                        | (38)         | 4            | 34           | 258          | 409          |

Source: Company, Centrum Research Estimates



INDIA

9 June 2014

# High-conviction ideas

## Godawari Power & Ispat

CENTRUM

BUY

|              |       |
|--------------|-------|
| Target Price | Rs225 |
| CMP*         | Rs180 |
| Upside       | 25%   |

### Key Data

|                          |            |
|--------------------------|------------|
| Bloomberg Code           | GODPI IN   |
| Curr Shares O/S (mn)     | 32.8       |
| Diluted Shares O/S (mn)  | 32.8       |
| Mkt Cap (Rsbn/USDmn)     | 5.9/99.5   |
| 52 Wk H / L (Rs)         | 183.7/61.5 |
| 5 Year H / L (Rs)        | 183.7/61.5 |
| Daily Vol. (3M NSE Avg.) | 118025     |

### Price Performance (%)

|          | 1M   | 6M    | 1Yr   |
|----------|------|-------|-------|
| GODPI IN | 99.8 | 104.7 | 120.1 |
| Nifty    | 12.9 | 21.1  | 28.1  |

### Centrum vs. Bloomberg Consensus\*

| Particulars<br>(Rs mn) | CY14E   |        |         | CY15E   |        |         |
|------------------------|---------|--------|---------|---------|--------|---------|
|                        | Centrum | BBG    | Var (%) | Centrum | BBG    | Var (%) |
| Sales                  | 29,449  | 26,972 | 9.2     | 31,933  | 29,627 | 7.8     |
| EBITDA                 | 4,937   | 4,780  | 3.3     | 6,025   | 5,608  | 7.4     |
| PAT                    | 1,035   | 1,043  | (0.8)   | 1,886   | 1,713  | 10.1    |

### Bloomberg Consensus\*

| BUY | SELL | HOLD | Target Price (Rs) | Centrum Target Price (Rs) | Variance (%) |
|-----|------|------|-------------------|---------------------------|--------------|
|     |      |      |                   |                           |              |

\*as on 6 June 2014; Source: Bloomberg, Centrum Research

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- **Backward integrated business, flexible business model with rich product portfolio:** GPIL has created a strong niche for itself in the midcap steel space through its rich product portfolio forward integrated into HB Wire and backed by backward integration from iron ore and pellets. The product mix of GPIL remains flexible to derive maximum profitability through a mix of sales volumes in steel and pellets.
- **Boria Tibu mine under development, to increase captive iron ore availability:** GPIL recently announced the start of mine development work (after receipt of all clearances) at Boria Tibu iron ore mine (0.7 mtpa) and expects captive iron ore production to start in H2FY15E with lumps:fines mix of 70:30 and volume guidance of 0.2MT/0.6MT for FY15E/16E. We see total captive iron ore availability increasing to ~1.1 MT in FY16E for GPIL through its two iron ore mines from ~0.3 MT in FY14. Boria Tibu mine was awaiting clearances for last several years and starting of the same by H2FY15E would be a big positive.
- **Pellet volumes and captive mining to drive strong EBITDA CAGR:** We see merchant pellet volumes of 1MT/1.1MT for FY15E/16E and expect EBITDA/PAT CAGR of ~32%/81% during FY14-16E led largely by the pellet division and higher captive iron ore availability. With the starting of Boria Tibu mine in H2FY15E we expect captive iron ore production of ~0.7MT/1.1 MT for FY15E/16E (vs 0.3MT in FY14).
- **Solar power plant PLF to improve, deleveraging to play out with limited incremental capex:** GPIL's 50 MW solar power plant has achieved COD from Oct-13 but has been operating at lower PLFs (below 20%) in H2FY14 due to bad weather and operational issues. However, the plant has now stabilised and management expects net generation of 110mn units in FY15E at a PLF of 25%. With limited incremental capex going forward in steel business, the management guides towards ~Rs1.5-1.7bn loan repayments per annum in the next few years to aid in balance sheet deleveraging. We see debt-equity ratio coming down to 1.5x in FY16E from 2.1x in FY13.
- **Valuations - attractive:** We like the operations of the company with captive iron ore, power and merchant pellets and view GPIL as one of the best diversified midcap steel stocks available at attractive valuations. We value GPIL at 4x FY16E EV/EBITDA and recommend Buy with a revised target price of Rs225. Key risks include sharp drop in realizations of steel products, lower than expected PLF at the 50 MW solar power plant and lower pellet and captive iron ore production.

## Company background

Godawari Power & Ispat Ltd (GPIL) is the flagship company of Hira group of Industries and is a mid-size steel manufacturer based in Raipur, Chhattisgarh. The company manufactures intermediate steel products like sponge iron and finished steel products like wire rods, rounds and HB wires. The company owns and operates iron ore mines for captive purpose and also has pellet making plants in Orissa and Chhattisgarh.

## Summary financials

| Y/E Mar (Rs mn) | Revenue | YoY (%) | EBITDA | EBITDA (%) | Adj. PAT | YoY (%) | Adj. EPS (Rs) | RoE (%) | RoCE (%) | PE (x) | EV/EBITDA (x) |
|-----------------|---------|---------|--------|------------|----------|---------|---------------|---------|----------|--------|---------------|
| FY13            | 23,567  | 14.4    | 3,309  | 14.0       | 1,488    | 76.6    | 45.4          | 18.2    | 13.0     | 4.0    | 6.0           |
| FY14            | 21,181  | (10.1)  | 3,472  | 16.4       | 578      | (61.1)  | 17.7          | 6.7     | 6.8      | 10.2   | 7.1           |
| FY15E           | 29,449  | 39.0    | 4,937  | 16.8       | 1,035    | 79.0    | 31.6          | 10.8    | 10.8     | 5.7    | 4.9           |
| FY16E           | 31,933  | 8.4     | 6,025  | 18.9       | 1,886    | 82.1    | 57.6          | 16.6    | 12.6     | 3.1    | 3.7           |
| FY17E           | 34,109  | 6.8     | 6,672  | 19.6       | 2,451    | 30.0    | 74.9          | 18.0    | 13.6     | 2.4    | 2.9           |

