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Initiating Coverage
April 7, 2014

Thinksoft Global Services Ltd. (TGSL)

Marriage with SQS Family - Potential Game Changer

Current	Previous
CMP : Rs.370	
Rating : BUY	Rating : BUY
Target : Rs.494	Target : Rs.417

STOCK INFO	
BSE	THINKSOFT
NSE	THINKSOFT
Bloomberg	TGSL IN
Reuters	THIN.BO
Sector	IT-Software
Face Value (Rs)	10
Equity Capital (Rs mn)	101
Mkt Cap (Rs mn)-Full	3,545
52w H/L (Rs)	347/65
Avg Daily Vol (BSE+NSE)	80,772

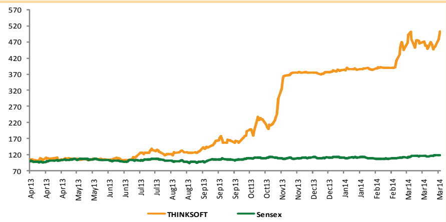
SHAREHOLDING PATTERN	%
Institutions	0.5
Others, Incl Public	46.5
Promoters	53.0

Source: Company Filings; BSE. Note: As per our estimate

STOCK PERFORMANCE (%)	1m	3m	12m
THINKSOFT	10	30	376
SENSEX	3	5	19

Source: Capitaline, IndiaNivesh Research

THINKSOFT GLOBAL v/s SENSEX



Source: Capitaline, IndiaNivesh Research

Integration with SQS remains the potential game changer for Thinksoft Global Services Ltd (TGSL). The combination provides numerous growth opportunities: (I) As part of SQS, TGSL has potential to expand its relationship with SQS existing clients, (II) SQS provides TGSL with local footprint (onsite resources) outside India, (III) Provides opportunity to attract higher volume to TGSL's certified offshore test centres, and (IV) explore newer opportunities & large-size deals in BFSI vertical in US, Europe & APAC. We initiate BUY on stock with Target Price of Rs.494.

Investment Rational

Network with SQS opens enormous growth opportunity: The marriage with SQS should ramp-up TGSL's marketing activity in Europe and could see significant rise in deal size going ahead.

Huge cross-selling potential: The integration brings 100% cross selling opportunity in BFSI space as there are no overlaps between their clientele. Further, the deal also opens business opportunity in manufacturers, retail & logistics, and telecom.

Large-Size Advantage:TGSL become the part of leading testing company, which had larger presence and higher revenue base this could lead to significant progress in average deal-size going ahead.

Delivery Efficiency: On back of integration with SQS, TGSL is well placed to deliver margin expansion through better balance between onsite and offshore mix.

Business Mix Shift: The shift in business to Europe, US, Australia from Middle-East, India and Asia should give better realization and higher margin.

De-listing candidate: In order to get better flexibility in business decisions making & avoid confusion parent may incline to increase its stake and may resort to delisting going ahead.

Re-rating Opportunity: We believe stock deserve higher P/E multiple on back of catalyst like cross-selling, higher deal-size and valuation discount relative to its peers.

Risk & Concern

- Cyclicality
- Financial Services
- Integration Risk

Valuations

On back of various available growth opportunities, we maintain our BUY recommendation and continue with our DCF based price target of Rs.494. This implies an FY15E/FY16E P/E of 10.6x/8.3x, which is at discount to Tier-II IT service peers FY16E P/E c10.4x (consensus estimates).

