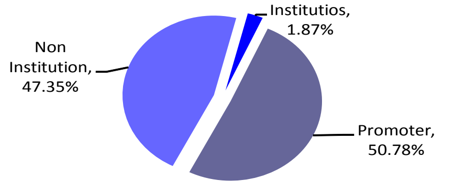
SKP Securities Ltd	*August 31, 2015*
	Srikalahasthi Pipes Ltd.
	Hitting a sweet spot in Water Infrastructure…

CMP INR 265 | **Target INR 346** | **Initiating Coverage - BUY**

Key Share Data	
Face Value (INR)	10.0
Equity Capital (INR Mn)	397.6
Market Cap (INR Mn)	10,569.2
52 Week High/Low (INR)	349/50.30
6 months Avg. Daily Volume (BSE)	1,02,798
BSE Code	513605
NSE Code	SRIPIPES
Reuters Code	SRIK.BO
Bloomberg Code	SRIK IN

Shareholding Pattern (as on 30th June 2015)



Source: Company

Key Financials (INR Million)

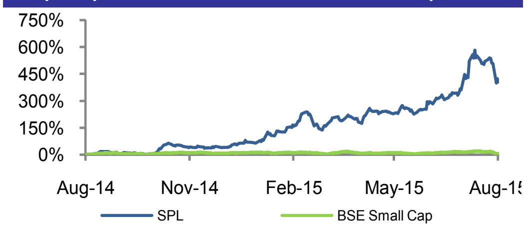
Particulars	FY14	FY15	FY16E	FY17E
Net Sales	9,894.0	10,835.5	12,303.2	13,501.1
Growth (%)	*14.5%*	*9.5%*	*13.5%*	*9.7%*
EBITDA	1,169.9	1,856.2	2,788.4	3,111.9
PAT	387.0	829.8	1,518.1	1,790.1
Growth (%)	*395.5%*	*114.4%*	*82.9%*	*17.9%*
EPS (INR)	9.7	20.9	38.2	45.0
BVPS (INR)	56.7	73.8	108.4	149.9

Key Financials Ratios

Particulars	FY14	FY15	FY16E	FY17E
P/E (x)	7.4	8.5	7.0	5.9
P/BVPS (x)	1.3	2.4	2.5	1.8
Mcap/Sales (x)	0.3	0.6	0.9	0.8
EV/EBITDA (x)	5.8	5.9	5.1	4.3
ROCE (%)	14.0%	23.0%	28.5%	28.6%
ROE (%)	17.2%	28.3%	35.2%	30.0%
EBITDA Mar (%)	11.8%	17.1%	22.7%	23.0%
PAT Mar (%)	3.9%	7.7%	12.3%	13.3%
Debt - Equity (x)	1.8	1.3	1.0	0.6

Source: Company, SKP Research

1 Yr price performance SPL vis-à-vis BSE Small Cap



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Company Background

Srikalahasthi Pipes Ltd (SPL), formerly known as Lanco Industries Ltd. (LIL), part of Electrosteel Group, is one of the India's leading manufacturer of Ductile Iron (DI) pipes, a valuable input in water infrastructure for movement of drinking water supply, sewerage and irrigation. Having a production capacity of 2,25,000 MTPA of DI pipes, it also manufactures pig iron (2,75,000 MTPA), cement (90000 TPA), low ash metallurgical coke (2,25,000 MTPA) and generates power (14.5 MW) for captive consumption from its facility located near Tirupathi, Andhra Pradesh. Unlike uncertainties surrounding group companies Electrosteel Castings and Electrosteel Steels, due to latters' financial troubles, SPL, being a pure play in DI pipes in domestic markets, appears to have hit a sweet spot, enjoying marketing synergies with group companies.

Investment Rationale

Leadership in South Indian market backed by strong entry barriers

- Over the years SPL has emerged as one of India's largest DI pipes manufacturer, commanding ~15% market share, while in its focused markets i.e. South & West India SPL's market share is as high as ~75%.
- The industry enjoys strong entry barriers with its capital intensive nature and long gestation period involving quality checks and approvals. The cost of setting up a greenfield DI plant similar to that of SPL (~2,25,000 TPA) is ~Rs 6,000 million and is a major deterrent for a new entrant. DI pipes contributes ~78-80% to SPL's top-line, growing at a CAGR of ~7.5% during FY11-15.

Capacity addition to add volumes

- SPL is planning to expand capacity at an investment of ~Rs 3,250 million, funded through a mix of debt and internal accruals, although an equity dilution cannot be ruled out given the recent run up in its stock price. DI pipes capacity will increase from 2,25,000 MTPA to ~2,75,000 MTPA and MBF capacity from 2,75,000 MTPA to 3,25,000 MTPA and is expected to get commission by H1FY17 and FY16 respectively.
- SPL's current order book in DI pipes stands at ~2,00,000 MT (equivalent to about 8 months production). On the back of healthy demand from key user industries, we expect DI sales volume to increase at a CAGR of ~13.1% in FY15-17E to 2,06,617 TPA.

Margins to scale up with better operating efficiencies & capacity utilization

- EBITDA margins have improved significantly from 5.9% in FY13 to 17.1% in FY15 and 24.4% in Q1FY16 on account of better operating efficiencies, higher capacity utilization and steep fall in raw materials (iron ore & coking coal) prices.
- Over the last few years, SPL has undertaken several backward integration steps like installing sinter plant, coke-oven batteries and blast furnace, enhancing blowing capacity in MBF, improving logistics through extension of railway siding etc., resulting into cost savings.
- SPL is set to increase its DI pipe effective capacity utilization to ~87% by FY17E from 75.3% in FY15, on its expanded capacity. With better capacity utilization, operational efficiency and lower raw material prices, we expect SPL's EBITDA margins to improve to 23% by FY17E.

Deleveraging Balance Sheet

- Over the last few years, the company has reduced its net debt from Rs 451 crores in FY12 to Rs 379 crores in FY15, bringing down D/E ratio significantly to 1.3x in FY15 from 2.2x in FY12 on account of better operational performance and working capital management. Inspite of an expansion plan, we do not see any substantial increase in long term debt.