Source: Company, Centrum Research Estimates



## Financials

## Exhibit 13: Income Statement

| Y/E March (Rsmn)            | FY13          | FY14          | FY15E         | FY16E         | FY17E         |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Revenues</b>             | <b>23,567</b> | <b>21,181</b> | <b>29,449</b> | <b>31,933</b> | <b>34,109</b> |
| Raw material expenses       | 14,560        | 12,339        | 17,228        | 18,042        | 19,101        |
| % of net sales              | 61.8          | 58.3          | 58.5          | 56.5          | 56.0          |
| Employee expenses           | 614           | 799           | 1,031         | 1,118         | 1,194         |
| % of net sales              | 2.6           | 3.8           | 3.5           | 3.5           | 3.5           |
| Other expenses              | 4,451         | 4,608         | 6,145         | 6,629         | 7,011         |
| % of net sales              | 18.9          | 21.8          | 20.9          | 20.8          | 20.6          |
| <b>EBITDA</b>               | <b>3,309</b>  | <b>3,472</b>  | <b>4,937</b>  | <b>6,025</b>  | <b>6,672</b>  |
| EBITDA Margin (%)           | 14.0          | 16.4          | 16.8          | 18.9          | 19.6          |
| Depreciation & Amortisation | 709           | 1,055         | 1,394         | 1,494         | 1,594         |
| <b>EBIT</b>                 | <b>2,600</b>  | <b>2,418</b>  | <b>3,543</b>  | <b>4,532</b>  | <b>5,078</b>  |
| Interest expenses           | 1,211         | 1,650         | 2,338         | 2,188         | 1,978         |
| Other Income                | 148           | 156           | 171           | 188           | 207           |
| Excep. items                |               |               |               |               |               |
| <b>EBT</b>                  | <b>1,537</b>  | <b>923</b>    | <b>1,376</b>  | <b>2,531</b>  | <b>3,307</b>  |
| Provision for tax           | (46)          | 223           | 130           | 408           | 594           |
| Effective tax rate (%)      | (3.0)         | 24.2          | 9.5           | 16.1          | 18.0          |
| <b>PAT</b>                  | <b>1,583</b>  | <b>700</b>    | <b>1,246</b>  | <b>2,124</b>  | <b>2,713</b>  |
| Minority Interest           | 94.8          | 109.5         | 210.4         | 238.2         | 261.7         |
| <b>Net Profit Adjusted</b>  | <b>1,488</b>  | <b>578</b>    | <b>1,035</b>  | <b>1,886</b>  | <b>2,451</b>  |

Source: Company, Centrum Research Estimates

## Exhibit 14: Key Ratios

| Y/E March                     | FY13  | FY14   | FY15E | FY16E | FY17E |
|-------------------------------|-------|--------|-------|-------|-------|
| <b>Growth Ratio (%)</b>       |       |        |       |       |       |
| Revenue                       | 14.4  | (10.1) | 39.0  | 8.4   | 6.8   |
| EBITDA                        | 17.4  | 4.9    | 42.2  | 22.0  | 10.7  |
| Net Profit                    | 76.6  | (61.1) | 79.0  | 82.1  | 30.0  |
| <b>Margin Ratios (%)</b>      |       |        |       |       |       |
| PBIT Margin                   | 11.0  | 11.4   | 12.0  | 14.2  | 14.9  |
| PBT Margin                    | 6.5   | 4.4    | 4.7   | 7.9   | 7.2   |
| Adj. PAT Margin               | 6.3   | 2.7    | 3.5   | 5.9   | 7.2   |
| <b>Return Ratios (%)</b>      |       |        |       |       |       |
| ROE                           | 18.2  | 6.7    | 10.8  | 16.6  | 18.0  |
| ROCE                          | 13.0  | 6.8    | 10.8  | 12.6  | 13.6  |
| ROIC                          | 13.2  | 6.7    | 10.6  | 12.5  | 13.7  |
| <b>Turnover Ratios (days)</b> |       |        |       |       |       |
| Debtors                       | 17    | 18     | 16    | 16    | 16    |
| Inventory                     | 54    | 69     | 60    | 60    | 60    |
| Creditors                     | 85    | 69     | 65    | 65    | 65    |
| Net Working capital           | 29    | 77     | 66    | 66    | 66    |
| <b>Gearing Ratio (x)</b>      |       |        |       |       |       |
| Debt-equity                   | 1.9   | 2.3    | 2.0   | 1.5   | 1.1   |
| Net Debt-equity               | 1.7   | 2.2    | 1.9   | 1.4   | 1.0   |
| Interest coverage ratio       | 2.1   | 1.5    | 1.5   | 2.1   | 2.6   |
| Current Ratio                 | 1.5   | 2.3    | 2.1   | 2.2   | 2.3   |
| <b>Dividend</b>               |       |        |       |       |       |
| Dividend per share            | 2.5   | 2.5    | 3.0   | 3.0   | 3.0   |
| Dividend yield (%)            | 1.4   | 1.4    | 1.7   | 1.7   | 1.7   |
| Dividend payout (%)           | 5.5   | 14.2   | 9.5   | 5.2   | 4.0   |
| <b>Per share Ratios (Rs)</b>  |       |        |       |       |       |
| Basic EPS adj                 | 45.4  | 17.7   | 31.6  | 57.6  | 74.9  |
| Fully diluted EPS adj         | 45.4  | 17.7   | 31.6  | 57.6  | 74.9  |
| Book value                    | 249.4 | 264.1  | 292.2 | 346.3 | 414.7 |
| Cash earnings per share       | 67.1  | 49.9   | 74.2  | 103.2 | 123.5 |
| <b>Valuation (x)</b>          |       |        |       |       |       |
| P/E (Fully Diluted)           | 4.0   | 10.2   | 5.7   | 3.1   | 2.4   |
| P/BV                          | 0.7   | 0.7    | 0.6   | 0.5   | 0.4   |
| EV/EBITDA                     | 6.0   | 7.1    | 4.9   | 3.7   | 2.9   |
| EV/Sales                      | 0.8   | 1.2    | 0.8   | 0.7   | 0.6   |
| M-cap/Sales                   | 0.3   | 0.3    | 0.2   | 0.2   | 0.2   |

Source: Company, Centrum Research Estimates

## Exhibit 15: Balance Sheet

| Y/E March (Rsmn)              | FY13          | FY14          | FY15E         | FY16E         | FY17E         |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|
| Equity Share Capital          | 328           | 328           | 328           | 328           | 328           |
| Reserves & surplus            | 7,841         | 8,323         | 9,244         | 11,014        | 13,253        |
| Shareholders' fund            | 8,168         | 8,651         | 9,571         | 11,343        | 13,582        |
| Total Debt                    | 15,380        | 19,987        | 18,987        | 17,487        | 15,487        |
| Deferred Tax Liability        | 774           | 829           | 829           | 829           | 829           |
| <b>Total Capital Employed</b> | <b>26,025</b> | <b>31,093</b> | <b>31,224</b> | <b>31,733</b> | <b>32,233</b> |
| Gross Block                   | 14,121        | 25,871        | 27,871        | 29,871        | 31,871        |
| Less: Acc. Depreciation       | 3,169         | 4,224         | 5,617         | 7,111         | 8,704         |
| Net Block                     | 10,952        | 21,647        | 22,254        | 22,760        | 23,167        |
| Capital WIP                   | 11,887        | 3,887         | 2,887         | 1,887         | 887           |
| Net Fixed Assets              | 22,839        | 25,534        | 25,141        | 24,647        | 24,054        |
| Investments                   | 178           | 508           | 508           | 508           | 508           |
| Cash                          | 1,152         | 568           | 251           | 804           | 1,504         |
| Sundry debtors                | 1,067         | 1,019         | 1,291         | 1,400         | 1,495         |
| Loans & Advances              | 2,824         | 3,463         | 4,438         | 4,812         | 5,140         |
| Inventories                   | 3,475         | 4,022         | 4,841         | 5,249         | 5,607         |
| Total Current Asset           | 8,518         | 9,071         | 10,820        | 12,265        | 13,746        |
| Current Liab. & Prov.         | 5,510         | 4,020         | 5,244         | 5,687         | 6,074         |
| Net Current Asset             | 3,008         | 5,051         | 5,576         | 6,578         | 7,672         |
| <b>Total Assets</b>           | <b>26,025</b> | <b>31,093</b> | <b>31,224</b> | <b>31,733</b> | <b>32,233</b> |

Source: Company, Centrum Research Estimates

## Exhibit 16: Cash Flow

| Y/E March (Rsmn)                  | FY13           | FY14           | FY15E          | FY16E          | FY17E          |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>PBT</b>                        | <b>1,537</b>   | <b>923</b>     | <b>1,376</b>   | <b>2,531</b>   | <b>3,307</b>   |
| Interest                          | 1,211          | 1,650          | 2,338          | 2,188          | 1,978          |
| Depreciation                      | 709            | 1,055          | 1,394          | 1,494          | 1,594          |
| Change in working capital         | 219            | (2,627)        | (841)          | (449)          | (393)          |
| Tax                               | (46)           | 223            | 130            | 408            | 594            |
| <b>Cash flow from operations</b>  | <b>4,988</b>   | <b>764</b>     | <b>4,136</b>   | <b>5,357</b>   | <b>5,892</b>   |
| Change in fixed assets            | 9,884          | 3,750          | 1,000          | 1,000          | 1,000          |
| Change in investments             | 1              | 330            | -              | -              | -              |
| <b>Cash flow from investments</b> | <b>(9,885)</b> | <b>(4,080)</b> | <b>(1,000)</b> | <b>(1,000)</b> | <b>(1,000)</b> |
| Change in equity capital          | 140            | (130)          | -              | -              | -              |
| Change in debt                    | 5,772          | 4,608          | (1,000)        | (1,500)        | (2,000)        |
| Dividends paid                    | 96             | 96             | 115            | 115            | 213            |
| Interest paid                     | 1,211          | 1,650          | 2,338          | 2,188          | 1,978          |
| <b>Cash flow from financing</b>   | <b>4,605</b>   | <b>2,732</b>   | <b>(3,453)</b> | <b>(3,803)</b> | <b>(4,192)</b> |
| Net cash flow                     | (291)          | (584)          | (317)          | 553            | 700            |
| Opening cash balance              | 1,443          | 1,152          | 568            | 251            | 804            |
| <b>Closing cash balance</b>       | <b>1,152</b>   | <b>568</b>     | <b>251</b>     | <b>804</b>     | <b>1,504</b>   |

Source: Company, Centrum Research Estimates



INDIA

9 June 2014

# High-conviction ideas

NMDC

CENTRUM

BUY

|                     |              |
|---------------------|--------------|
| <b>Target Price</b> | <b>Rs235</b> |
| CMP*                | Rs190        |
| Upside              | 23.6%        |

## Key Data

|                          |            |
|--------------------------|------------|
| Bloomberg Code           | NMDC IN    |
| Curr Shares O/S (mn)     | 3,964.7    |
| Diluted Shares O/S(mn)   | 3,964.7    |
| Mkt Cap (Rsbn/USDbn)     | 756.7/12.8 |
| 52 Wk H / L (Rs)         | 196.2/92.7 |
| 5 Year H / L (Rs)        | 489.9/84.4 |
| Daily Vol. (3M NSE Avg.) | 3735406    |

## Price Performance (%)

|         | 1M   | 6M   | 1Yr  |
|---------|------|------|------|
| NMDC IN | 27.4 | 33.5 | 65.0 |
| Nifty   | 12.9 | 21.1 | 28.1 |

## Centrum vs. Bloomberg Consensus\*

| Particulars<br>(Rs mn) | FY15E   |       |         | FY16E   |       |         |
|------------------------|---------|-------|---------|---------|-------|---------|
|                        | Centrum | BBG   | Var (%) | Centrum | BBG   | Var (%) |
| Sales                  | 139.2   | 128.2 | 8.6     | 148.3   | 137.3 | 8.0     |
| EBITDA                 | 94.7    | 83.9  | 12.9    | 104.5   | 88.7  | 17.9    |
| PAT                    | 76.1    | 67.9  | 12.1    | 83      | 70.9  | 17.0    |

## Bloomberg Consensus\*

| BUY | SELL | HOLD | Target Price | Centrum Target Price | Variance (%) |
|-----|------|------|--------------|----------------------|--------------|
|     |      |      | (Rs)         | (Rs)                 |              |
| 28  | 5    | 8    | 177          | 235                  | 32.6         |

\*as on 6 June 2014; Source: Bloomberg, Centrum Research

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- **Volume trajectory on firm ground:** NMDC's volume trajectory is on firm ground after delivering ~16% increase in volumes to 30.5MT in FY14E as compared to flat volume growth during FY09-13. Various logistical improvements (like installation of weigh motion bridge and uniflow railway loop line system) coupled with re-commissioning of Essar pipeline has improved the volume visibility. Domestic demand remains strong and we expect sales volumes of 34/36/37.5MT in FY15E/16E/17E.
- **Pricing outlook strong, recent price increases above expectations:** NMDC increased prices of fines/lumps by Rs250/Rs300 (increase of 8.5%/7%) in June to Rs3160/Rs4600, well above our expectations of 3-4% increase. Though there could be some moderation of these high prices by H2FY15E, we expect strong demand for NMDC fines as domestic pellet capacity is expected to increase to ~80 mtpa by end-FY15E. We continue to believe that NMDC pricing is largely delinked to sharp global iron ore price movements and is more dictated by domestic demand-supply.
- **Exports could come down and get replaced by domestic supplies, lift EBITDA:** We expect NMDC to divert its existing export sales to domestic customers and see export volumes coming down to 2.0/1.0MT in FY15E/16E. Our calculations indicate that net export realization for NMDC stands at ~Rs700/t as against domestic realization of ~Rs3860/t. Moreover, at current global iron ore prices (~US\$90/t CFR China) NMDC loses money at an EBITDA level which makes us believe that it would like to reduce exports. We also expect company's 1.2 mtpa pellet plant to be on-stream by H2FY15E and expect capacity utilization of 10%/75% in FY15E/16E from the same.
- **Valuations – expect rerating:** We maintain our structurally positive stance on NMDC and expect rerating as positives keep coming in. We expect EBITDA CAGR of 16% during FY14-16E and margins improving to 70.5% in FY16E from 64.4% in FY14. Despite the sharp run up, stock trades at undemanding valuations of 5.3x FY16E EV/EBITDA. Strong balance sheet and high dividend yield are added positives. We value the stock at 6.5x FY16E EV/EBITDA and arrive at a TP of Rs235. Key risks to our call are lower volumes and continuation of exports at current levels: our TP gets reduced to Rs225 if status quo continues on exports.

## Company background

NMDC is India's largest iron ore mining company with a capacity of ~40 mtpa. The company has four iron ore mining complexes at Kirandul and Bacheli in Chhattisgarh and Donimalai and Kumaraswamy in Karnataka. It possesses ~1150 MT of iron ore reserves and resources with an average grade of greater than 65% Fe. The company is majorly owned by govt. of India with a 80% stake and has plans to expand iron ore capacity to 50 mtpa apart from foraying into steel making in the near future.

## Summary financials

| Y/E Mar (Rs mn) | Revenue | YoY (%) | EBITDA | EBITDA (%) | Adj. PAT | YoY (%) | Adj. EPS (Rs) | RoE (%) | RoCE (%) | PE (x) | EV/EBITDA (x) |
|-----------------|---------|---------|--------|------------|----------|---------|---------------|---------|----------|--------|---------------|
| FY13            | 107.0   | (5.0)   | 73.7   | 68.9       | 63.4     | (12.7)  | 16.0          | 23.1    | 24.4     | 11.9   | 7.4           |
| FY14            | 120.5   | 12.7    | 77.7   | 64.4       | 63.8     | 0.5     | 16.1          | 21.3    | 22.1     | 11.8   | 7.3           |
| FY15E           | 139.2   | 15.5    | 94.7   | 68.0       | 76.1     | 19.4    | 19.2          | 22.5    | 23.8     | 9.9    | 5.8           |
| FY16E           | 148.3   | 6.5     | 104.5  | 70.5       | 83.0     | 9.0     | 20.9          | 21.8    | 23.0     | 9.1    | 5.2           |
| FY17E           | 151.7   | 2.3     | 105.0  | 69.2       | 83.9     | 1.1     | 21.2          | 19.9    | 20.8     | 9.0    | 5.1           |

Source: Company, Centrum Research Estimates

## Financials

## Exhibit 17: Income Statement

| Y/E March (Rsmn)                       | FY13           | FY14           | FY15E          | FY16E          | FY17E          |
|--|----------------|----------------|----------------|----------------|----------------|
| <b>Revenues</b>                        | <b>106,987</b> | <b>120,533</b> | <b>139,215</b> | <b>148,332</b> | <b>151,725</b> |
| Employee expenses                      | 5,799          | 7,062          | 6,807          | 7,284          | 7,794          |
| % of net sales                         | 5.4            | 5.9            | 4.9            | 4.9            | 5.1            |
| Royalty & Cess                         | 9,524          | 9,604          | 12,454         | 12,783         | 12,937         |
| % of net sales                         | 8.9            | 8.0            | 8.9            | 8.6            | 8.5            |
| Selling expenses including freight out | 8,180          | 13,474         | 10,426         | 5,213          | 5,213          |
| % of net sales                         | 7.6            | 11.2           | 7.5            | 3.5            | 3.4            |
| <b>EBITDA</b>                          | <b>73,724</b>  | <b>77,664</b>  | <b>94,667</b>  | <b>104,506</b> | <b>104,988</b> |
| EBITDA Margin (%)                      | 68.9           | 64.4           | 68.0           | 70.5           | 69.2           |
| Depreciation & Amortisation            | 1,385          | 1,504          | 1,546          | 1,686          | 1,826          |
| <b>EBIT</b>                            | <b>72,339</b>  | <b>76,160</b>  | <b>93,121</b>  | <b>102,820</b> | <b>103,162</b> |
| Interest expenses                      | 132            | -              | -              | -              | -              |
| Other Income                           | 22,445         | 20,995         | 20,500         | 21,000         | 22,000         |
| <b>PBT</b>                             | <b>94,651</b>  | <b>97,154</b>  | <b>113,621</b> | <b>123,820</b> | <b>125,162</b> |
| Provision for tax                      | 31,228         | 33,391         | 37,495         | 40,860         | 41,303         |
| Effective tax rate (%)                 | 33.0           | 34.4           | 33.0           | 33.0           | 33.0           |
| <b>PAT</b>                             | <b>63,424</b>  | <b>63,764</b>  | <b>76,126</b>  | <b>82,959</b>  | <b>83,858</b>  |

Source: Company, Centrum Research Estimates

## Exhibit 18: Key Ratios

| Y/E March                     | FY13   | FY14  | FY15E | FY16E | FY17E |
|-------------------------------|--------|-------|-------|-------|-------|
| <b>Growth Ratio (%)</b>       |        |       |       |       |       |
| Revenue                       | (5.0)  | 12.7  | 15.5  | 6.5   | 2.3   |
| EBITDA                        | (17.4) | 5.3   | 21.9  | 10.4  | 0.5   |
| Net Profit                    | (12.7) | 0.5   | 19.4  | 9.0   | 1.1   |
| <b>Margin Ratios (%)</b>      |        |       |       |       |       |
| PBIT Margin                   | 67.6   | 63.2  | 66.9  | 69.3  | 68.0  |
| PBT Margin                    | 88.5   | 80.6  | 81.6  | 83.5  | 82.5  |
| PAT Margin                    | 59.3   | 52.9  | 54.7  | 55.9  | 55.3  |
| <b>Return Ratios (%)</b>      |        |       |       |       |       |
| ROE                           | 23.1   | 21.3  | 22.5  | 21.8  | 19.9  |
| ROCE                          | 24.4   | 22.1  | 23.8  | 23.0  | 20.8  |
| ROIC                          | 90.9   | 56.2  | 51.2  | 46.0  | 37.5  |
| <b>Turnover Ratios (days)</b> |        |       |       |       |       |
| Debtors                       | 36.9   | 43.9  | 35.0  | 35.0  | 35.0  |
| Inventory                     | 21.7   | 20.6  | 20.0  | 20.0  | 20.0  |
| Creditor                      | 110.8  | 41.8  | 70.0  | 70.0  | 70.0  |
| Net working capital           | 63.6   | 137.6 | 85.0  | 85.0  | 0.0   |
| <b>Solvency Ratio (x)</b>     |        |       |       |       |       |
| Debt-equity                   | 0.0    | 0.0   | 0.0   | 0.0   | 0.0   |
| Net Debt-equity               | -0.8   | -0.6  | -0.6  | -0.6  | -0.5  |
| Interest coverage ratio       | NA     | NA    | NA    | NA    | NA    |
| Current Ratio                 | 8.0    | 17.8  | 9.9   | 9.6   | 9.8   |
| <b>Dividend</b>               |        |       |       |       |       |
| Dividend per share (Rs)       | 7.0    | 8.5   | 8.0   | 9.0   | 9.0   |
| Dividend payout %             | 51.2   | 61.8  | 48.7  | 50.3  | 49.8  |
| Dividend yield %              | 3.7    | 4.5   | 4.2   | 4.7   | 4.7   |
| <b>Per share Ratios (Rs)</b>  |        |       |       |       |       |
| Basic EPS - reported          | 16.0   | 16.1  | 19.2  | 20.9  | 21.2  |
| Basic EPS - adjusted          | 16.0   | 16.1  | 19.2  | 20.9  | 21.2  |
| Fully diluted EPS - reported  | 16.0   | 16.1  | 19.2  | 20.9  | 21.2  |
| Fully diluted EPS - adjusted  | 16.0   | 16.1  | 19.2  | 20.9  | 21.2  |
| Cash earnings per share       | 16.3   | 16.5  | 19.6  | 21.3  | 21.6  |
| Book value                    | 69.4   | 75.6  | 85.5  | 95.9  | 106.5 |
| <b>Valuation (x)</b>          |        |       |       |       |       |
| P/E (Fully Diluted)           | 11.9   | 11.8  | 9.9   | 9.1   | 9.0   |
| P/BV                          | 2.7    | 2.5   | 2.2   | 2.0   | 1.8   |
| EV/EBITDA                     | 7.4    | 7.3   | 5.8   | 5.2   | 5.1   |
| EV/Sales                      | 5.1    | 4.7   | 3.9   | 3.7   | 3.5   |
| M-cap/Sales                   | 7.0    | 6.3   | 5.4   | 5.1   | 5.0   |

Source: Company, Centrum Research Estimates

## Exhibit 19: Balance Sheet

| Y/E March (Rsmn)              | FY13           | FY14           | FY15E          | FY16E          | FY17E          |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|
| Equity Share Capital          | 3,965          | 3,965          | 3,965          | 3,965          | 3,965          |
| Reserves & surplus            | 271,175        | 295,963        | 334,979        | 376,189        | 418,298        |
| Shareholders' fund            | 275,140        | 299,928        | 338,944        | 380,154        | 422,264        |
| Total Debt                    | -              | -              | -              | -              | -              |
| Deferred Tax Liability        | 1,045          | 1,073          | 1,073          | 1,073          | 1,073          |
| <b>Total Capital Employed</b> | <b>276,185</b> | <b>301,001</b> | <b>340,016</b> | <b>381,226</b> | <b>423,335</b> |
| Gross Block                   | 47,728         | 52,728         | 57,728         | 62,728         | 67,728         |
| Less: Acc. Depreciation       | 13,950         | 15,454         | 17,001         | 18,687         | 20,513         |
| Net Block                     | 33,778         | 37,274         | 40,728         | 44,041         | 47,215         |
| Capital WIP                   | 13,772         | 28,772         | 58,772         | 88,772         | 118,772        |
| Net Fixed Assets              | 47,550         | 66,046         | 99,499         | 132,813        | 165,987        |
| Investments                   | 2,497          | 2,504          | 2,504          | 2,504          | 2,504          |
| Cash                          | 207,347        | 186,873        | 205,449        | 211,222        | 219,367        |
| Trade Receivables             | 10,822         | 14,484         | 13,349         | 14,224         | 14,549         |
| Loans & Advances              | 26,036         | 30,693         | 30,513         | 32,511         | 33,255         |
| Inventories                   | 6,375          | 6,812          | 7,628          | 8,128          | 8,314          |
| Total Current Asset           | 258,474        | 246,120        | 264,567        | 274,212        | 283,798        |
| Current Liab. & Prov.         | 32,481         | 13,814         | 26,699         | 28,447         | 29,098         |
| Net Current Asset             | 225,994        | 232,307        | 237,868        | 245,765        | 254,700        |
| <b>Total Assets</b>           | <b>276,185</b> | <b>301,001</b> | <b>340,016</b> | <b>381,226</b> | <b>423,335</b> |

Source: Company, Centrum Research Estimates

## Exhibit 20: Cash Flow

| Y/E March (Rsmn)                  | FY13            | FY14            | FY15E           | FY16E           | FY17E           |
|-----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>PBT</b>                        | <b>94,651</b>   | <b>97,609</b>   | <b>113,621</b>  | <b>123,820</b>  | <b>125,162</b>  |
| Interest                          | 132             | -               | -               | -               | -               |
| Depreciation                      | 1,385           | 1,504           | 1,546           | 1,686           | 1,826           |
| Change in working capital         | (5,367)         | (26,787)        | 13,014          | (2,123)         | (790)           |
| Tax                               | 31,228          | 33,391          | 37,495          | 40,860          | 41,303          |
| <b>Cash flow from operations</b>  | <b>59,618</b>   | <b>38,963</b>   | <b>90,686</b>   | <b>82,522</b>   | <b>84,895</b>   |
| Change in fixed assets            | 22,000          | 20,000          | 35,000          | 35,000          | 35,000          |
| Change in investments             | 19              | 7               | -               | -               | -               |
| <b>Cash flow from investments</b> | <b>(22,019)</b> | <b>(20,007)</b> | <b>(35,000)</b> | <b>(35,000)</b> | <b>(35,000)</b> |
| Dividends paid                    | 32,472          | 39,430          | 37,111          | 41,749          | 41,749          |
| Interest paid                     | 132             | -               | -               | -               | -               |
| <b>Cash flow from financing</b>   | <b>(32,604)</b> | <b>(39,430)</b> | <b>(37,111)</b> | <b>(41,749)</b> | <b>(41,749)</b> |
| Net cash flow                     | <b>4,995</b>    | <b>(20,474)</b> | <b>18,576</b>   | <b>5,773</b>    | <b>8,145</b>    |
| Opening cash balance              | 202,352         | 207,347         | 186,873         | 205,449         | 211,222         |
| <b>Closing cash balance</b>       | <b>207,347</b>  | <b>186,873</b>  | <b>205,449</b>  | <b>211,222</b>  | <b>219,367</b>  |

Source: Company, Centrum Research Estimates



INDIA

9 June 2014

# High-conviction ideas

Pfizer

CENTRUM

BUY

|                     |                |
|---------------------|----------------|
| <b>Target Price</b> | <b>Rs1,630</b> |
| CMP*                | Rs1,222        |
| Upside              | 33.4%          |

## Key Data

|                          |            |
|--------------------------|------------|
| Bloomberg Code           | PFIZ IN    |
| Curr Shares O/S (mn)     | 29.8       |
| Diluted Shares O/S (mn)  | 29.8       |
| Mkt Cap (Rsbn/USDbn)     | 36.5/616.3 |
| 52 Wk H / L (Rs)         | 1779/963.9 |
| 5 Year H / L (Rs)        | 1404.7/535 |
| Daily Vol. (3M NSE Avg.) | 28484      |

## Price Performance (%)

|         | 1M    | 6M    | 1Yr  |
|---------|-------|-------|------|
| PFIZ IN | (1.8) | (2.1) | 18.9 |
| Nifty   | 12.9  | 21.1  | 28.1 |

## Centrum vs. Bloomberg Consensus\*

| Particulars (Rs mn) | FY15E   |        |         | FY16E   |        |         |
|---------------------|---------|--------|---------|---------|--------|---------|
|                     | Centrum | BGG    | Var (%) | Centrum | BGG    | Var (%) |
| Sales               | 20,326  | 13,882 | 46.4    | 22,911  | 16,577 | 38.2    |
| EBITDA              | 4,284   | 3,290  | 30.2    | 5326    | 4,077  | 30.6    |
| PAT                 | 3,285   | 2,377  | 38.2    | 4141    | 2,961  | 39.9    |

## Bloomberg Consensus\*

| BUY | SELL | HOLD | Target Price (Rs) | Centrum Target Price (Rs) | Variance (%) |
|-----|------|------|-------------------|---------------------------|--------------|
| 4   | 0    | 1    | 1,435             | 1,630                     | 13.6         |

\*as on 6 June 2014; Source: Bloomberg, Centrum Research

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- **Revenues to improve due to increase in price:** Pfizer has taken 6.3% increase in the price for all the price controlled products in April'14. The company is set to benefit from the price increase as its major brands Becosules (annual revenues Rs2.20bn) and Amlogard's (annual revenues Rs300mn) prices are set to increase as they are under price control. With the merger with Wyeth, we expect revenues to grow at 14% in FY15 and 13% in FY16. We also expect good revenue growth for Corex, Becosules, Dolonex, Minipress XL, Claribid and Lyrica which are outside price control.
- **Margin set to improve:** The merged entity is likely to benefit from the appreciation of rupee against the dollar as the two companies import major raw materials and finished products. Currently, the companies import vitamins, hormones and Prevenar 13 in the finished form. Moreover, Pfizer has negotiated the import of Prevenar 13 in rupee terms with Pfizer, US thereby eliminating forex fluctuations.
- **Complimentary product portfolio:** The product portfolio of both companies is complementary. The merged entity will have 15 products in the top 300 products in the domestic market. With rationalisation of the field force in April'14 based on therapeutic categories, we expect the merged company to deliver 14% growth in revenues for FY15 and 13% for FY16.
- **Attractive valuations and key risks:** Pfizer has distributed its cash as interim dividend of Rs360 per share in December'13. This has led to improvement of return ratios. We expect the merged entity's RoCE and RoE of 35% and 33% respectively for FY15. The merged entity will be a debt-free cash rich company and would be able to attract talent. Key risks to our assumptions include slowdown in the domestic pharma market and competition for its major brands.

## Company background

Pfizer is the subsidiary of Pfizer Inc, US which holds 70.8% stake in the company. The company is engaged in the manufacture, marketing, trading and export of pharmaceuticals. Pfizer, US has another subsidiary in India known as Wyeth, which is set to merge with Pfizer. The share exchange ratio arrived is 10 shares of Wyeth for 7 shares of Pfizer. The parent company's holding is likely to decline to 63.9% from 70.8%. The merged entity will have 15 brands in the top 300 brands and a market share of 2.9% in the domestic pharma market. The merged entity will have major presence in vitamins, vaccines, women's healthcare, respiratory, CNS and anti-infective segments. The merged entity will have greater financial strength and increase the long-term value of shareholders. The merged company is expected to benefit from the synergies of both firms. Pfizer re-structured its field force in April'14 based on therapeutic groups and is likely to derive benefits from the same.

## Summary financials

| Y/E Mar (Rs mn) | Revenue | YoY (%) | EBITDA | EBITDA (%) | Adj. PAT | YoY (%) | Adj. EPS (Rs) | RoE (%) | RoCE (%) | PE (x) | EV/EBITDA (x) |
|-----------------|---------|---------|--------|------------|----------|---------|---------------|---------|----------|--------|---------------|
| FY13            | 10,501  | (4.0)   | 1,872  | 17.8       | 1,777    | (4.0)   | 38.9          | 11.9    | 12.2     | 31.5   | 11.8          |
| FY14            | 17,911  | 70.6    | 3,508  | 19.6       | 3,184    | 79.1    | 69.6          | 24.3    | 25.2     | 17.6   | 14.6          |
| FY15E           | 20,326  | 13.5    | 4,284  | 21.1       | 3,285    | 3.2     | 71.8          | 32.9    | 34.8     | 17.0   | 11.4          |
| FY16E           | 22,911  | 12.7    | 5326   | 23.2       | 4141     | 26.0    | 90.5          | 35.3    | 37.1     | 13.5   | 8.9           |
| FY17E           | 25,596  | 11.7    | 6288   | 24.6       | 4942     | 19.3    | 108.0         | 34.9    | 36.5     | 11.3   | 7.3           |

Source: Company, Centrum Research Estimates

## Financials

## Exhibit 17: Income Statement

| Y/E March (Rsmn)           | FY13          | FY14          | FY15E         | FY16E         | FY17E         |
|----------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Net Sales</b>           | <b>10,501</b> | <b>17,911</b> | <b>20,326</b> | <b>22,911</b> | <b>25,596</b> |
| Raw Materials              | 3,331         | 6,999         | 7,770         | 8,590         | 9,460         |
| as % of net sales          | 31.7          | 39.1          | 38.2          | 37.5          | 37.0          |
| Employee cost              | 2,067         | 2,181         | 2,450         | 2,610         | 2,850         |
| as % of net sales          | 19.7          | 12.2          | 12.1          | 11.4          | 11.1          |
| Other Expenses             | 3,232         | 5,223         | 5,822         | 6,385         | 6,998         |
| as % of net sales          | 31.7          | 30.8          | 29.2          | 28.6          | 27.9          |
| Operating Expenses         | 8,629         | 14,403        | 16,042        | 17,585        | 19,308        |
| % of sales                 | 82.2          | 80.4          | 78.9          | 76.8          | 75.4          |
| <b>EBIDTA</b>              | <b>1,872</b>  | <b>3,508</b>  | <b>4,284</b>  | <b>5,326</b>  | <b>6,288</b>  |
| Depreciation               | 80            | 107           | 123           | 139           | 158           |
| <b>EBIT</b>                | <b>1,791</b>  | <b>3,401</b>  | <b>4,161</b>  | <b>5,187</b>  | <b>6,130</b>  |
| Interest Income/(expenses) | (2)           | (4)           | (5)           | (6)           | (8)           |
| PBT from operations        | 1,789         | 3,397         | 4,156         | 5,181         | 6,122         |
| Other non operating income | 1,052         | 1,435         | 824           | 1,100         | 1,370         |
| PBT before EO items        | 2,841         | 4,832         | 4,980         | 6,281         | 7,492         |
| Provision for tax          | 1,064         | 1,648         | 1,695         | 2,140         | 2,550         |
| Effective tax rate (%)     | 37.4          | 34.1          | 34.0          | 34.1          | 34.0          |
| Reported PAT               | 1,777         | 3,184         | 3,285         | 4,141         | 4,942         |
| EO items                   | 3255          | (96)          | 0             | 0             | 0             |
| Net profit after EO items  | 5,032         | 3,088         | 3,285         | 4,141         | 4,942         |

Source: Company, Centrum Research Estimates

## Exhibit 18: Key Ratios

| Y/E March                        | FY13    | FY14    | FY15E | FY16E   | FY17E |
|----------------------------------|---------|---------|-------|---------|-------|
| <b>Growth Metrics (%)</b>        |         |         |       |         |       |
| Net sales                        | (4.0)   | 70.6    | 13.5  | 12.7    | 11.7  |
| EBIDTA                           | (4.2)   | 87.4    | 22.1  | 24.3    | 18.1  |
| Adjusted PAT                     | (4.0)   | 79.1    | 3.2   | 26.0    | 19.3  |
| <b>Profitability Metrics (%)</b> |         |         |       |         |       |
| EBIDTA margin                    | 17.8    | 19.6    | 21.1  | 23.2    | 24.6  |
| PBT margin                       | 27.1    | 27.0    | 24.5  | 27.4    | 29.3  |
| PAT margin                       | 47.9    | 17.2    | 16.2  | 18.1    | 19.3  |
| <b>Return ratios (%)</b>         |         |         |       |         |       |
| ROE                              | 11.9    | 24.3    | 32.9  | 35.3    | 34.9  |
| ROCE                             | 12.2    | 25.2    | 34.8  | 37.1    | 36.5  |
| ROIC                             | 695.5   | 39.8    | 139.7 | 162.0   | 148.7 |
| <b>Turnover Ratios (days)</b>    |         |         |       |         |       |
| Inventory                        | 67.1    | 51.9    | 52.4  | 51.7    | 52.5  |
| Debtors                          | 54.6    | 39.8    | 39.4  | 39.4    | 40.5  |
| Creditors                        | 76.5    | 76.1    | 76.3  | 76.9    | 76.8  |
| <b>Solvency Ratio (X)</b>        |         |         |       |         |       |
| Debt-equity                      | -       | 0.0     | 0.0   | 0.0     | 0.0   |
| Net Debt -equity                 | (0.8)   | (0.5)   | (0.7) | (0.7)   | (0.7) |
| Liquidity ratio                  | 5.3     | 2.6     | 2.5   | 2.2     | 2.7   |
| Interest coverage                | 1,184.8 | 1,208.9 | 997.1 | 1,047.8 | 937.5 |
| <b>Dividend</b>                  |         |         |       |         |       |
| DPS Rs.                          | 32.5    | 306.9   | 35.0  | 38.0    | 40.0  |
| Dividend Yield (%)               | 2.7     | 25.1    | 2.9   | 3.1     | 3.3   |
| Dividend Payout (%)              | 83.6    | 440.9   | 48.7  | 42.0    | 37.0  |
| <b>Per share (Rs)</b>            |         |         |       |         |       |
| Basic EPS (reported)             | 168.6   | 67.5    | 71.8  | 90.5    | 108.0 |
| FDEPS (reported)                 | 38.9    | 69.6    | 71.8  | 90.5    | 108.0 |
| FDEPS(adjusted)                  | 38.9    | 69.6    | 71.8  | 90.5    | 108.0 |
| BVPS                             | 567.8   | 202.8   | 233.3 | 279.0   | 339.9 |
| CEPS                             | 62.2    | 110.3   | 114.2 | 143.4   | 170.9 |
| <b>Valuation metrics (x)</b>     |         |         |       |         |       |
| P/E                              | 31.5    | 17.6    | 17.0  | 13.5    | 11.3  |
| P/BV                             | 2.2     | 6.0     | 5.2   | 4.4     | 3.6   |
| EV/EBIDTA                        | 11.8    | 14.6    | 11.4  | 8.9     | 7.3   |
| EV/Sales                         | 2.3     | 3.1     | 2.6   | 2.2     | 1.9   |

Source: Company, Centrum Research Estimates

## Exhibit 19: Balance Sheet

| Y/E March (Rsmn)                            | FY13          | FY14         | FY15E         | FY16E         | FY17E         |
|---|---------------|--------------|---------------|---------------|---------------|
| Share capital                               | 298           | 457          | 457           | 457           | 457           |
| Reserves & surplus                          | 16,646        | 8,819        | 10,215        | 12,305        | 15,088        |
| Total shareholder's fund                    | 16,944        | 9,277        | 10,673        | 12,763        | 15,545        |
| Total Loan fund                             | 0             | 25           | 25            | 25            | 25            |
| Deferred tax liability                      | (399)         | (537)        | (562)         | (602)         | (652)         |
| <b>Total capital employed</b>               | <b>16,545</b> | <b>8,765</b> | <b>10,136</b> | <b>12,186</b> | <b>14,918</b> |
| Gross block                                 | 1,150         | 1,690        | 2,191         | 2,637         | 3,062         |
| Accumulated depreciation                    | (929)         | (1,216)      | (1,339)       | (1,478)       | (1,636)       |
| Net Block                                   | 221           | 474          | 852           | 1,159         | 1,426         |
| Capital WIP                                 | 11            | 11           | 12            | 15            | 20            |
| Net fixed assets                            | 232           | 485          | 864           | 1,174         | 1,446         |
| Investments                                 | 460           | 445          | 600           | 700           | 800           |
| Inventories                                 | 1,652         | 3,108        | 2,355         | 3,730         | 3,160         |
| Debtors                                     | 1,421         | 2,234        | 1,870         | 2,760         | 2,560         |
| Other current assets and loans and advances | 2,075         | 2,821        | 3,308         | 3,750         | 4,215         |
| Cash and bank                               | 14,355        | 4,650        | 7,096         | 8,602         | 10,225        |
| Total current assets and loans and advances | 19,503        | 12,813       | 14,629        | 18,842        | 20,160        |
| Current liabilities and provisions          | 3,650         | 4,979        | 5,957         | 8,530         | 7,488         |
| Miscellaneous Exp not w/off                 | 0             | 0            | 0             | 0             | 0             |
| Net current assets                          | 15,853        | 7,834        | 8,672         | 10,312        | 12,672        |
| <b>Total assets</b>                         | <b>16,545</b> | <b>8,765</b> | <b>10,136</b> | <b>12,186</b> | <b>14,918</b> |

Source: Company, Centrum Research Estimates

## Exhibit 20: Cash Flow

| Y/E March (Rsmn)                                      | FY13           | FY14            | FY15E          | FY16E          | FY17E          |
|---|----------------|-----------------|----------------|----------------|----------------|
| <b>Cash Flow from Operating Activities</b>            |                |                 |                |                |                |
| Net Profit  | 5,032          | 3,088           | 3,285          | 4,141          | 4,942          |
| Depreciation and amortization                         | 80             | 107             | 123            | 139            | 158            |
| Change in working capital                             | 1,721          | (1,686)         | 1,608          | (134)          | (737)          |
| Deferred tax liability                                | (28)           | (138)           | (25)           | (40)           | (50)           |
| Other non-cash charges                                |                |                 |                |                |                |
| <b>Net cash generated from operating activities</b>   | <b>6,805</b>   | <b>1,371</b>    | <b>4,992</b>   | <b>4,106</b>   | <b>4,313</b>   |
| <b>Cash Flow from Investing Activities</b>            |                |                 |                |                |                |
| Capex   | 7              | (361)           | (502)          | (449)          | (430)          |
| Other investing activities                            | 15             | 15              | (155)          | (100)          | (100)          |
| <b>Net cash from / (used) in investing activities</b> | <b>22</b>      | <b>(346)</b>    | <b>(657)</b>   | <b>(549)</b>   | <b>(530)</b>   |
| <b>Cash Flow from financing activities</b>            |                |                 |                |                |                |
| Inc / (dec) in long term debt                         | 0              | 25              | 0              | 0              | 0              |
| Dividends paid  | (1,135)        | (16,563)        | (1,889)        | (2,051)        | (2,159)        |
| Share issuance / (repurchase)                         | 0              | 159             | 0              | 0              | 0              |
| <b>Net cash from / (used) in financing activities</b> | <b>(1,135)</b> | <b>(16,379)</b> | <b>(1,889)</b> | <b>(2,051)</b> | <b>(2,159)</b> |
| <b>Net Cash Flow</b>                                  | <b>5,692</b>   | <b>(15,354)</b> | <b>2,446</b>   | <b>1,506</b>   | <b>1,624</b>   |

Source: Company, Centrum Research Estimates

## Performance of our previous High Conviction Picks (Released in March 2014)

## Price Performance (%)

| Company Name     | Since Last Report * | 1M   | 3M   | 6M    | 12M   |
|------------------|---------------------|------|------|-------|-------|
| Aurobindo Pharma | 25.8                | 8.9  | 28.4 | 114.9 | 252.6 |
| DCB Bank         | 42.2                | 16.3 | 30.8 | 39.8  | 57.4  |
| GMDC             | 54.9                | 30.6 | 54.1 | 47.9  | 28.4  |
| Swaraj Engines   | 39.1                | 11.4 | 36.6 | 49.8  | 84.3  |
| Talwalkars       | 27.9                | 4.8  | 20.9 | 33.5  | 38.0  |
| TechMahindra     | 3.8                 | 10.0 | 4.0  | 13.5  | 107.3 |
| Vesuvius India   | 39.0                | 20.2 | 39.5 | 45.6  | 70.7  |
| Nifty            | 22.3                | 14.0 | 16.2 | 21.5  | 28.1  |

\* 25 Feb to 6 June, 2014

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