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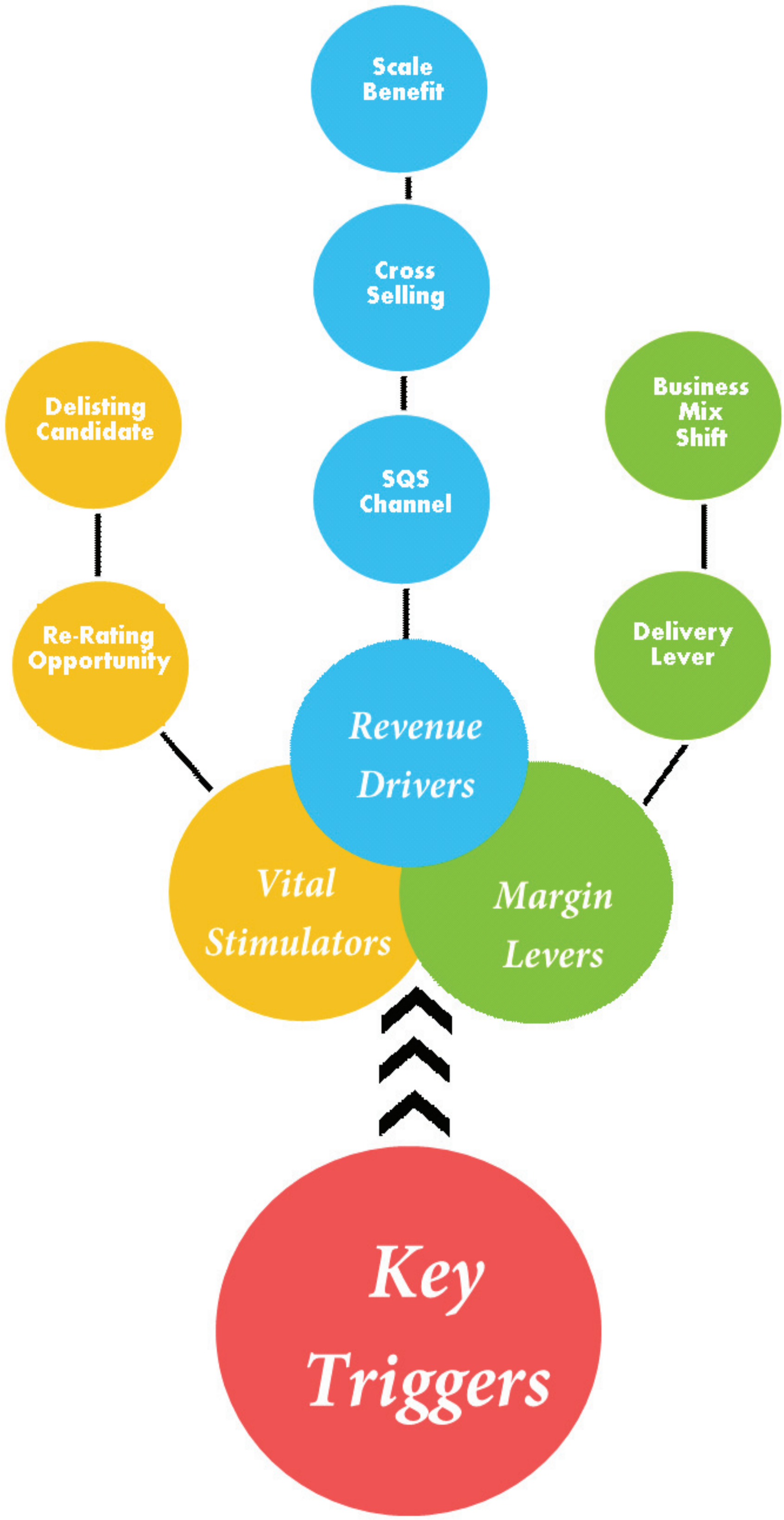
Consolidated Financial

Y/e March (Rs Mn)	Net Sales	EBITDA	Adj. PAT	Equity Capital	Adj. EPS (Rs)	PE (x)
FY13A	1,614	302	184	101	18.0	19.7x
FY14E	1,973	454	243	101	23.7	10.9x
FY15E	2,349	555	355	101	34.8	10.6x
FY16E	2,826	694	459	101	44.9	8.3x

Source: Company Filings; IndiaNivesh Research

Synergy Levers

On back of SQS acquiring TGSL, we identified three levels of synergy levers culminating through integration



Source: IndiaNivesh Research

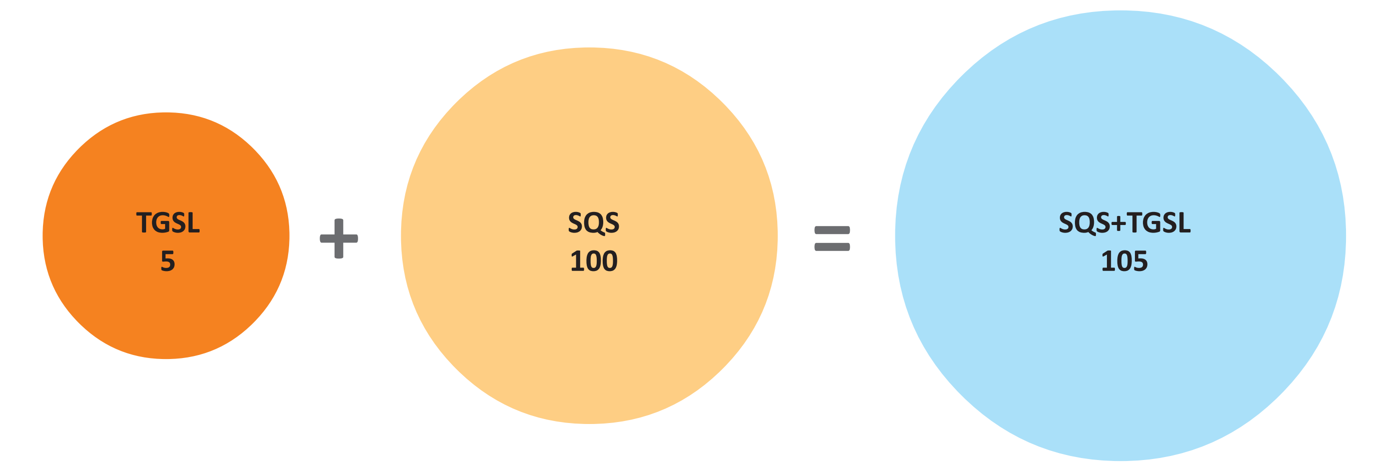
Revenue Drivers

Network with SQS opens enormous growth opportunity

We expect additional revenue flow of $70 mn to TGSL's due to sales team integration

After becoming the part of SQS family, we expect substantial ramp-up in TGSL's marketing activity in Europe. The integration will increase TGSL's sales team from mid-single digit to low-triple digit in Europe region (See Chart Below). Rolling out a joint-marketing program, TGSL could see significant increase in order magnitude going ahead.

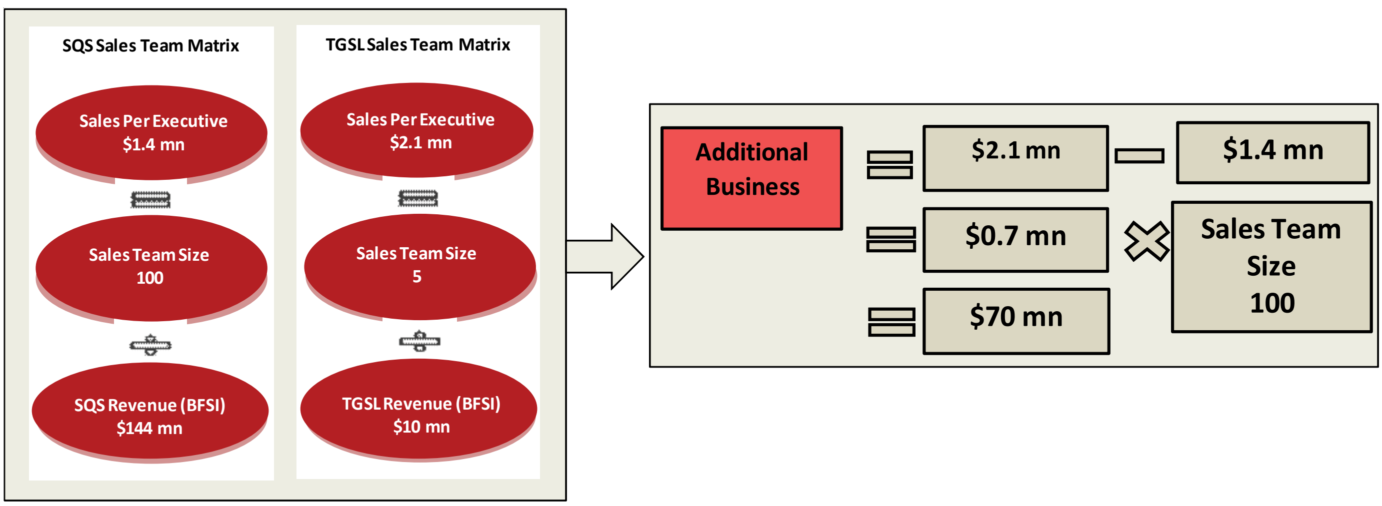
Exibit1: SQS & TGSL's Sales Team Integration



Source: Company Filings; IndiaNivesh Research

Despite large sales force - SQS revenue per sales executive stood at $1.4 mn (v/s $2.1 mn TGSL). The key reason for lower revenue per sales executive relative to TGSL was lack of global delivery model in BFSI vertical. However, now TGSL being part of SQS group, we see gap between SQS revenue per sales executive v/s TGSL to narrow over near-to-medium-term. Based on the calculation, we expect additional $70 mn revenue flowing to TGSL's certified offshore center in years to come from Europe region (See Chart Below).

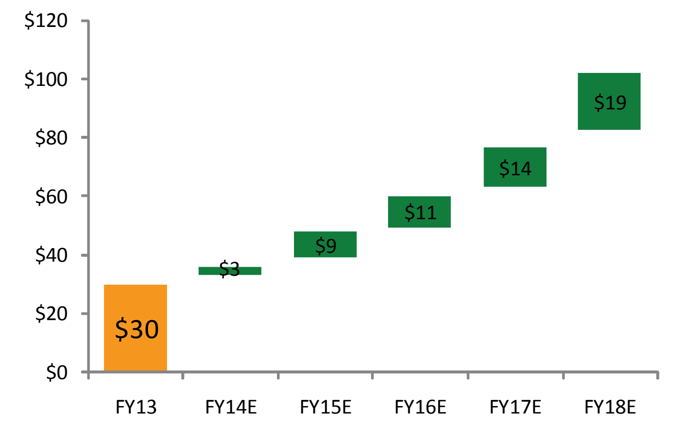
Exibit2: Europe Sales Team Matrix



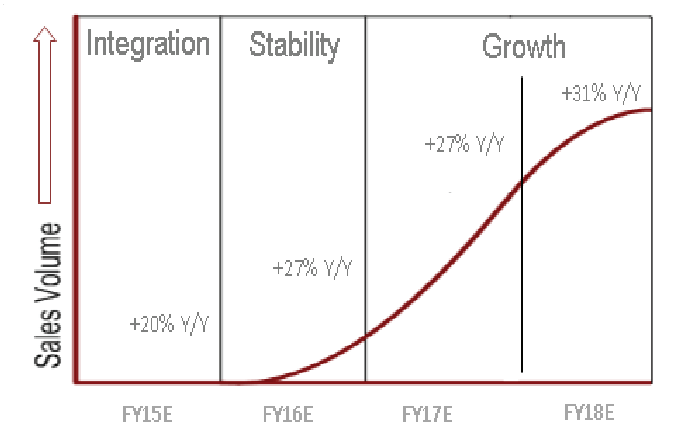
Source: Company Filings; IndiaNivesh Research

However based on historical trend (Verisoft acquired by SQS in 2008), we do not expect volumes to start instantly flowing to TGSL's pocket. As a result, we forecast higher revenue growth in later years of our projection period (See Chart Below). We divide the whole transition into three phases: (1) Integration, (2) Stability and (3) Growth.

Exbit3: TGSL's Incremental $ Revenue Growth



Exbit4: Cycle of Transition (SQS + TGSL)



E.g. VeriSoft showed significant growth in employee base (from 100 to 700) only after 2-3 years of acquisition. However, the transition could be faster in case of TGSL as SQS already has every good presence in BFSI space.

Source: Company Filings; IndiaNivesh Research

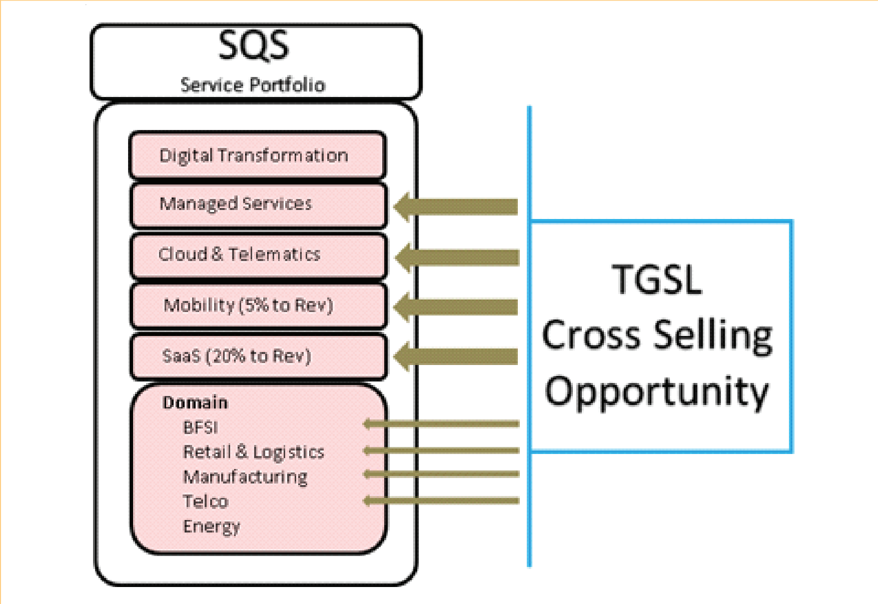
The parent's target to build employee base of 8,000-10,000 in medium-to-long-term from 3,564 (SQS +TGSL) remains significant positive for TGSL. Additionally, parents strategy to grow large proportion of billable staff in offshore destinations, illustrates that bulk of such expansions could come in India. Hence, TGSL and Verisoft remains the key beneficiary from such development. Investigating closely to our assumption $70 mn additional business to TGSL's centers, we expect 1,800-2,000 employee addition from 700 odd levels. On back of enhanced presence & pipeline of opportunities in fast growing BFSI sector and SQS higher revenue target (€500mn in CY17), we expect huge expansion in TGSL revenue. Despite, huge potentials from various synergy levers, we remain conservative in our revenue and margin assumptions.

Huge cross-selling potential

Vast cross selling opportunity in BFSI, Automobile, Retail, Logistics, Telecom & Platform space

SQS greatly deepens TGSL expertise and presence in Europe geography. On back of zero clientele overlaps, integration brings 100% cross selling opportunity in BFSI space. TGSL knowledge in car leasing platform could lead to huge business opportunity between SQS's existing U.S. automobile clients. In retail & logistics, TGSL can mine existing SQS clients on back of payment processing system and credit card distribution experience. Involvement in mobility could help TGSL to mine existing SQS client in Telecom space. Additionally, TGSL can sell its stimulated payment system software to SQS clients. On the same line, TGSL can also cross-sell SQS's, automated testing software to its clients in US, Asia and Australia. The company's strong presence in Middle-east, Australia, Singapore (25% of revenue) should help SQS to cross-sell its other capabilities. Further, TGSL certified offshore centers and large project experience in Managed services business should bring additional revenue flow. On back of, TGSL acquisition, SQS management expect Managed Services to reach at 45%/50% of total revenue in CY14/CY16.

Exibit4: Cross-selling Opportunity



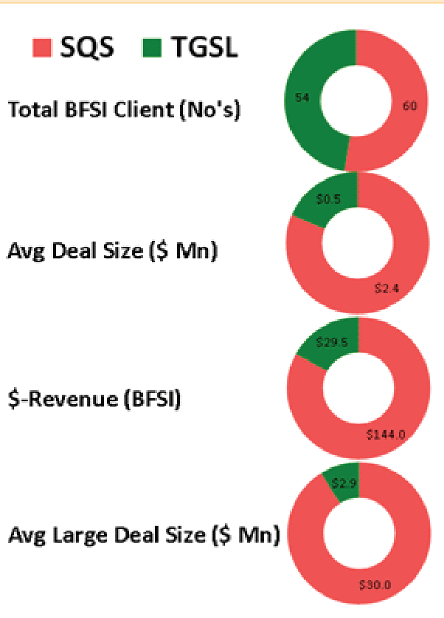
Source: Company Filings; IndiaNivesh Research

Increases in revenue and employee base should lead to progress in winning large size deals

Large-Size Advantage

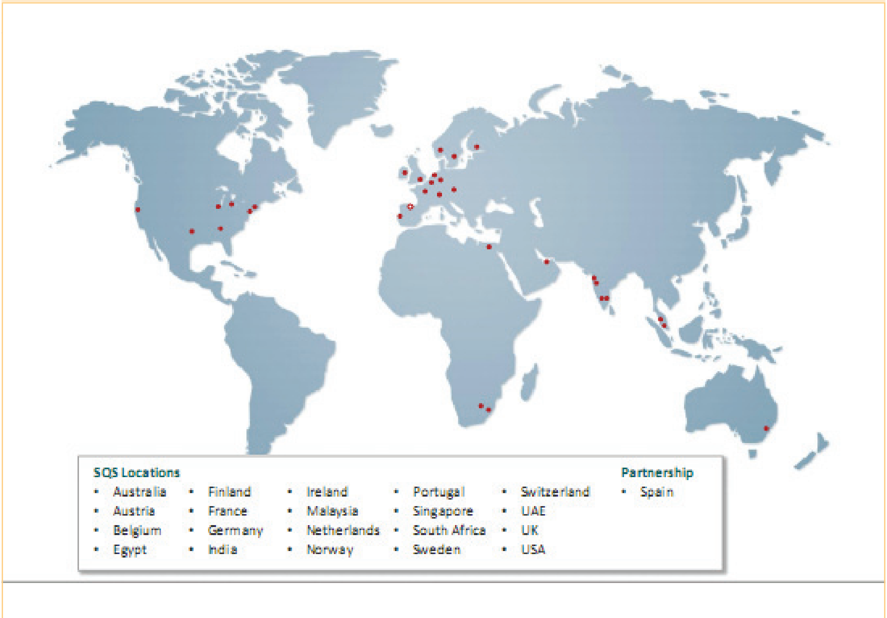
After getting married with SQS's family, TGSL become the part of leading testing company. This significantly increases the revenue and employee base, which should lead to excellent progress in TGSL's deal-size going ahead. There is huge potential to mine existing TGSL's client - average deal size of TGSL's financial client is significantly low relative to SQS ($0.5 mn v/s $2.4 mn). The key reason was smaller scale which does not qualify TGSL to bid for large size deals. As a result, the company's average large deal size is also significantly low ($2.9 mn) v/s SQS ($30.0 mn). However, now SQS at the helm of the affair, TGSL is eligible to bid for high-value RFPs (request for proposal) from existing and new clients. This could lead to significant expansion in average revenue per client and employee going ahead. On back of combined employee strength of 3,558 (2800 SQS + 758 TGSL) employees, TGSL is strategically placed to expand its presence in high growth US and Europe market.

Exibit5: Cross-selling Opportunity



Source: Company Filings; IndiaNivesh Research

Exibit6: Increased Global Presence



Source: Company Filings; IndiaNivesh Research

Margin Levers

Delivery Efficiency

Better balance between onsite and offshore mix to deliver margin expansion

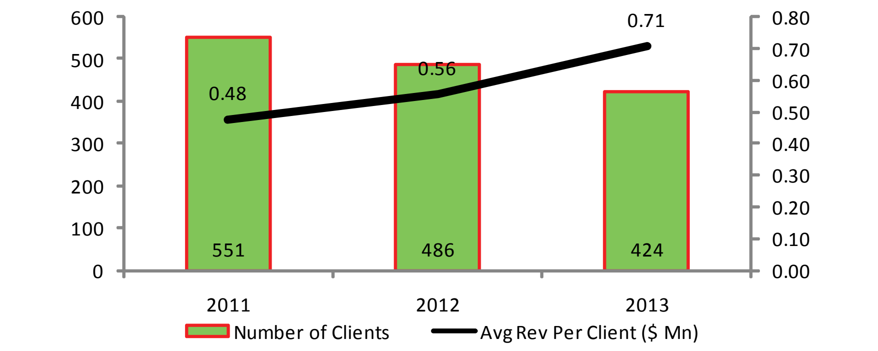
On back of integration with SQS, TGSL is well placed to deliver margin expansion through better balance between onsite and offshore mix. However, we do not assume any immediate cost synergy from such integration. The initiative is expected to include reduction in proportion of senior people and business support staff at onsite locations in relation to the offshore effort. Further, synergies from R&D and IPR will also bring improvement on margin front. The first benefit of consolidation would be visible from increase in long term business in managed services and improvement in utilization level. TGSL's new management targets 300 bps improvement on utilization front (from 72% to 75%) in near-term. Going ahead TGSL may target 80% utilization level, which is in-line with SQS utilization level. On back of this, we expect +65/92 bps increasein FY15/FY16 EBITDA margin.

Business Mix Shift

Shift in revenue-mix from developing to developed should lead to better margin realization

SQS being the parent, TGSL has now well extended presence in Europe and required scale to qualify for large-bids globally. As a result, we expect TGSL to attract more orders from Europe, US, Australia (v/s Middle-East, India & Asia) which have better realization and margin. Further, SQS continuous strategy to improve profitability by terminating lower margin clients and bag long-term contract should boost margin. As a result, SQS total client decreased to 424 from 551 in last three years (See Chart Below). On the same line, we expect reduction in TGSL client base primarily from India and Asia, which are not scalable and does not have attractive margin.

Exibit7: SQS - Client Engagement v/s Revenue Per Client

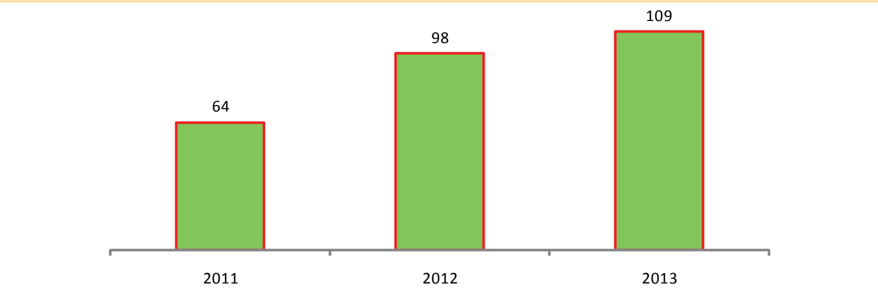


Source: Company Filings; IndiaNivesh Research

Robust order book position in high margin managed testing services (MTS) deals remains a key margin lever

SQS's strong order book and TGSL expertise in executing managed testing services (MTS) contract remains the key catalyst for TGSL margin going ahead. TGSL's nearly 30-40% of revenue is driven from MTS space. The managed testing services (MTS) contracts give better revenue visibility, higher utilization, strong component of global delivery, and superior margin due to long-term nature of the contract. We expect sufficient boost to TGSL margin over medium-term due to shift in volume from low-to-high margin client.

Exibit8: SQS Managed Services Order Backlog ($ Mn)



Source: Company Filings; IndiaNivesh Research

Vital Stimulators

Potential De-listing candidate

On back of huge underlying potential parents may resort to delist TGSL

TGSL's strong fundamentals, huge cross-selling opportunity & blue-chip banking client certified offshore centres remains the potential game changer for SQS. As a result, parent may incline to increase its stake from current 53% in TGSL and may resort to delisting to have better flexibility in taking business decisions. Hence, there are chances that SQS might silently accumulate shares from open market through Verisoft (India subsidiary) till permitted level. We do not see merger between SQS India (former Verisoft) and TGSL in immediate future due to (1) lack of operational synergy, and (2) substantial minority shareholding in both the companies. Till that time SQS will have two companies operating in India with name SQS – (1) SQS Financial (53% stake), and (2) SQS India (75% stake).

Re-rating Opportunity

Managed services business demands high P/E v/s peers owing to assured revenue visibility

In combination with SQS, TGSL has huge capacity expansion opportunity from current level. We are of opinion that P/E multiple will inch up to 11.0x over a year as there is possibility of huge cross-selling and up-scaling opportunity. Post-acquisition TGSL has been seen as a $330 mn revenue company which remains key catalyst to qualify for large size managed services deal. In our view, managed services business demands higher P/E multiple relative to steady stage IT outsourcing deal on back of assured revenue visibility. Further, the increase in scale and becoming a part of global player, could generate some institutional interest. The valuation discount (v/s Tier-II peers) and high growth opportunity could lead to re-rating.

Table 1: Relative Valuations

Company Name	$-Revenue FY16	P/E (x)	EBITDA Margin (%)	EV/EBITDA (x)
SQS	420	11.1	10.7	5.9
TGSL	50	8.3	23.0	3.6
MindTree	697	10.2	19.8	6.3
Hexaware	539	10.0	20.0	6.4

Source: Company Filings; IndiaNivesh Research

Financial Overview

Forecast $-revenues CAGR of 20.5% over FY13-16E

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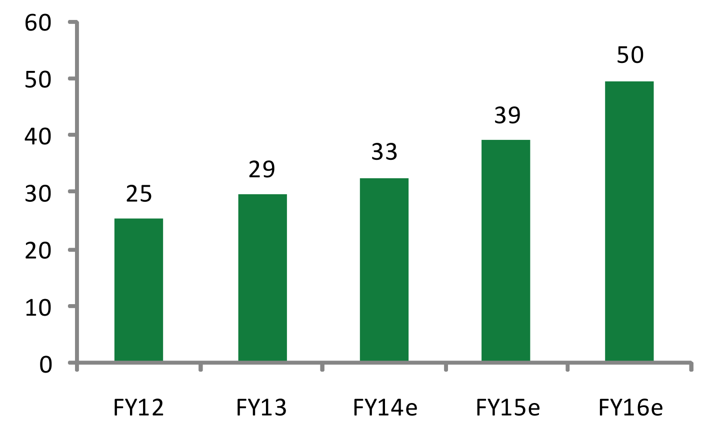
We expect acceleration in historical revenue growth momentum and thereby build CAGR of 20.5% in $-terms over FY13-16E. The company reported a 19.6% CAGR in $-terms over FY10-13 (4.6% revenue growth in FY11 due to global recession).

We estimate revenues of $33 mn (+10.5% y/y), $39 mn (+20% y/y) & $50 mn (+27% y/y) for FY14E, FY15E and FY16E, respectively.

Revenue Projection ($ mn)



Source: Company Filings; IndiaNivesh Research

Expect EBITDA CAGR of 32.0% over FY13-16E

EBITDA CAGR of 32.0% over FY13-16E

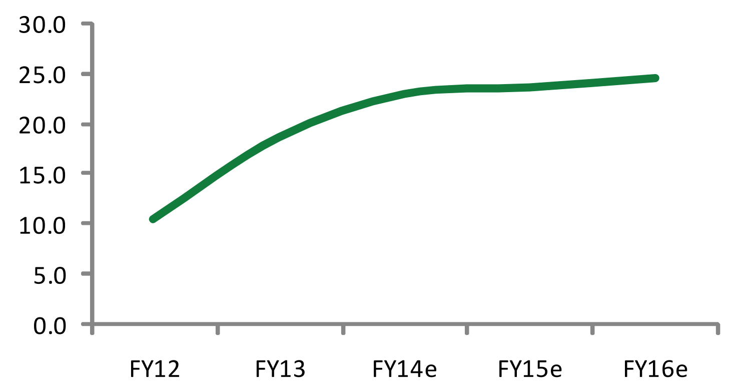
We forecast slight uptick in EBITDA margin at 23.6% in FY15E after assuming 23.0% in FY14E. Going ahead, margin expansion trajectory should continue driven by rationalization of employee cost. Further, change in revenue-mix, improvement in utilization, and increasing in offshore mix should bode well on margin.

We expect margin expansion through following:

- Revenue acceleration, changing business mix, and employee cost rationalization remains the margin levers.
- Uptake in utilization level, rise in offshore contribution and multi-year and multi-million dollar deal wins.
- Rationalization in employee pyramid at group level.

We build an EBITDA margin of 23.0%, 23.6% & 24.6% in FY14E/FY15E/FY16E, respectively, and forecast EBITDA CAGR of 32.0% over FY13-FY16E.

EBITDA Margin Trend (%)



Source: Company Filings; IndiaNivesh Research

Expect adj. Net Profit CAGR of 35.7% despite lower other income

Adj. Net Profit CAGR of 35.7% despite lower other income

We expect earnings CAGR of ~35.7% over FY13-16E, partially offset by lower other income assumption in FY15E (Rs.22mn) and FY16E (Rs.26mn) relative to FY14E (Rs.118 mn). The key reason for lower other income forecast was strengthening of domestic currency in our model. We estimate TGSL to report adj. EPS (ex. forex gain) of Rs23.7, Rs34.8 and Rs 44.9 in FY14E, FY15E and FY16E, respectively.

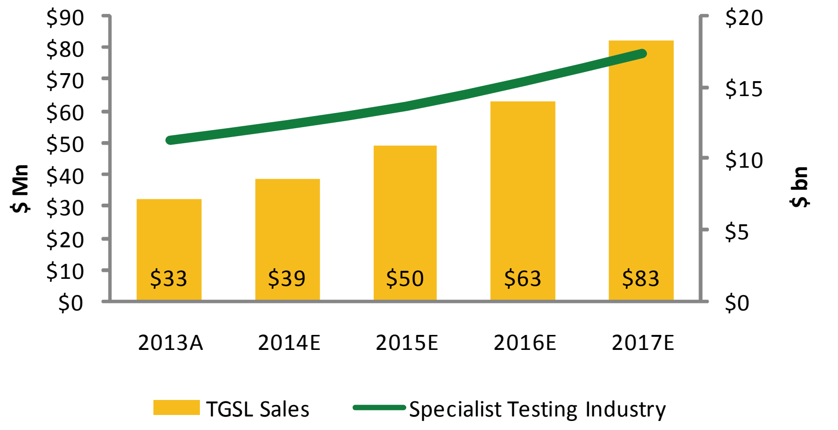
Y E March (Rs m)	FY11	FY12	FY13	FY14e	FY15e	FY16e
Net sales	829	1,214	1,614	1,973	2,349	2,826
Y/Y Ch %	*NM*	*46.4*	*32.9*	*22.2*	*19.1*	*20.3*
EBITDA	28	129	302	454	555	694
Y/Y Ch %	*NM*	*354.4*	*134.7*	*50.3*	*22.4*	*25.0*
EBITDA Margin %	*3.4*	*10.6*	*18.7*	*23.0*	*23.6*	*24.6*
Adj. PAT (APAT)	4	65	184	243	355	459
Y/Y Ch %	*NM*	*1,678.8*	*183.2*	*31.9*	*46.4*	*29.3*
Adj.EPS (Rs)	1.9	6.4	18.0	23.7	34.8	44.9

Source: Company Filings; IndiaNivesh Research

Industry Outlook

The overall software testing market remains buoyant. The 2013 Nelson Hall market report forecasts growth in global specialist testing of 9.7%Y/Y in CY14E, which is a segment in which SQS/TGSL are well positioned. On back of strong industry demand outlook, we expect 11.0%/20.0% Y/Y $-revenue growth in FY14E/FY15E for TGSL (See Chart Below).

Chart: Industry v/s TGSL Revenue



Source: Nelson Hall 2013

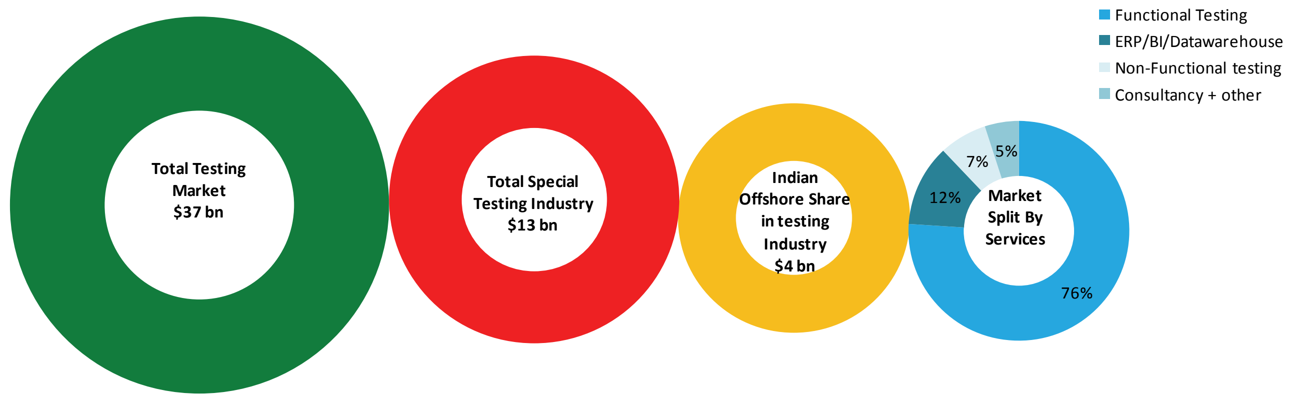
Market Size & Growth

SQS & TGSL combined has ~37% share of the pure play test specialist market, 9% of the standalone test market and 3% share of the external test market

Nelson Hall market found that the market for specialist testing is worth $13bn – around 32% of testing will be contracted externally. Around two-thirds of external testing is performed by systems integrators as part of other IT service contracts and the remaining one-third as standalone contracts. