IndiaNivesh
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Initiating Coverage
July 18, 2014

Liberty Shoes Ltd.

Aggressive expansion to fuel growth...

Current	Previous
CMP : Rs.306	
Rating : BUY	Rating : NR
Target : Rs.400	Target : NR

CMP as on 17 Jul 2014 — NR-Not Rated

STOCK INFO	
BSE	526596
NSE	LIBERTSHOE
Bloomberg	LBS IN
Reuters	LIBS.BO
Sector	Footwear
Face Value (Rs)	10
Equity Capital (Rs mn)	170
Mkt Cap (Rs mn)	5,214
52w H/L (Rs) (Adj.)	323/67.8
3m Avg Daily Volume (BSE + NSE)	80,453

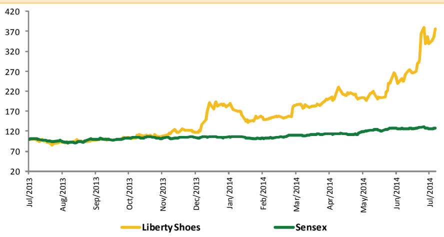
SHAREHOLDING PATTERN (as on 31st Mar. 2014)	%
Promoters	64.9
FIIs	0.0
DIIs	0.1
Public & Others	35.0

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
LIBERTY SHOES	49	87	275
SENSEX	0	13	28

Source: Capitaline, IndiaNivesh Research

LIBERTY SHOES v/s SENSEX



Source: Capitaline, IndiaNivesh Research

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Liberty Shoes Ltd (LSL), second largest footwear company in India, is at an inflection point. The company is likely to grow at 27.8% CAGR over FY14-FY16E driven by higher domestic revenues and leverage its portfolio of well-known brands. It is in a sweet spot to leverage 15% CAGR growth in Indian footwear sector as it is expanding its reach aggressively. ROE of the company is likely to double to 19.6% in FY16E as compared to 9.6% in FY14. We initiate coverage on the stock with a BUY rating and target price of Rs 400 per share.

Investment Rationale

Indian Footwear Sector to grow at 15% CAGR: The Indian Footwear sector is likely to reach Rs 387 bn in 2015 from Rs 220 bn in 2011, signifying a growth of 15% CAGR, as per ASSOCHAM. Organised segment is likely to grow by more than 20% as domestic footwear companies expand their network and higher number of international players enters the market. Men's market is growing at a CAGR of 10% while the women's market is growing at a CAGR of 20%. Low per capita consumption of footwear in India at 2.5 pairs against developed economy consumption of 6-8 pairs signifies potential for consumption growth in Indian footwear industry.

Portfolio of Strong Brands: LSL has a portfolio of strong brands. 'Liberty' is flagship brand of the company, apart from 10 other brands each having different positioning and target audience. Its expenditure on advertisement and sales promotion increased to 5.1% of its net sales in FY13 from 3.3% in FY11. We expect the company to continue its current rate of expenditure to improve its positioning, launch new designs and strengthen its brand recall.

Focus on increasing retail revenues: LSL plans to increase its domestic retail revenues by expanding its retail network. Currently it sells its products through 150 distributors, 400 franchise stores and 100 company owned company managed (COCM) stores. It plans to add 70-80 stores in COCM category and add 50-60 stores through franchise route every year for the next 3 years. It plans to reach 800-900 stores in next 3 years from current 500 stores. We expect domestic retail revenues to reach Rs 4,077 mn in FY16E from Rs 2122 mn in FY14, signifying a CAGR of 38.6% over FY14-FY16E. Its share in total revenue is likely to reach 52.8% in FY16E from 46.6% in FY14.

Light Capex not hurting balance sheet: The retail expansion in COCM model is likely to cost Rs 2.5 mn per store including inventory, taking the retail expansion cost to Rs 200 mn per year. It also plans to invest in increasing its moulding capacity to the extent of Rs 50-60 mn each year, to cater to increase demand from increasing stores. The capex plan is likely to be funded through a mix of debt and internal accruals. We expect the debt to equity ratio to increase marginally to 0.86x in FY16E from 0.85x in FY14P.

PAT to grow at 60.5% CAGR: We expect PAT to grow at a CAGR of 60.5% CAGR over FY14-FY16E to reach Rs 340 mn in FY16E. We expect PAT margin to reach 4.2% implying a margin expansion of 152 bps over FY14-FY16E period. This is likely to result from higher operating leverage and lower financial cost. The increasing share of LRRL is likely to cushion the margin expansion.

ROE likely to double to 18.8% by FY16E: We expect the ROE of the company to almost double to 18.9% in FY16E from 9.6% in FY14P. This is likely to be on account of higher asset turnover and improving profitability. Net profit margin is likely to reach 4.1% in FY16E from 2.7% in FY14. Similarly, ROCE is also likely to reach 18.6% in FY16E from 11.9% in FY14P.

Outlook and Valuation

At current market price of Rs 306, the stock trades at PE of 21.8x and 14.8x its FY15E and FY16E earnings of Rs 13.5 and Rs 20.0 per share, respectively. We expect the company to grow at a CAGR of 28.7% CAGR over FY14P-FY16E lead by higher domestic revenue growth, including retail network and institutional sales. The profitability of the company is also likely to improve on account of operating leverage arising out of better sales. LSL has charted an aggressive expansion plan for its retail network, which is likely to provide the required impetus to improve the financial performance. Considering the strong brand recall, expansion plans and strategies to improve its growth rate, we are of the opinion that the valuation is attractive. Its peers, Bata India and Relaxo Footwear, are trading at average PE of 32.7x and 26.6x its FY16E Bloomberg earnings. Taking into consideration lower EBITDA margin and return ratios, we assign 20x (25% discount to average FY16E earnings) multiple to LSL to arrive at a target price of Rs 400 per share.

Financial Performance

YE March (Rs Mn)	Net Sales	EBITDA	PAT	EPS(Rs)	RoCE(%)	RoE(%)	Adj. P/E(x)	EV/EBITDA(x)
FY13	3629	284	58	3.4	8.2	4.0	86.8	22.0
FY14E	4835	394	134	7.9	11.9	9.6	37.6	16.1
FY15E	6189	554	230	13.5	16.6	15.6	21.8	11.3
FY16E	8009	730	340	20.0	19.3	19.6	14.8	9.1

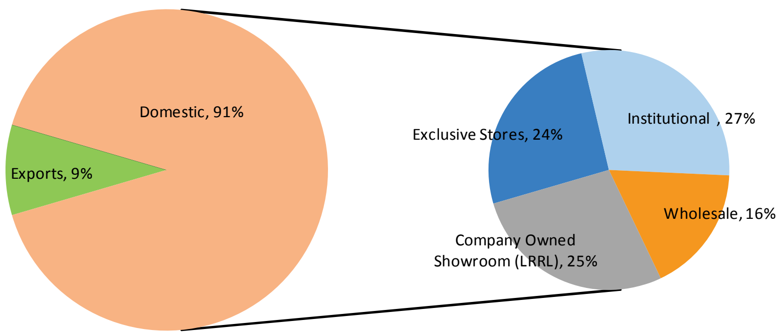
Source: Company, IndiaNivesh Research

Background

Liberty Shoes Ltd (LSL), incorporated in 1986, is the second largest footwear company in India. Apart from its flagship brand 'Liberty', the company manufactures and sells footwear in 10 more brands including Senorita, TipTopp and Glider. It retails its products through a network of 150 distributors, 400 exclusive stores, 100 own stores and more than 6000 multi-brand outlets. Liberty Revolutions is the retail chain which are owned and managed by the company. The company also caters to institutional products which includes workmen wear. The company also exports to more than 25 countries including France, Italy, and Germany etc. With a manufacturing capacity of 10.6 mn pairs per annum, the company's plants are located at Karnal (Haryana), Dehradun and Roorkee (Uttarakhand) and Poanta Sahib (Himachal Pradesh). The company is amongst the top 5 leather footwear manufacturers in the world, producing 50000 pairs per day.

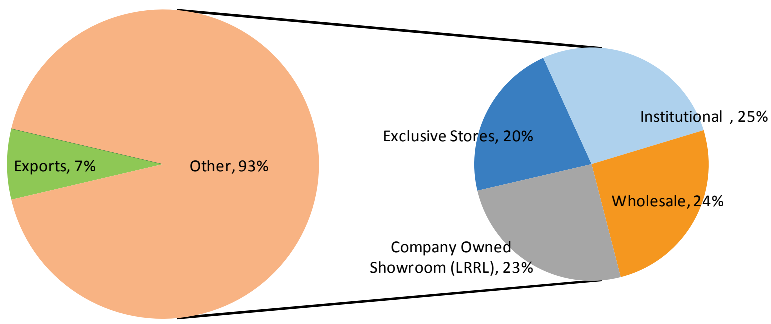
Business Model

Revenue Mix (FY14)



Source: Company, IndiaNivesh Research

Revenue Mix (FY16E)



Source: Company, IndiaNivesh Research

Investment Rationale

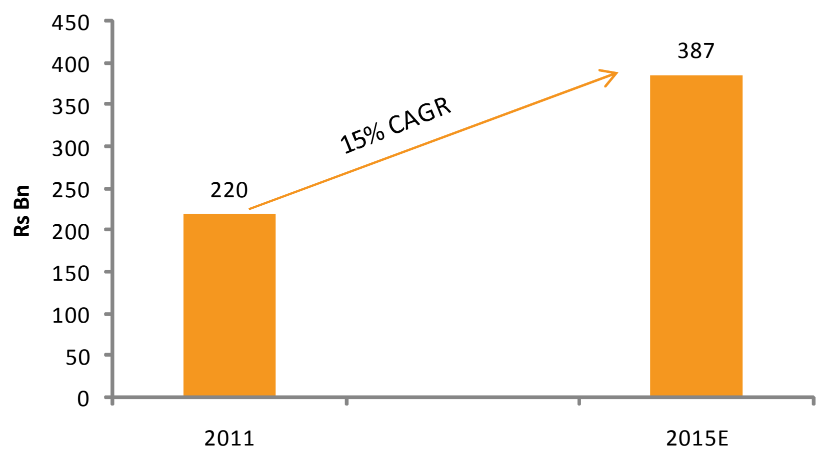
Industry dynamics

India market share of 10.4% in global production

Indian Footwear Sector to grow at 15% CAGR

The Indian Footwear sector is the second largest manufacturer of footwear after China. According to World Yearbook 2012 by APPICCAPS, India manufactures 2.2bn pairs of footwear accounting for 10.4% share in global production. The Indian Footwear sector is likely to reach Rs 387 bn in 2015 from Rs 220 bn in 2011, signifying a growth of 15% CAGR, as per ASSOCHAM. Increasing fashion consciousness, changing buying patterns, ever-evolving retail ecosystem and favourable demographic profile are the key drivers of growth in footwear sector.

Indian Footwear sector to grow in double digit



Source: Assocham, IndiaNivesh Research

Organised Indian Footwear Sector to grow at 20% CAGR

The sector is dominated by unorganised segment (representing small cottage based industry manufacturers) which constitute 66.6% of the total footwear industry. Organised segment is likely to grow by more than 20% as domestic footwear companies expand their network and higher number of international players enters the market. On-line shoe shopping is also likely to drive the sales of branded players which currently comprise 8% of the total footwear sales and is expected to reach 20% by 2015, as per ASSOCHAM.

Key drivers of growth

Women's 20% CAGR to drive footwear sales

1. **Lower share of women footwear in total consumption:** The Indian footwear sector is dominated by men's segment which accounts for 60% of total consumption, followed by 30% by women segment and balance by kids segment. However, this is in sharp contrast to global consumption pattern which is dominated by women's footwear. A higher growth in women's footwear is likely to support higher growth in sector. Men's market is growing at a CAGR of 10% while the women's market is growing at a CAGR of 20%.

2. **Rising proportion of working women:** With rising literacy among women and their increasing share in labour force, the demand for discretionary products increases. According to World Economic Forum, there are 24% women in India's workforce, 117 million out of 478 million people. This creates opportunity for different types of footwear like formal, party, comfort, etc., creating additional demand.

3. **Per capita consumption:** Low per capita consumption of footwear in India at

2.5 pairs against developed economy consumption of 6-8 pairs signifies potential for consumption growth in Indian footwear industry.

4. **Changing consumption patterns:** The consumption pattern of footwear is changing drastically over the past few years. Fashion and higher affordability are the key areas affecting purchase decisions.

5. **Rising competition:** India accounts for 12.7% of world consumption of footwear at 2.2 bn pairs, which is close to USA at 2.25 bn pairs. This coupled with a high growth of 15% CAGR offers huge potential for growth. This makes India an attractive destination for global footwear companies looking to expand in overseas market.

6. **Increasing penetration:** Increasing penetration in Tier-2, Tier3 cities and Tier-4 cities is likely to create additional demand. The purchasing power in these cities is increasing and many mall developers are also venturing in these markets to spread reach. This creates opportunity for footwear companies to cater to these cities.

Portfolio of Strong Brands

Liberty has a portfolio of strong brands. 'Liberty' is flagship brand of the company, apart from 10 other brands each having different positioning and target audience. The company has been increasing its expenditure on improving its brand positioning. Its expenditure on advertisement and sales promotion increased to 5.1% of its net sales in FY13 from 3.3% in FY11. We expect the company to continue its current rate of expenditure to improve its positioning, launch new designs and strengthen its brand recall.

Brand Profile details

Brands	Positioning
GLIDERS	Specific need of informal, semi-formal footwear as well as beachwear for the age group of 2- 45 years
FootFun	Exclusive brand for children in the age group of 1 to 12 years
FORCE 10	Value for money fashion sports shoes
FORTUNE	Men's formal and casual shoes in Leather
WINDSOR	Casual and formal shoes for the young executives in the age group of 21 to 40 years
COOLERS	Men's sandals and slip-ons
SENORITA	High design and fashion styling amongst young women
TIPTOPP	Comfortable and fashionable women's slip-ons and sandals
WARRIOR	Industrial Safety Leather Shoes
Prefect from Liberty	Children School Shoes

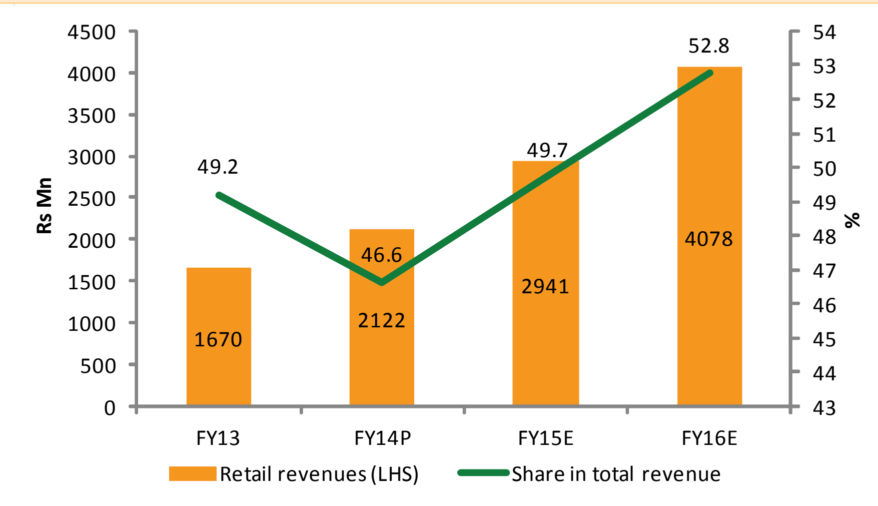
Source: Company, IndiaNivesh Research

Focus on increasing retail revenues

Retail revenues to reach 52.8% in FY16E from 46.6% in FY14

The company plans to increase its domestic retail revenues by expanding its retail network. Currently it sells its products through 150 distributors, 400 franchise stores and 100 company owned company managed (COCM) stores. It plans to add 70-80 stores in COCM range and add 50-60 stores through franchise route every year for the next 3 years. It plans to reach 800-900 stores in next 3 years from current 500 stores. We expect domestic retail revenues to reach Rs 4,077 mn in FY16E from Rs 2122 mn in FY14, signifying a CAGR of 38.6% over FY14-FY16E. Its share in total revenue is likely to reach 52.8% in FY16E from 46.6% in FY14.

Retail revenues to grow at 38.6% CAGR



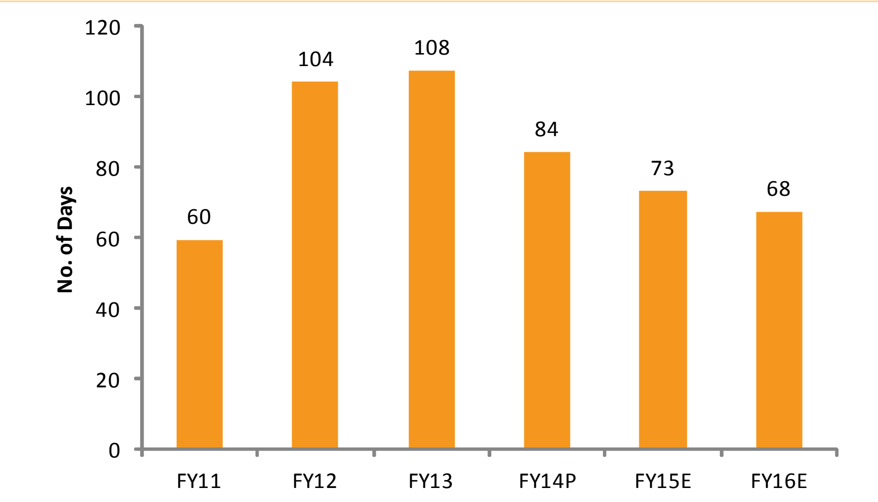
Source: Company, IndiaNivesh Research

Integration of front end & back end facilities

Focus on pull demand and better inventory management

LSL has implemented SAP / ERP in its factories and has installed RetailPRO software at the front end in all the stores. SAP/ERP and RetailPRO are linked to monitor the sales and consumer preference in various areas. This will enable the company to manage its merchandise effectively. Also, it has tied up for just-in-time raw material availability with its suppliers. This enables better inventory management. The company plans to reduce inventory by approximately 20 days with effective implementation of this strategy. We expect the inventory days to reduce to 68 days by FY16E from 84 days in FY14P.

Inventory Days to decline to 68 days

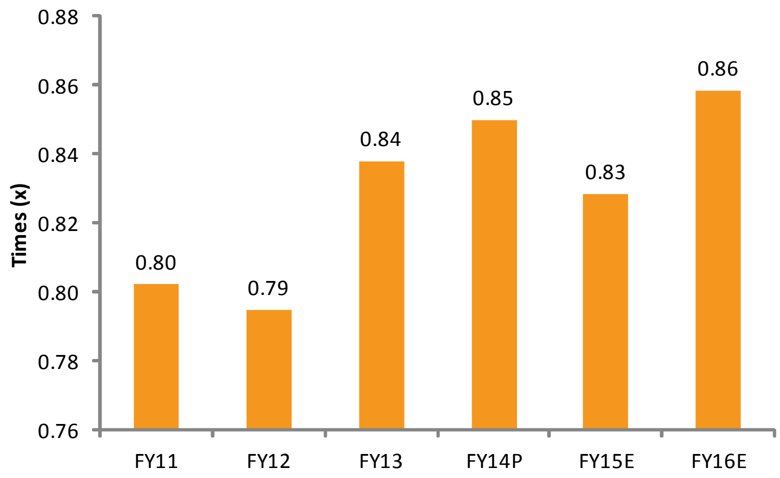


Source: Company, IndiaNivesh Research

Light Capex not hurting balance sheet

The retail expansion in COCM model is likely to cost Rs 2.5 mn per store including inventory, taking the retail expansion cost to Rs 200 mn per year. It also plans to invest in increasing its moulding capacity to the extent of Rs 50-60 mn each year, to cater to the increasing demand at stores. As per the management, it will not have to invest in increasing capacity as the company plans to operate double shift against single shift currently. The capex plan is likely to be funded through a mix of debt and internal accruals. We expect the debt to equity ratio to increase marginally to 0.86x in FY16E from 0.85x in FY14P.

Despite increasing stores, debt to equity likely to increase marginally



Source: Company, IndiaNivesh Research

Intends restructuring with group companies

Group restructuring likely in near term; to increase the EBITDA margin by at least 250 bps

In FY13, the company paid Rs 200.3 mn (5.5% of net sales) in form of royalty, license fees and franchisee fees to its group companies. LSL has entered into franchise agreement with its group companies namely Liberty Enterprise (LE), Liberty Group Marketing Division (LGMD) and Liberty Footwear Company for various purposes as mentioned in the table. The franchise agreement with LE and LGMD ends on 1st April 2015 while with LFC will end 1st April 2028. As per our discussion with management, it intends to restructure these agreements to do away with these franchise and royalty payments, thereby enhancing profitability of the company. However, the exact strategy to do the same is being worked out. The restructuring is likely to increase the EBITDA margin by at least 250 bps going forward.

Franchise / Royalty Fees Agreement with Group Companies

Group Companies	Agreement
Liberty Enterprise	Use of fixed assets and export sales network for further 2 years w.e.f. April 01, 2013
Liberty Group Marketing Division	Use of fixed assets for manufacturing of footwear, registered Trademarks, and domestic sales network for sale of footwear for further 2 years w.e.f. April 01, 2013
Liberty Footwear Co.	Use of trademark "Liberty" on exclusive basis for further 15 years w.e.f. April 01, 2013

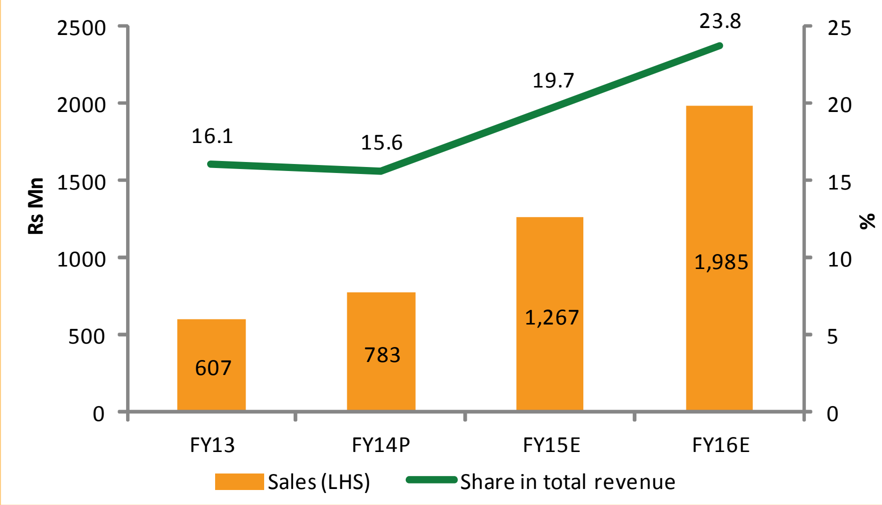
Source: Company, IndiaNivesh Research

Merger of Liberty Revolutions Retail Ltd.

Merger with LRRL to bring in operational efficiencies

LSL has merged its 100% retail subsidiary, Liberty Retail Revolutions Ltd (LRRL) with LSL with an aim to achieve synergy of manufacturing and retailing business. As per the management, the merger is likely to enhance its bottomline by 2%-3% by leveraging overall operational cost. We expect LRRL sales to reach Rs 1985 mn in FY16E from Rs 783 mn in FY14, implying a CAGR of 59.2% over the period. Its share in total sales is likely to reach 23.8% in FY16E from 15.6% in FY14.

Share of LRRL sales to total sales to reach 23.8% in FY16E



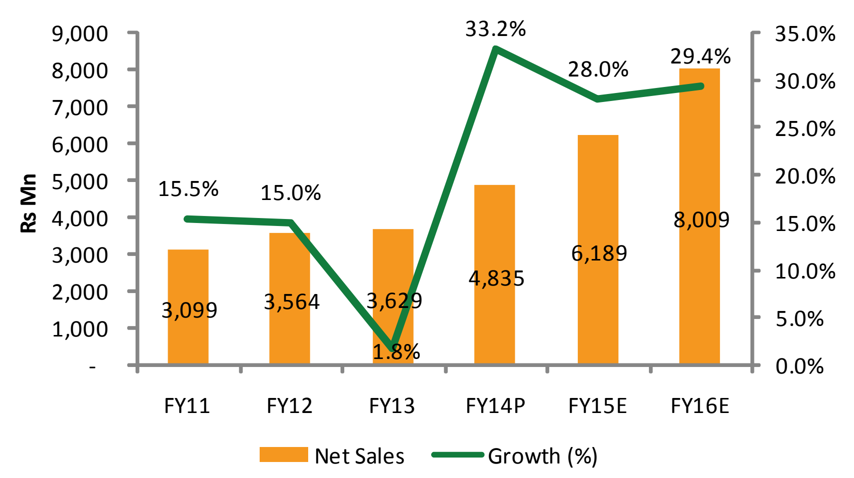
Source: Company, IndiaNivesh Research

Financial performance:

Net Sales to grow at CAGR of 28.7% over FY14-FY16E

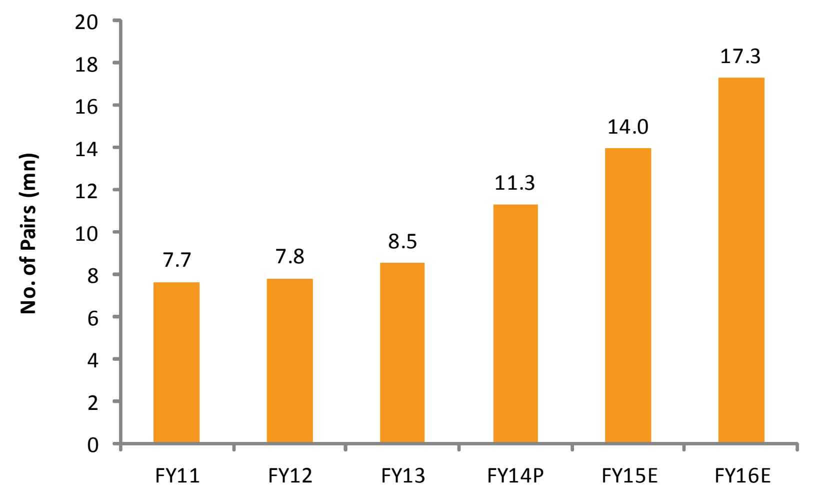
The net sales of the company increased at a CAGR of 10.5% over FY10-FY13 to reach Rs 3629 mn in FY13. In FY14, the company reported 33% growth in its sales to reach Rs 4835 mn. This growth has been primarily driven by volume which also increased at a CAGR of 9.9% over FY10-FY13 and 34.8% in FY14. Going forward, the net sales of the company is likely to reach Rs 8,009 mn in FY16E from Rs 4835 mn in FY14, signifying 28.7% CAGR. This is likely to be driven by volume growth of 23.6% CAGR and average realisation growth of 4.1% CAGR.

Net Sales to increase 1.7x over FY14-FY16E



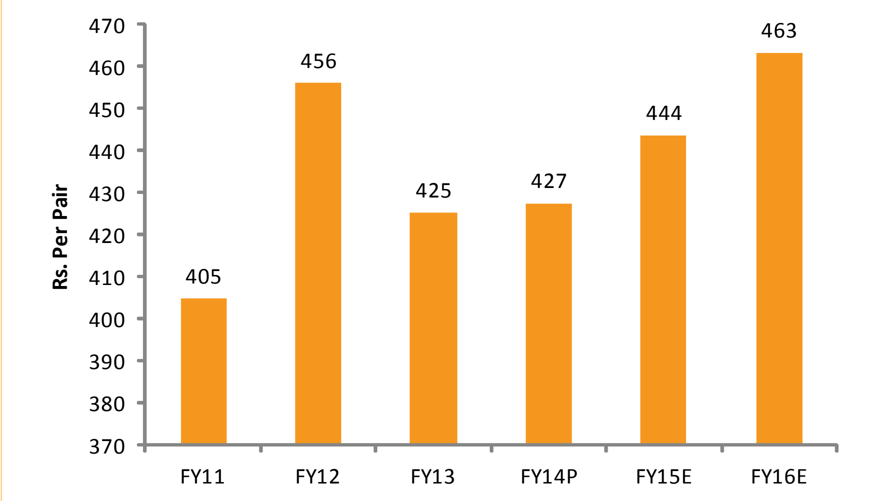
Source: Company, IndiaNivesh Research

Volume growth of 23.6% CAGR



Source: Company, IndiaNivesh Research

Average realisation growth of 4.1% CAGR

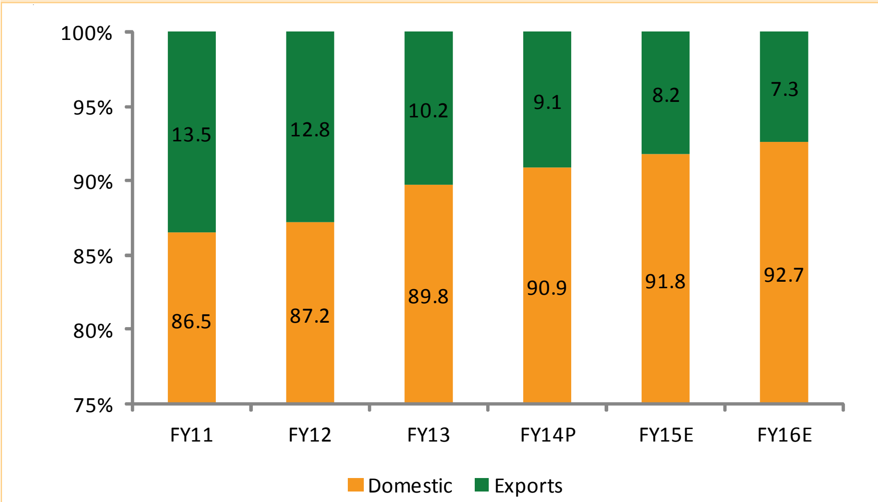


Source: Company, IndiaNivesh Research

The share of domestic market to reach 92.7% in FY16E from 90.9% in FY14P

The revenue mix is likely to tilt towards domestic market. The share of domestic market increased to 90.9% in FY14 from 86.5% in FY11. The management's thrust on increasing its retail footprint in domestic market resulted in the growth of domestic sales. Going forward, we expect the share of domestic market to reach 92.7% in FY16E. Exports sales are likely to grow at a CAGR of 16.2% over FY14-16E, while domestic sales are likely to grow 28.9% CAGR over the same period.

Domestic sales to continue driving growth

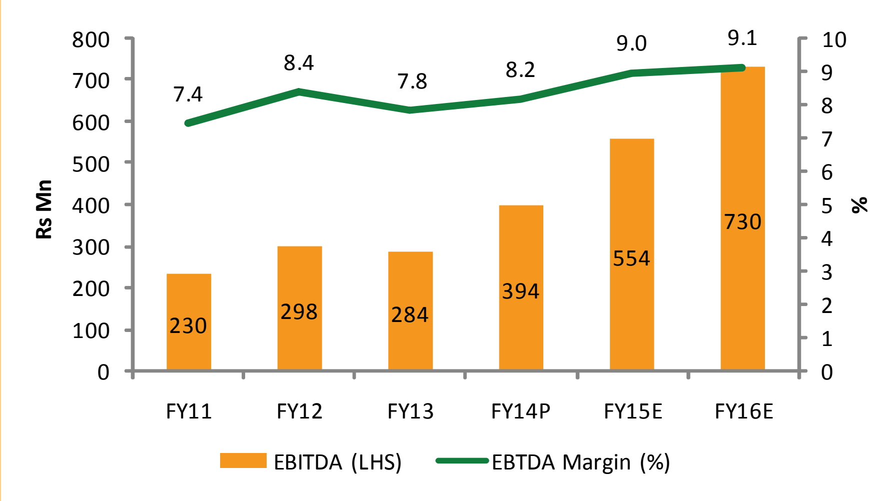


Source: Company, IndiaNivesh Research

EBITDA to grow at 36.1% CAGR with ~100 bps margin expansion over FY14-16E

Over FY11-FY14, EBITDA of the company grew at a CAGR of 19.6% CAGR to reach Rs 394 mn in FY14 from Rs 230 mn in FY11. EBITDA margin of the company has been hovering in the range of 7.5%-8.5% due to volatile raw material cost and other expenses. EBITDA margin expanded by 73 bps to reach 8.2% in FY14 from 7.4% in FY11, due to operating leverage arising from higher sales. We expect the operating leverage to continue resulting in EBITDA margin reaching 9.1% in FY16E, an expansion of ~100 bps over FY14-16E period. EBITDA is likely to reach Rs 730 mn in FY16E growing at a CAGR of 36.1% over FY14-FY16E.

EBITDA margin to expand ~100 bps over FY14-FY16E



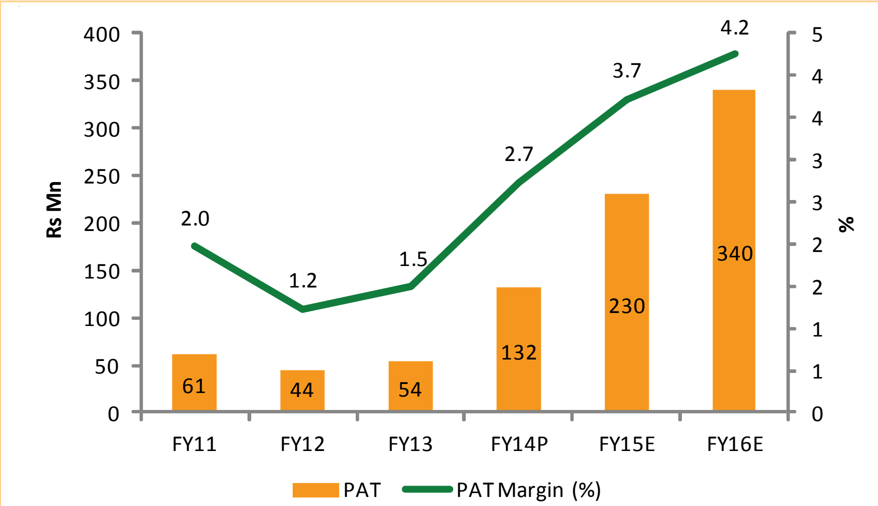
Source: Company, IndiaNivesh Research

PAT margin to improve 152 bps

Higher operating leverage and lower financial cost to improve PAT margin by 152 bps over FY14P-16E

PAT of the company has grown at a CAGR of 7.5% over FY10-13 while in FY14 it grew by 145.1% y-o-y. This growth is achieved on account of operating leverage wherein fixed cost has increased at proportionately lower rate than the sales growth. PAT margin improved to 2.7% in FY14 from 1.6% in FY10. Going forward, we expect PAT to grow at a CAGR of 60.5% CAGR over FY14-FY16E to reach Rs 340 mn in FY16E. We expect PAT margin to reach 4.2% implying a margin expansion of 152 bps over FY14-FY16E period. This is likely to result from higher operating leverage and lower financial cost. The increasing share of LRRL is likely to cushion the margin expansion. We expect effective tax rate to increase in FY15E and FY16E reaching 16% from 5.9% in FY14 as one of its plants is exiting the tax free status.

PAT to grow at 60.5% CAGR



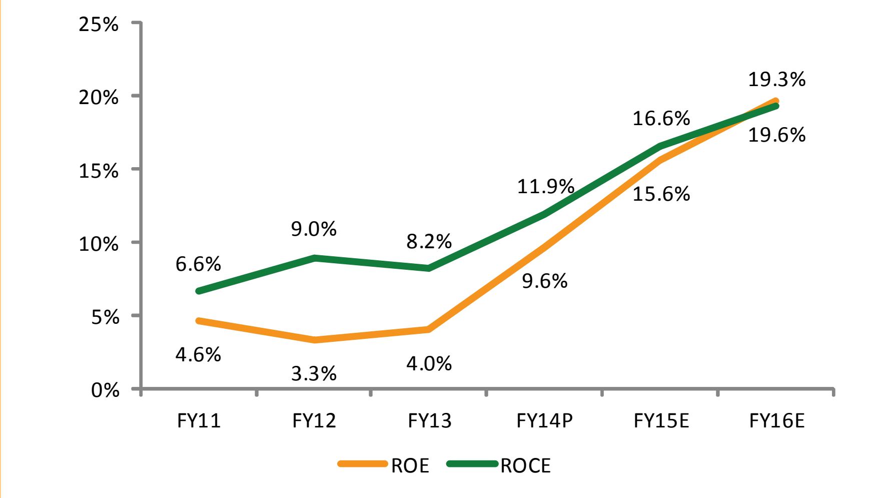
Source: Company, IndiaNivesh Research

Significant improvement in return ratios; ROE likely to reach 19.6% by FY16E

The return ratios of the company were low in the past few years due to lower profitability and lower sales growth. However, this is likely to change going forward. We expect the ROE of the company to almost double to 19.6% in FY16E from 9.6%

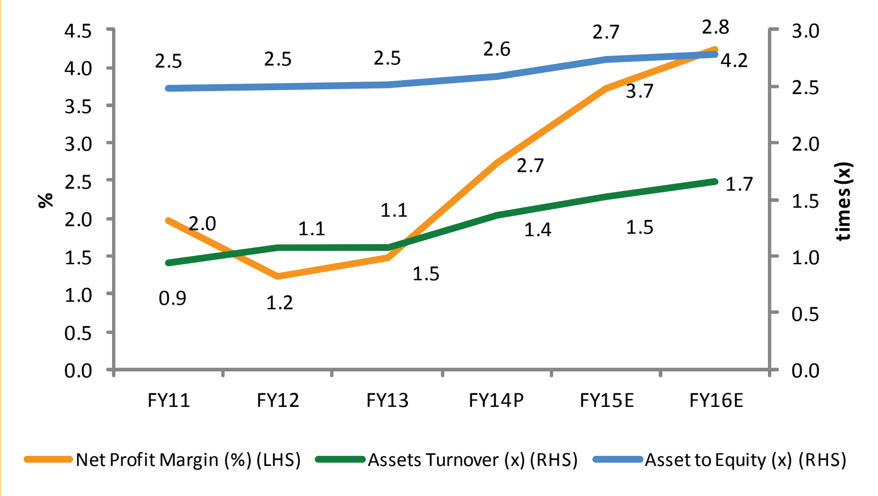
in FY14P. This is likely to be on account of higher asset turnover and improving profitability. Net profit margin is likely to reach 4.2% in FY16E from 2.7% in FY14. Similarly, ROCE is also likely to reach 19.3% in FY16E from 11.9% in FY14P.

ROE likely to double to 19.6% by FY16E



Source: Company, IndiaNivesh Research

Du Pont Analysis of ROE



Source: Company, IndiaNivesh Research

Key Risks

Volatility in raw material prices

The raw materials of the company are a derivative of crude oil. In the event of a significant increase in crude oil prices, the company may not be in position to pass the cost to the consumers immediately, impacting the profitability of the company. However, we opine that this impact would be short term and it may be in a position to pass the increased cost to a customer with a lag.

Delay in company restructuring

The company pays franchise fees and royalty to the group companies for usage of their fixed assets, network and trademark 'Liberty'. This results in lower EBITDA margin as compared to its peers. The management of the company has asserted that this is likely to be corrected in near term. In the event of delay in this restructuring, the valuation re-rating may get restricted as the minority shareholders continue to get lower returns.

Rising Competition

Owing to higher growth rate of Indian footwear as compared to global footwear industry and the favourable demographic profile of the country, many foreign players are entering the Indian footwear industry. This is increasing the competition for Indian players, forcing them to spend on branding, quality and maintaining price competitiveness.

Slowdown in economy

Footwear forms a part of discretionary expenditure. In the event of an economy slowdown, these purchases can be postponed to future. This may impact the demand of the products, which may result in lowering of sales growth.

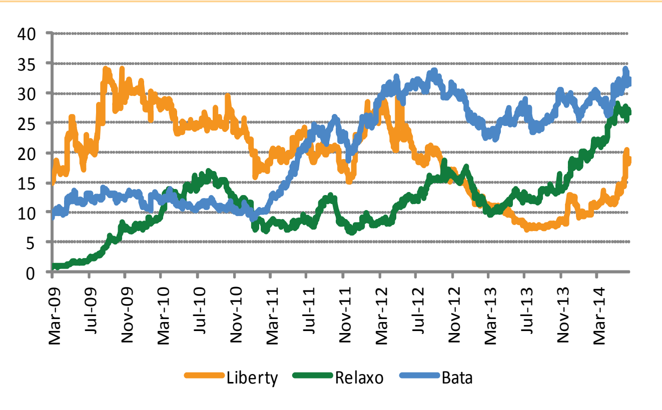
Outlook and Valuation

Liberty Shoes Ltd has been trading at premium to its peer during FY10-FY11 period on account of premium product profile, strong brands and Indian consumption story, though this was not reflected in their financial performance. However, the premium over peers was reducing over the same period as the BATA India and Relaxo Footwear started performing while Liberty financials were deteriorating.

- Over FY10-FY13, net sales of BATA India and Relaxo Footwear increased at a CAGR of 19.1% and 22.2% respectively, while that of Liberty Footwear increased at a meagre 10.5% CAGR.
- Over FY10-FY13, EPS of BATA India and Relaxo Footwear grew at a CAGR of 36.6% and 5.7% respectively while that of Liberty Shoes de-grew at a CAGR of 18.9% over the same period.
- ROE of Liberty was declining while that of peers was increasing.
- Liberty has a royalty and franchisee fee component of 4-5% in its EBITDA. If adjusted for that, margins of BATA and Liberty Shoes were comparable. However, over a period of time, margins of peers increased due to premiumisation, while that of Liberty remained stable in the range of 7-8%.

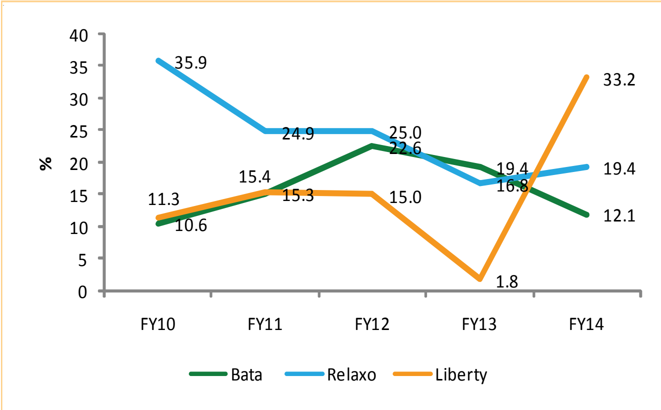
In sharp contrast to earlier situation, Liberty Shoes gave an outstanding performance in FY14 as compared to its peers. Its sales grew by 33.2% as compared to BATA India and Relaxo which grew by 12% and 19% respectively. Its EPS grew by 145% yoy as compared to BATA India and Relaxo which grew by 11.1% and 46.5% respectively.

1-yr forward PE chart



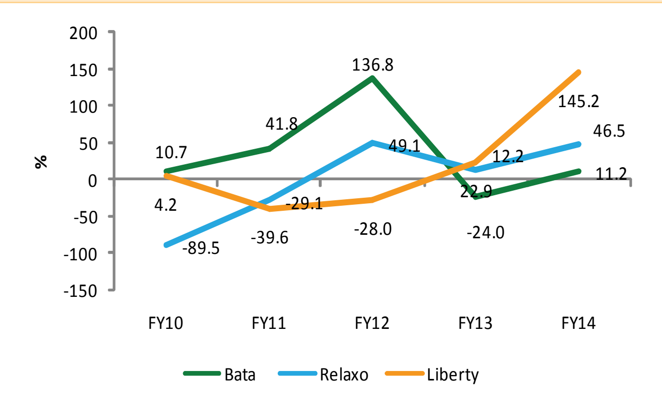
Source: Company, Bloomberg, Capitaline, IndiaNivesh Research

Liberty vs. Peer Sales Growth (YoY)



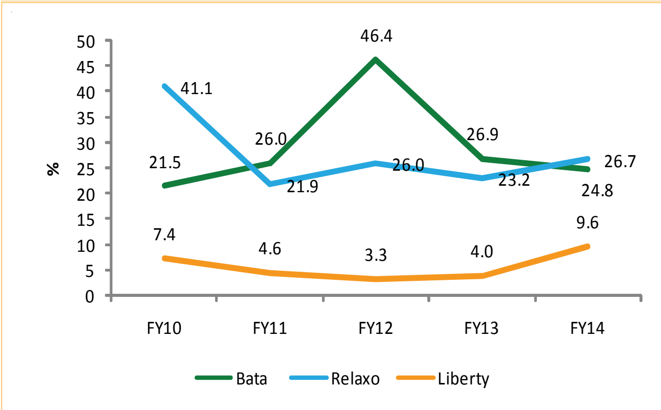
Source: Company, Bloomberg, IndiaNivesh Research

Liberty vs. Peer EPS Growth (YoY)



Source: Company, Bloomberg, IndiaNivesh Research

Liberty vs. Peer ROE



Source: Company, Bloomberg, IndiaNivesh Research

Note: Bata India has Calendar Year Ending.

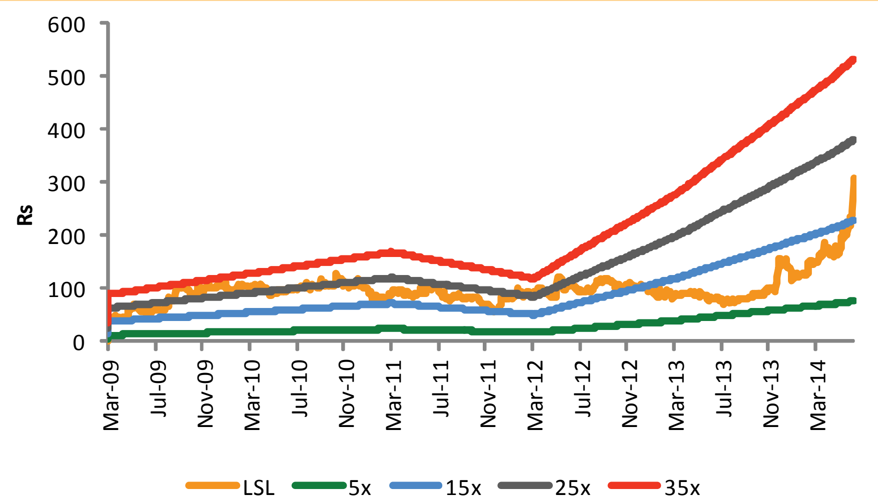
At current market price of Rs 306, the stock trades at PE of 21.8x and 14.8x its FY15E and FY16E earnings of Rs 13.5 and Rs 20.0 per share, respectively. We expect the company to grow at a CAGR of 28.7% CAGR over FY14P-FY16E lead by higher domestic revenue growth, including retail network and institutional sales. The profitability of the company is also likely to improve on account of operating leverage arising out of better sales. LSL has charted an aggressive expansion plan for its retail network, which is likely to provide the required impetus to improve the financial performance. Considering the strong brand recall, expansion plans and strategies to improve its growth rate, we are of the opinion that the valuation is attractive. Its peers, Bata India and Relaxo Footwear, are trading at average PE of 32.7x and 26.6x its FY16E Bloomberg earnings. Taking into consideration lower EBITDA margin and return ratios, we assign 20x (25% discount to average FY16E earnings) multiple to LSL to arrive at a target price of Rs 400 per share.

Peer Comparison

Particulars	Sales Growth	EPS CAGR	EBITDA Margin		ROE		P/E		Market Cap / Sales	
	CAGR (FY14-FY16E)	CAGR (FY14-FY16E)	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
Bata *	16.9	20.0	15.9	16.2	24.9	24.6	36.0	30.1	3.5	2.9
Relaxo	18.9	25.1	12.1	12.2	25.1	27.4	29.4	23.1	1.7	1.4
Average	**17.9**	**22.5**	**14.0**	**14.2**	**25.0**	**26.0**	**32.7**	**26.6**	**2.6**	**2.2**
LSL	28.7	59.9	8.2	9.0	15.6	19.6	21.8	14.8	0.8	0.7

Source: Company, Bloomberg, IndiaNivesh Research
*Note: *Bata India has Calendar Year Ending.*

1-yr forward P/E multiple band



Source: Company, Capitaline, IndiaNivesh Research

Financial Statements

Income statement

Y E March (Rs m)	FY 12	FY 13	FY 14P	FY 15E	FY 16E
Net sales	**3564**	**3629**	**4835**	**6189**	**8009**
Growth %	*15.0*	*1.8*	*33.2*	*28.0*	*29.4*
Expenditure	**3266**	**3345**	**4440**	**5635**	**7279**
Raw Material	1716	1717	2534	3218	4165
Advertisement and selling expenses	443	481	643	823	1065
Employee	437	460	591	743	945
Others	670	687	672	851	1104
EBITDA	**298**	**284**	**394**	**554**	**730**
Growth %	*29.4*	*-4.9*	*39.0*	*40.4*	*31.9*
EBITDA Margin %	*8.4*	*7.8*	*8.2*	*8.9*	*9.1*
Other Income	13	20	18	19	20
Depreciation and amortisation	97	104	111	122	135
EBIT	**214**	**199**	**302**	**451**	**616**
EBIT Margin %	*6.0*	*5.5*	*6.2*	*7.3*	*7.7*
Interest	138	143	160	176	211
Exceptional/Extraordinary item	-38	-4	-2	0	0
PBT	**38**	**53**	**140**	**274**	**405**
PBT Margin %	*1.1*	*1.5*	*2.9*	*4.4*	*5.1*
Tax	-4	-1	8	44	65
Effective tax rate %	*-10*	*-2*	*6*	*16*	*16*
PAT Before Minority Interest	**42**	**54**	**132**	**230**	**340**
Minority Interest	-2	0	0	0	0
PAT After Minority Interest	44	54	132	230	340
Adj. PAT	**82**	**58**	**134**	**230**	**340**
Growth%	*-28.0*	*22.9*	*145.2*	*74.4*	*47.7*
Adj. PAT Margin %	*2.3*	*1.6*	*2.8*	*3.7*	*4.2*

Balance sheet

Y E March (Rs m)	FY 12	FY 13	FY 14E	FY 15E	FY 16E
Share Capital	170	170	170	170	170
Reserves & Surplus	1147	1197	1207	1408	1718
Net Worth	**1318**	**1367**	**1378**	**1578**	**1888**
Total debt	1047	1146	1171	1307	1621
Net defered tax liability	51	51	48	43	35
Total Liabilities	**2416**	**2564**	**2597**	**2928**	**3544**
Gross Fixed Assets	1767	1850	1937	2114	2299
Less Depreciation	740	838	949	1071	1206
Capital Work in Progress	1	2	3	3	3
Net Fixed Assets	1028	1014	991	1046	1096
Goodwill on Consolidation	0	92	0	0	0
Investments	0	0	0	0	0
Current Assets	**2293**	**2409**	**2696**	**3362**	**4151**
Inventories	1028	1112	1126	1362	1602
Sundry Debtors	716	792	1175	1300	1842
Cash & Bank Balance	101	124	23	251	169
Loans & advances	427	358	333	402	481
Other Current assets	22	23	40	48	57
Current Liabilities & provisions	905	951	1090	1480	1703
Net Current Assets	**1388**	**1458**	**1606**	**1882**	**2448**
Mis Exp not written off	0	0	0	0	0
Total assets	**2416**	**2564**	**2597**	**2928**	**3544**

Cash Flow

Y E March (Rs m)	FY 12	FY 13	FY 14E	FY 15E	FY 16E
Profit Before Interest, Tax and Extraordinary Items	165	179	302	451	616
Adjustment for:					
Depreciation	97	104	111	122	135
Others	-4	-18	-12	-10	-11
Changes in working capital	-28	45	-276	-45	-643
Tax expenses	-20	-12	-11	-49	-73
Cash flow from operations	**210**	**299**	**114**	**469**	**24**
Capital expenditure	-98	-95	-87	-177	-185
Free Cash Flow	**111**	**205**	**27**	**292**	**-161**
Others	3	-87	2	2	2
Cash flow from investments	**-95**	**-182**	**-84**	**-175**	**-183**
Interest	-127	-133	-160	-176	-211
Loans availed or (repaid)	-13	35	25	136	314
Refund of Share Application Money	-55	0	0	0	0
Dividend paid (incl tax)	0	0	0	-30	-30
Cash flow from Financing	**-195**	**-98**	**-134**	**-70**	**73**
Net change in cash	-80	19	-105	224	-86
Cash at the beginning of the year	179	101	124	23	251
Cash at the end of the year	99	120	19	247	165
Other Bank Balances	1	4	4	4	4
Cash as per Balance Sheet	101	124	23	251	169

Key ratios

Y E March	FY 12	FY 13	FY 14E	FY 15E	FY 16E
Adj. EPS (Rs)	4.8	3.4	7.9	13.5	20.0
Cash EPS (Rs)	8.3	9.3	14.3	20.7	27.9
BVPS	77.3	80.2	80.9	92.6	110.8
DPS (Rs)	0.0	0.0	1.5	1.5	1.5
Adj. P/E (x)	61.3	86.8	37.6	21.8	14.8
P/CEPS (x)	35.7	31.8	20.7	14.3	10.6
P/BV (x)	3.8	3.7	3.6	3.2	2.7
EV/EBITDA(x)	20.7	22.0	16.1	11.3	9.1
M cap/sales (x)	1.5	1.4	1.1	0.8	0.7
ROCE	9.0	8.2	11.9	16.6	19.3
ROE	3.3	4.0	9.6	15.6	19.6
Inventory (days)	104.5	107.6	84.5	73.3	67.5
Debtors (days)	68.4	75.8	74.2	73.0	71.6
Trade Payables (days)	69.1	69.4	54.5	54.6	55.5
Total Asset Turnover (x)	1.1	1.1	1.4	1.5	1.7
Fixed Asset Turnover (x)	3.5	3.6	4.9	5.9	7.3
Debt/Equity (x)	0.8	0.8	0.8	0.8	0.9
Debt/Ebitda (x)	3.5	4.0	3.0	2.4	2.2
Interest Coverage (x)	1.6	1.4	1.9	2.6	2.9
Dividend Yield %	0.0	0.0	0.5	0.5	0.5

Source: Company, IndiaNivesh Research

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