Valuation

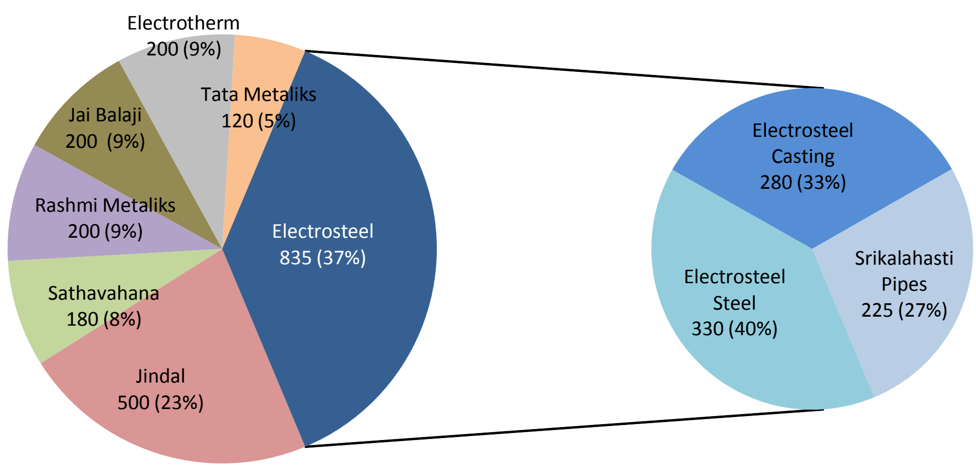
With the thrust of GoI on improving water infrastructure through centre & state sponsored programs, "Swachh Bharat Abhiyan", "Toilets for All" and development of 100 smart cities, will give a fillip to demand of DI pipes. This augurs well for SPL. We have valued the stock on the basis of EV/EBIDTA - of 5.5x of FY17E EBIDTA – method of relative valuation and recommend BUY on the stock with a target price of Rs 346/- (~31% upside) in 18 months.

Industry Overview – Ductile Iron Pipe Industry

- Use of Ductile Iron (DI) Pipes has been rapidly growing over the past 50 years owing to its high tensile strength along with corrosion resistance, pressure bearing ability, impact resistance and capacity to sustain external static/dynamic loading. These are "Ready to Use pipes", which are sturdy, structurally stronger and shock proof with a long reliable service life of 70-90 years which makes them the most popular piping solution for transporting water and sewage. Over the past few years, DI pipe industry has seen strong demand traction from growth in infrastructure activities, particularly for government projects like national water grid, river-linking project, and the national mission for clean Ganga coupled with expected investments in water treatment segment (effluent and sewerage treatment plants and pipelines).

- Indian manufacturers of the DI Pipe Industry jointly produce ~22,35,000 MTPA of DI Pipes, which is dominated by Electrosteel Castings Group (comprising of the parent Electrosteel Castings, SPL and the newly installed capacity of Electrosteel Steels Ltd. (not yet fully operational) with ~37% (8,35,000 MTPA) combined market share. DI Pipe market is growing at CAGR of 12% in India, and is expected to grow at a CAGR of 15-17% going forward.

Exhibit: Industry players & Capacity ('000 MTPA)

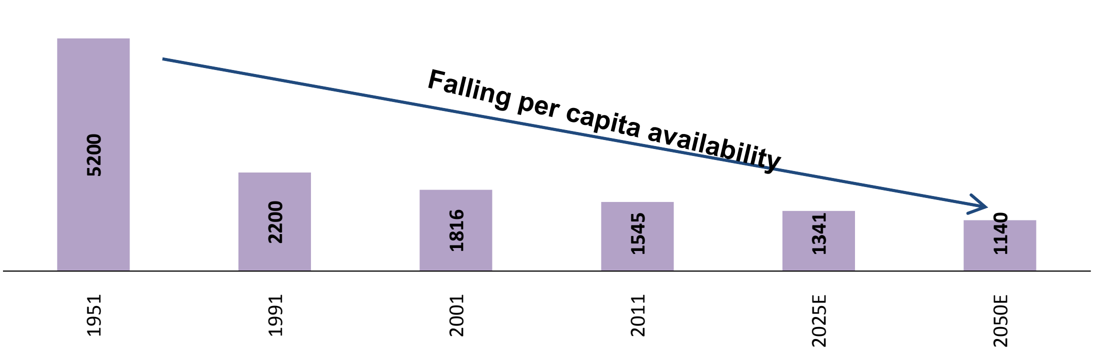


Source: Company, SKP Research

Growth and demand drivers

- **Poor access and low penetration levels of safe drinking water:** India has ~18% of the world's population but only ~4% of world's water resources. Since the country is heavily dependent on monsoons to meet its water supply requirements, water resources are overexploited and per capita availability of water is dwindling. Official data show that the annual per capita availability of water has already decreased in the past 10 years and is expected to further reduce to 1,140 cubic meter by the year 2050. The country had already entered water stressed condition in 2010 with only 1,625 cu meters of per capita availability. 65% of rain water is reported to runoff into sea which is a major wastage. Thus, need for DI Pipes for enhanced water supply and penetration is clearly visible.

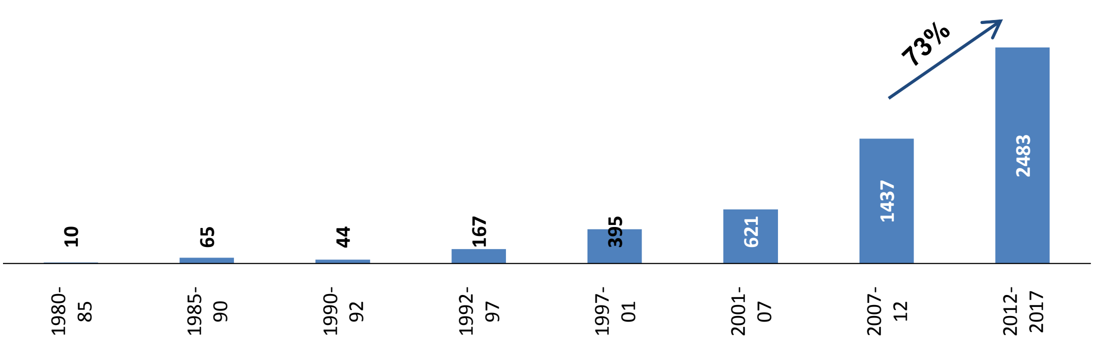
Exhibit: Per capita availability of water (in cubic meters)



Source: Company, SKP Research

- **Poor sanitation coverage:** In India, only 33% of total population has an access to improved sanitation whereas in rural areas, which cover 72% of India's population have only 22% coverage for sanitation. The approved outlay on water and sanitation has increased from Rs. 118 bn in 2008 to Rs. 204 bn in 2013. GoI had sanctioned USD26 bn to improve water supply, sanitation, and drainage facilities in the 11th Five Year Plan (2007-2012) which has risen to Rs. 2,500 bn in the 12th Five Year Plan (2012-17).

Exhibit: Plan wise allocation of water supply & sanitation (Rs. Bn)



Source: Company, SKP Research

- GoI has launched two programmes to develop water and sanitation facilities in urban areas:
  - Jawaharlal Nehru National Urban Renewal Mission (JNNURM) will cover 63 cities with a population of over 1 mn including 35 metros and other state capitals with an expected outgo of Rs 1 tn. Also the new JNNURM 2.0, consists of ~4 five-year plans from 2012 to 2031 would receive Central Government funding amounting to ~0.25% of GDP annually, a substantial increase compared to ~0.10% given under JNNURM.
  - Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT) will cover the remaining 5,098 towns having a population of less than 1 mn.

Due to heavy investments made in management of waste and supply of water, short term growth for DI Pipes is expected to be higher.

- **Benefit from Government's thrust of infrastructure development:** With launch of programs like "Swachh Bharat Abhiyaan" along with the target of building 100 smart cities across 21 states in next 5 years would increase the need for efficient water supply and sewage management, increasing demand for DI pipes in the process.

- **A special initiative of "Toilets for all" by GoI:** According to 2011 Census, 53.1% (63.6% in 2001) households in India do not have a toilet, with the percentage being as high as 69.3% (78.1% in 2001) in rural areas and 18.6% (26.3% in 2001) in urban areas. Furthermore, field studies indicate that even the use of the existing toilets in both rural and urban areas is very low. 4,861 out of 5,161 cities/towns do not have even a partial sewerage network. GoI's impetus to build a toilet in every household is expected to add thrust to the demand of DI pipes. It has allocated USD32 billion to construct 120 million toilets across the country to put an end to open defecation. In order to make the mission successful, the honourable prime minister has actively sought participation from the private sector as CSR Initiative and attracted substantial funding for the same by setting up Bharat Kosh Fund.

Industry Future Outlook

- GoI is committed for higher investment in water sector. It is expected that the demand for Indian DI pipe industry will continue to remain healthy, considering government's focus for water infrastructure projects. With a market size of over USD 4 billion, Indian water and wastewater market is growing at 10%–12% every year. Government-related projects contribute over 50% of the revenues, while private sector contributes the rest. The Technology Strategy Board estimates that global water market is expected to grow from USD 480bn to USD 770bn annually by 2016. Going forward, demand for DI pipes is expected to grow at 16%-18% on the back of Government's thrust through its different programs, urbanisation and private sector spending. Additionally, the export market also offers a sizable opportunity due to the cost benefit in India.

- The GOI has allotted ~Rs 1,000 bn for implementing projects like Atal Mission for Rejuvenation and Urban Transformation (AMRUT) and Smart Cities Mission on high priority. Additionally other major state specific projects like Telangana Water Grid, Water Supply Scheme for Amaravati (new capital city) in AP, is expected to further spur the demand for DI pipes going forward. SPL may be a direct beneficiary of the latter.

Company Profile

- Srikalahasthi Pipes Ltd (SPL), formerly known as Lanco Industries ltd. (LIL), was established in November 1991 by the Lanco Group to manufacture pig iron using Korf (German) technology. The company commenced its operations in 1994 by setting up a mini blast furnace with an installed capacity of 90,000 TPA.
- In December 2002, Electrosteel Castings Ltd. (ECL), India's leading manufacturer of CI, Pipes and DI pipes entered into a strategic alliance with Lanco Group, by acquiring 46.43% stake in LIL and 48.89% stake in Lanco Kalahasthi Castings (LKCL) respectively. After takeover, a financial re-engineering (infusion of Rs 22 crore by ECL) and re-structuring of LIL was undertaken by ECL. In 2003, to take advantage of close synergy LKCL got merged with LIL (with effect from 1st April, 2003).

Exhibit: Key Milestones

1994:	Set up a mini blast furnace (MBF) with an installed capacity of 90,000 TPA to manufacture and sell Pig Iron
1997:	Set up Ductile Iron Plant with an installed capacity of 60,000 TPA
1998:	LIL entered into an arrangement to supply molten iron and pig iron to Lanco Kalahasthi Castings Ltd
2002:	ECL entered into a strategic alliance with LIL and LKCL by acquiring 46.43% & 48.89% respectively
2003:	MBF & DI pipe capacity increased to 1,50,000 TPA & 90,000 TPA respectively
2005:	Coke oven plant with 1,50,000 TPA commissioned & commercial production stabilized
2006:	DI pipe capacity further increased to 1,20,000 TPA & 12 MW WHR CPP commissioned
2009:	DI pipe capacity further increased to 180,000 TPA
2010:	MBF capacity for production of pig iron enhanced to 2,25,000 TPA from 1,50,000
2012:	Coke oven plant caacity increased to 2,25,000 TPA & Sinter plant also commissioned
2015:	DI pipe capacity increased to 2,25,000 TPA and MBF capacity to 2,75,000 TPA

Source: Company, SKP Research

- SPL is currently engaged in the manufacturing of Ductile Iron (DI) pipes, cement and pig iron through mini blast furnace route. In addition to above, it also produces low ash metallurgical (LAM) coke and power for captive consumption. Its production facility is located at Rachagunneri Village near Tirupathi, Andhra Pradesh and it predominantly caters to the needs of water infrastructure development.

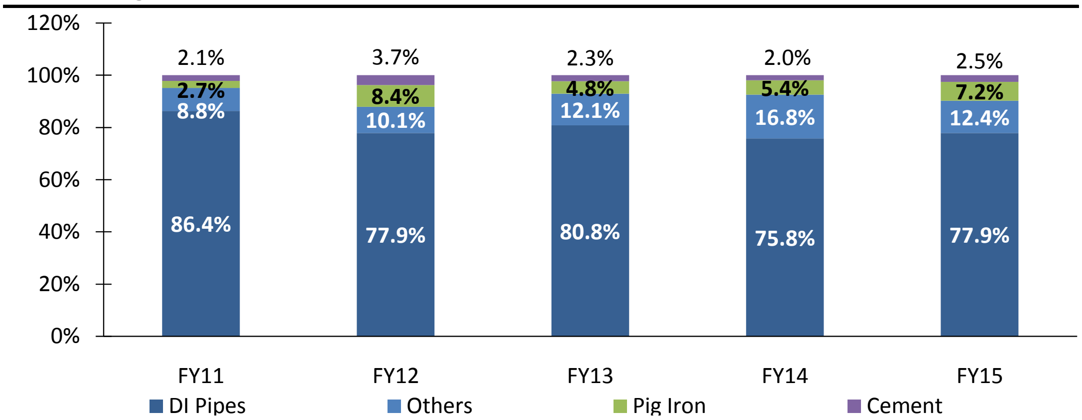
Exhibit: Infrastructure Strategic Advantages

Railway Siding	SPL has its own electrified railway siding to accommodate two full rakes at a time & the siding is been utilized for bringing iron ore from Hospet, coal from Chennai/ Krishnapatnam ports & despatch of pig iron to Punjab and occasional for despatch of cement through railway wagons
Leased plot at Krishnapatnam port	Dedicated plot is taken on lease basis at Krishnapatnam port to accommodate the imported coal from Australia
Water arrangement	SPL has a long term agreement with Tirupathi Municipal Corporation for supply of sewerage water for 25 years supported by appropriate GO of AP government
Material handling facility	The company has its own transport division with more than 60 equipments like trippers, pay loaders, JCVs, hydra cranes etc. catering to the handling of various materials in all divisions
Long term leased limestone mines in Kadapa	The company has three limestone mines in Tippalur, T.V.Palle & Kazipet in Kadapa dist. which are used in mini cement plant & mini blast furnace

Source: Company, SKP Research

- SPL predominately produces DI pipes used in water infrastructure sector which contributes ~78%-80% to the topline. Major buyers of DI pipes are government organisations, municipal bodies & infrastructure companies. It commands ~75% market share in the DI pipes segment, in its focussed markets i.e. South & West India and markets DI pipes under the brand name “SRIPIPES”.

Exhibit: Segmental Revenue



Source: Company, SKP Research

- As on FY15, SPL's total installed capacity for DI pipes stands at 2,25,000 TPA (25% addition over FY14), mini blast furnaces (MBF) capacity at 2,75,000 TPA (50,000 TPA addition over FY14) and cement capacity at 90,000 TPA. Currently 91% MBF's production & 20% cement production is used in captive consumption while rest is sold.

Exhibit: Manufacturing Infrastructure Overview

Plant	Capacity	Clients	Description
Ductile Iron Pipe	2,25,000 MTPA	Water Boards, Municipal Corporations, Infra. companies etc.	> Sells under the brand name **"SRIPIPES"** > Contributes ~74% of SPL's total revenue > Reliable service life of 70-90 years
Pig Iron	MBF 2,75,000 MTPA	Brakes India, Indian Pistons, Hinduja Group etc.	> Intermediate product in smelting iron ore > Captive consumption > Surplus sold to nearby foundries & steel factories
Cement	90,000 TPA	-	> Sells under the brand name **"Srikalahasti Gold Cement"** > Captive consumption for inner coating of DI pipes > Surplus sold
Coke Oven Plant	2,25,000 TPA	-	> Among largest manufacturer of LAM Coke in India > Convert coal into coke > Surplus production sold in market
Sinter Plant	5,00,000 TPA	-	> Relpace high cost iron ore lumps with low cost iron ore fines > Entire production is used for captive consumption
Power	2 CPP of 14.5 MW	-	> Generates power from waste heat gases of coke oven plant & mini blast furnace > Entire production is used for captive consumption

Source: Company, SKP Research

- Iron ore & coking coal are major raw materials used by the company. SPL procures iron ore from MMTC through e-auction and coking coal from Australia. Over the last few years raw material cost as a %age of sales have come down on the back of softening prices of iron ore and coking coal coupled with replacement of iron ore lumps with iron ore fines.

Exhibit: Product Portfolio

Key Products & Raw Materials		
Key Products	**Products**	**Application**
	DI Pipes	Used for conveying water & sewage application
	Pig Iron	Major raw materials for foundries
	Cement	Construction
Raw Materials	**Raw Materials**	**Sourcing**
	Iron Ore	Procures from Hospet/Bellary through e-auction conducted by MMTC
	Coking Coal	Imports from Australia, converting to coke in its own coke oven plant
	Lime Stone	Owns three limestone mines in Kadapa

Source: Company, SKP Research

Investment Rationale

Leadership in South India, leveraging Group Marketing strength & strong entry barriers

- Over the years SPL has emerged as one of India's largest DI pipes manufacturer, providing valuable inputs to water infrastructure space in the form of irrigation, drinking water supply & sewerage systems. On a pan India basis, SPL commands ~15% market share in the DI pipes segment, while in its focused markets i.e. South & West India (Andhra Pradesh, Telangana, Karnataka, Kerala, Tamil Nada, Maharashtra and Goa) SPL's market share is ~75%.

- Electrosteel Group has three entities engaged in the manufacture of DI pipes. SPL enjoys the groups' marketing strength and geographical synergies for improved logistical efficiencies, reducing costs and improving margins in the process.

- The industry enjoys strong entry barriers on account of its capital intensive nature and long gestation period involving quality checks and approvals. The cost of setting up a greenfield DI plant similar to that of SPL (~2,255,000 TPA) is ~Rs 6,000 million and is a major deterrent for a new entrant. DI pipes vertical contributes ~78-80% to the segmental top-line and has grown at a CAGR of ~7.5% during FY11-15.

- Over two decades' presence in the industry has enabled SPL to develop long standing customer relationships. SPL's supplies DI pipes to various water boards, municipal corporations, railways & turnkey contractors across the country for their water infrastructure projects. Marquee clients include L&T, Nagarjuna Construction, Indian Hume Pipes Ltd., VA Tech Wabag Ltd., Shriram EPC Ltd. etc.

Exhibit: Clientele Base

Source: Company, SKP Research

Capacity addition to aid volumes

- SPL is planning capacity expansion at an investment of ~Rs 3,250 million, funded through mix of debt and internal accruals. Expansion will increase existing capacity of DI pipes from 2,25,000 MTPA to ~2,75,000 MTPA and MBF capacity from 2,75,000 MTPA to 3,25,000 MTPA respectively. DI pipe capacity and MBF capacity is expected to get commission by H1FY17 and FY16 respectively.

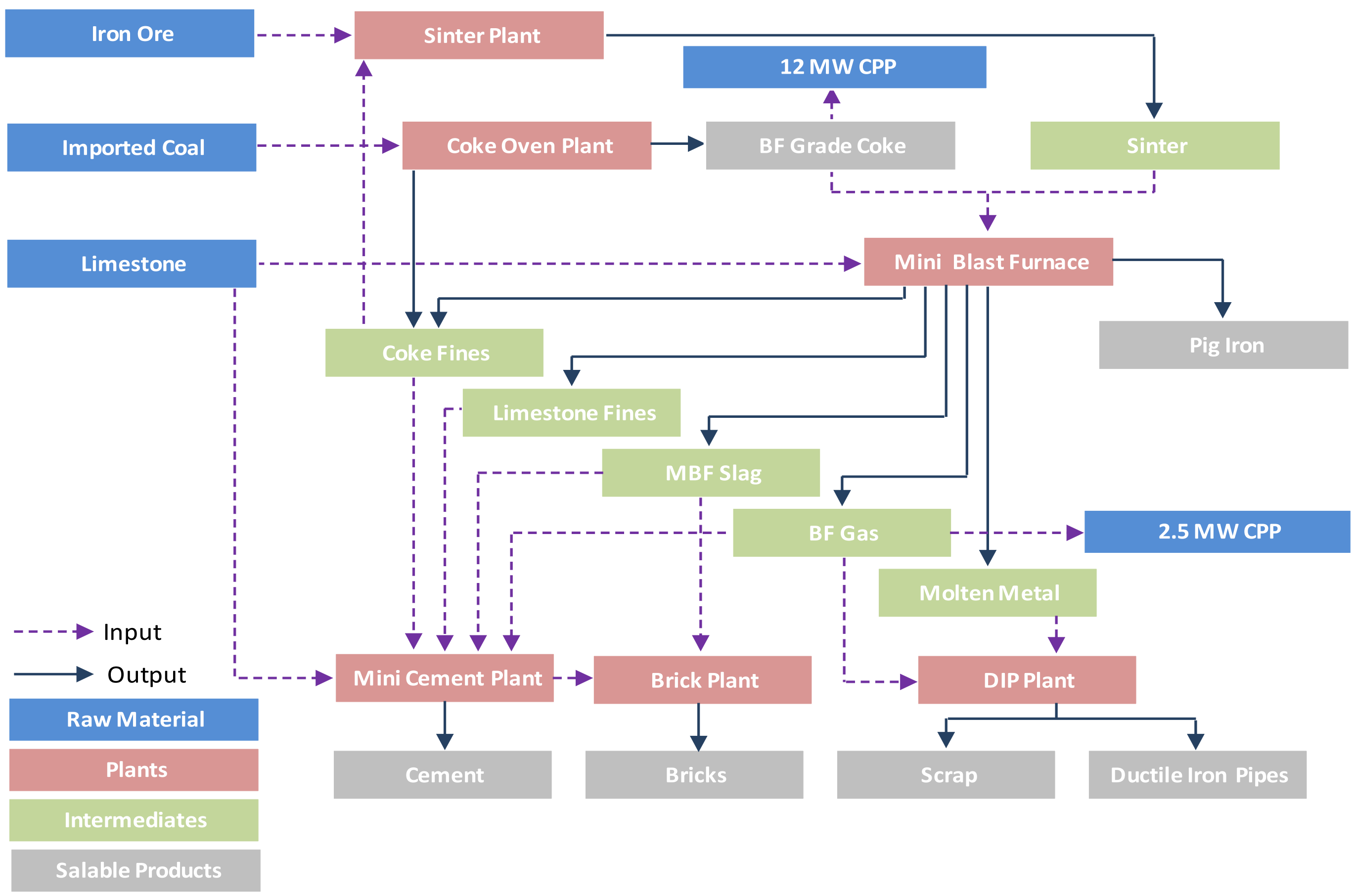
- SPL's current order book in DI pipes stands at ~2,00,000 MT (equivalent to about 8 months production). On the back of healthy demand from key user industries, we expect DI sales volume to increase at a CAGR of ~13.1% in FY15-17E to 2,06,617 TPA. Post expansion, we expect ~90% of MBF's production will be used for captive consumption.

Margins to scale up with better operating efficiencies and capacity utilization

- EBITDA margins of the company remained under pressure between FY11 to FY13 declining from 12% to 5.9%. Margins improved to 17.1% during FY15 and further to 24.4% in Q1FY16 on back of better operating efficiencies, lower raw material cost and higher capacity utilization.

- Over the last few years, SPL has undertaken several backward integration steps like installing sinter plant, coke-oven batteries and blast furnace, enhancing blowing capacity in MBF, improving logistics through extension of railway siding etc., resulting into cost savings in the form of replacement of high cost calibrated iron ore with iron ore fines, reduction in coke consumption, CRC scrap, HSD oil coupled with lower power cost through higher power generation.

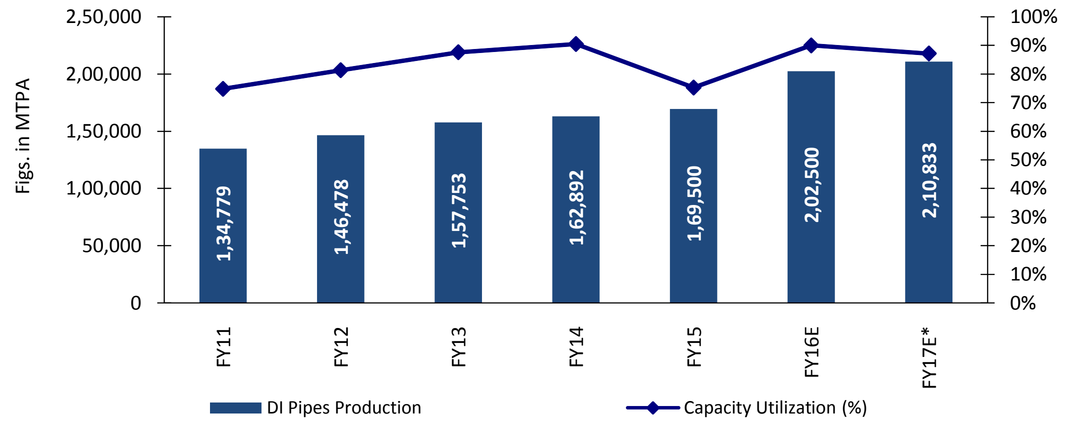
Exhibit: Integrated Manufacturing Process



Source: Company, SKP Research

- Furthermore, SPL has been also a key beneficiary of falling iron ore and coking coal prices, which has aided margin expansion and currently looking at the muted global demand, we do not expect the prices to surge significantly from current levels.
- Currently, SPL's DI pipe segment is operating at 75.3% capacity utilization on its existing capacity of 2,25,000 MTPA. SPL is set to improve its effective capacity utilization to ~87% by FY17E on its expanded capacity of 2,75,000 MTPA.

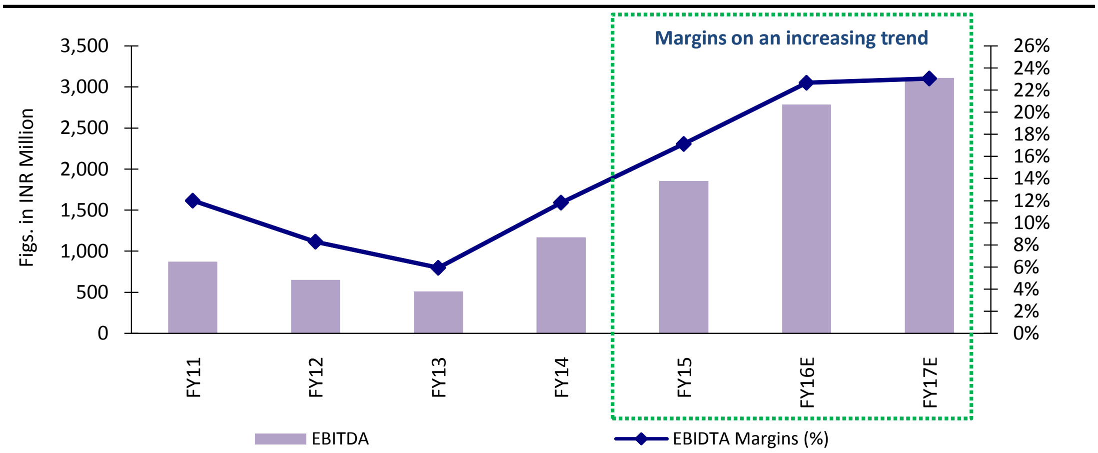
Exhibit: Production & Capacity Utilization



Source: Company, SKP Research
*Note: * Effective capacity utilization*

- With better capacity utilization, operational efficiency and steep fall in raw material prices (international iron-ore and coking coal), we expect SPL's EBITDA & PAT margins to improve further to 23% and 13.3% respectively by FY17E.

Exhibit: EBITDA & EBITDA Margins



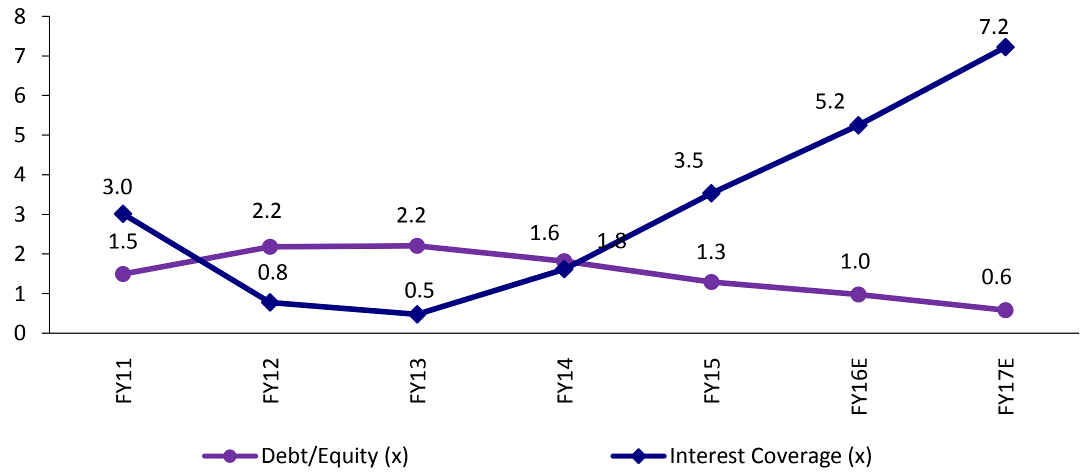
Source: Company, SKP Research

Deleveraging Balance Sheet

- Over the last few years, the company has reduced its net debt from Rs 451 crores in FY12 to Rs 379 crores in FY15, bringing down D/E ratio significantly to 1.3x in FY15 from 2.2x in FY12 on account of better operation performance and working capital management.

- On the back of increased government spending and better operational efficiency, we expect the total debt to further decline to Rs 347 crores by FY17E, thereby bringing down its D/E to 0.58x.

Exhibit: Debt/Equity & Interest Coverage Ratio

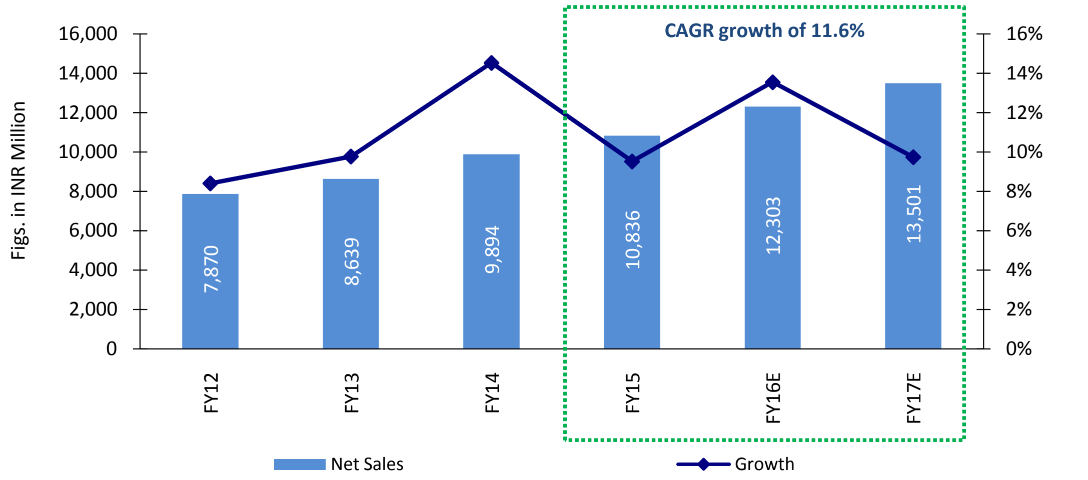


Source: Company, SKP Research

Top-line expected to grow at a CAGR of 11.6% over FY15-17E

- During FY15, SPL reported net sales of Rs 10.84 billion, registering a growth of 9.5% y-o-y on account of higher sales of DI pipes and better capacity utilization. The production of DI pipes during FY15 was higher by 4.1% y-o-y to 1,69,500 MTPA vis-à-vis 1,62,892 MTPA produced during FY14. Profit after tax (PAT) for FY15, increased by 114.4% y-o-y to Rs 829.8 million. Increase in profit is attributed to higher realization, better operational efficiency and lower finance cost Finance cost during the period decreased by 20.4% y-o-y to Rs. 436.9 million.

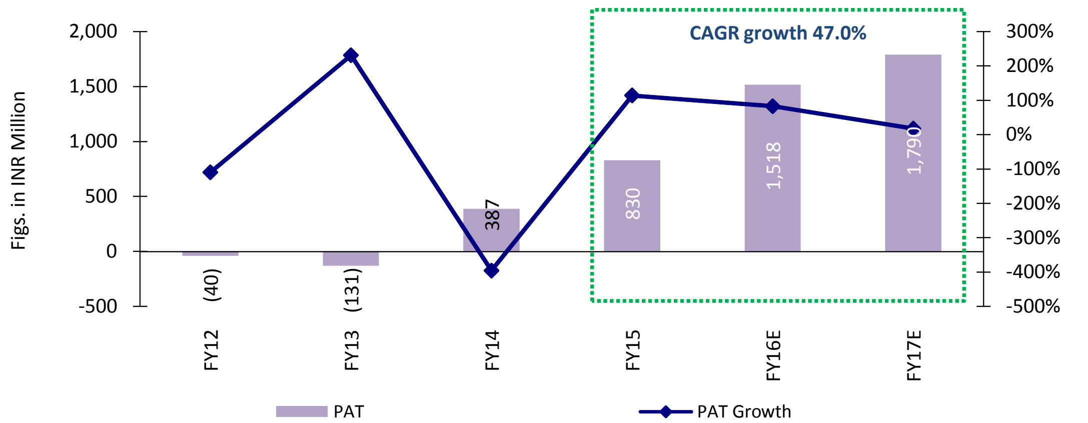
Exhibit: Net Sales & Net Sales Growth



Source: Company, SKP Research

- Going forward, we expect SPL sales to grow at a CAGR of 11.6% during FY15-17E on the back of healthy demand from key user industries, resulting into better capacity utilization and higher sales volume. We expect DI pipes sales to increase at a CAGR of 13.1% in FY15-17E. On the back of a higher capacity utilization and improvement in operating margins, we expect PAT to grow at a CAGR of 47% in FY15-17E.

Exhibit: Profit after tax (PAT) & PAT Growth



Source: Company, SKP Research

Key Concerns

Rise in raw material prices

- Over the last few quarters, EBITDA margins of SPL witnessed healthy growth on account of steep fall in major raw material prices viz. iron ore and coking coal. Going forward, any steep rise in raw material prices will have an adverse impact on the margins. However, this looks unlikely.

Slowdown in order intake

- Over the last couple of years, SPL reported healthy topline growth on the back of a demand pick-up from key user industry segments resulting into higher order intake. However, going forward, any slowdown in demand from key user industries may adversely impact the order book intake and sales volumes for the company.

Related Party Transactions

- Electrosteel Group makes its three group entities enjoy marketing synergies based on geographical considerations, mainly to reduce logistical costs and improve margins. At times, one entity may buy/sell products from the other for this purpose. As such ~10% of SPL's sales are to related parties. However, we understand that this is done on an 'arms length basis'.

Valuations

- With the thrust of government on improving water infrastructure through centre & state sponsored programmes, "Swachh Bharat Abhiyan", "Toilets for All" and development of 100 smart cities giving a fillip to demand of DI pipes augurs well for SPL.

- We have valued the stock on the basis of EV/EBIDTA - of 5.5x of FY17E EBIDTA – method of relative valuation and recommend BUY the stock with a target price of Rs 346/- (~31% upside) in 18 months.

Q1FY16 Financials

Exhibit: Q1FY16 Result Review *Figs. in INR Million*

Particulars	Q1FY16	Q1FY15	YoY % Change	Q4FY15	QoQ % Change
Net Sales	2,558.5	2,169.7	17.9%	3,014.3	-15.1%
Total Income	**2,558.5**	**2,169.7**	**17.9%**	**3,014.3**	**-15.1%**
Expenditure	**1,933.8**	**1,813.2**	**6.6%**	**2,446.8**	**-21.0%**
Material Consumed	1,179.8	1,023.0	15.3%	1,559.2	-24.3%
(as a % of Total Income)	***46.1%***	***47.1%***	-	***51.7%***	-
Purchase of Traded Goods	69.0	13.1	427.1%	122.8	-43.8%
(as a % of Total Income)	***2.7%***	***0.6%***	-	***4.1%***	-
Employees Cost	137.0	126.4	8.4%	113.8	20.4%
(as a % of Total Income)	***5.4%***	***5.8%***	-	***3.8%***	-
Changes in Inventories & WIP	(53.4)	23.0		52.8	
(as a % of Total Income)	***-2.1%***	***1.1%***	-	***1.8%***	-
Other Expenses	601.3	627.8		598.3	
(as a % of Total Income)	***23.5%***	***28.9%***	-	***19.8%***	-
EBITDA	**624.8**	**356.5**	**75.2%**	**567.5**	**10.1%**
EBITDA Margin (%)	***24.4%***	***16.4%***	***799 Bps***	***18.8%***	***559 Bps***
Depreciation	67.6	64.9	4.2%	111.5	-39.4%
EBIT	**557.2**	**291.7**	**91.0%**	**456.0**	**22.2%**
Other Income	26.2	13.4	94.8%	41.9	-37.6%
Interest Expense	124.7	121.0	3.1%	75.6	65.1%
Profit Before Tax	**458.6**	**184.1**	**149.1%**	**422.4**	**8.6%**
Income Tax	119.4	55.7	114.5%	118.1	1.1%
Effective Tax Rate (%)	*26.0%*	*30.2%*	-	*28.0%*	-
Profit After Tax (PAT)	**339.3**	**128.4**	**164.2%**	**304.3**	**11.5%**
PAT Margins (%)	***13.26%***	***5.92%***	***734 Bps***	***10.10%***	***316 Bps***
Diluted EPS	8.53	3.23	164.2%	7.65	11.5%

Source: Company Data, SKP Research

Exhibit: Income Statement *Figures in INR Million*

Particulars	FY14	FY15	FY16E	FY17E
Total Income	**9,894.0**	**10,835.5**	**12,303.2**	**13,501.1**
Growth (%)	*14.5%*	*9.5%*	*13.5%*	*9.7%*
Expenditure	**8,724.0**	**8,979.3**	**9,514.7**	**10,389.3**
Material Cost	5,299.7	5,423.9	5,721.0	6,311.8
Traded goods	550.4	533.9	533.4	533.4
Employee Cost	443.6	484.5	584.4	641.3
Admin & Other Exp.	2,430.4	2,537.0	2,675.9	2,902.7
EBITDA	**1,169.9**	**1,856.2**	**2,788.4**	**3,111.9**
Depreciation	279.4	311.7	360.5	413.8
EBIT	**890.5**	**1,544.5**	**2,427.9**	**2,698.1**
Other Income	72.6	86.6	86.1	94.5
Interest Expense	549.0	436.9	462.5	373.6
Profit Before Tax (PBT)	**414.2**	**1,194.2**	**2,051.5**	**2,419.0**
Income Tax	-27.2	364.4	533.4	628.9
Profit After Tax (PAT)	**387.0**	**829.8**	**1,518.1**	**1,790.1**
Growth (%)	*395.5%*	*114.4%*	*82.9%*	*17.9%*
Diluted EPS	**9.7**	**20.9**	**38.2**	**45.0**

Exhibit: Balance Sheet *Figures in INR Million*

Particulars	FY14	FY15	FY16E	FY17E
Share Capital	397.6	397.6	397.6	397.6
Reserve & Surplus	1,857.2	2,535.3	3,913.8	5,564.3
Shareholders Funds	**2,254.8**	**2,932.9**	**4,311.5**	**5,962.0**
Total Debt	**4,102.0**	**3,786.3**	**4,204.6**	**3,475.7**
Deferred Tax (Net)	-	-	-	-
Total Liabilities	**6,356.8**	**6,719.2**	**8,516.1**	**9,437.7**
Net Block inc. Capital WIP	**4555.0**	**4961.9**	**6601.3**	**6387.6**
Deferred Tax (Net)	**(304.2)**	**(654.7)**	**(654.7)**	**(654.7)**
Non-Current Assets	**5,626.5**	**4,750.0**	**5,288.0**	**6,438.8**
Inventories	2,367.5	1,345.9	1,451.8	1,849.9
Sundry Debtors	1,480.1	1,860.5	2,050.5	2,389.6
Cash & Bank Balance	573.5	592.5	604.6	768.2
Other Current Assets	381.6	502.9	565.9	621.1
Loans & Advances	823.8	448.3	615.2	810.1
Current Liabilities & Prov	**3,520.5**	**2,337.9**	**2,718.5**	**2,734.0**
Total Assets	**6,356.8**	**6,719.2**	**8,516.1**	**9,437.7**

Exhibit: Cash Flow Statement *Figures in INR Million*

Particulars	FY14	FY15	FY16E	FY17E
Profit Before Tax (PBT)	**414.2**	**1,194.2**	**2,051.5**	**2,419.0**
Depreciation	279.4	311.7	360.5	413.8
Interest Provided	549.0	436.9	462.5	373.6
Chg. in Working Capital	1,376.3	1,344.4	2,729.3	2,234.7
Direct Taxes Paid	74.9	231.9	533.4	628.9
Other Charges	-	-	-	-
Operating Cash Flows	**1,451.2**	**1,576.2**	**2,195.9**	**1,605.7**
Capital Expenditure	(251.0)	(748.3)	(2,000.0)	(200.0)
Investments	0.3	15.5	-	-
Others	-	-	(711.1)	(800.0)
Investing Cash Flows	**(250.7)**	**(728.1)**	**(2,682.4)**	**(995.4)**
Changes in Equity	-	-	-	-
Inc / (Dec) in Debt	(171.7)	(315.7)	676.5	(307.2)
Dividend Paid (inc tax)	-	(59.6)	(119.3)	(119.3)
Tax on Dividend		(10.1)	(20.3)	(20.3)
Financing Cash Flows	**(716.3)**	**(821.4)**	**537.0**	**(446.8)**
Chg. in Cash & Cash Eqv	484.2	26.7	50.5	163.6
Opening Cash Balance	43.2	527.4	554.1	604.6
Closing Cash Balance	**527.4**	**554.1**	**604.6**	**768.2**

Source: Company Data, SKP Research

Exhibit: Ratio Analysis

Particulars	FY14	FY15	FY16E	FY17E
Earning Ratios (%)				
EBITDA Margin (%)	11.8%	17.1%	22.7%	23.0%
PAT Margins (%)	3.9%	7.7%	12.3%	13.3%
ROCE (%)	14.0%	23.0%	28.5%	28.6%
ROE (%)	17.2%	28.3%	35.2%	30.0%
Per Share Data (INR)				
Diluted EPS	9.7	20.9	38.2	45.0
Cash EPS (CEPS)	2.7	13.0	29.1	34.6
BVPS	56.7	73.8	108.4	149.9
Valuation Ratios (x)				
P/E	7.4	8.5	7.0	5.9
Price/BVPS	1.3	2.4	2.5	1.8
EV/Sales	0.7	1.0	1.2	1.0
EV/EBITDA	5.8	5.9	5.1	4.3
Dividend Yield (%)	2.4%	0.8%	1.8%	2.4%
Balance Sheet Ratios				
Debt - Equity	1.8	1.3	1.0	0.6
Current Ratio	1.6	2.0	1.9	2.4
Fixed Asset Turn. Ratios	1.6	1.6	1.4	1.4

Notes:

The above analysis and data are based on last available prices and not official closing rates. SKP Research is also available on Bloomberg, Thomson First Call & Investext Myiris, Moneycontrol, Tickerplant and ISI Securities.

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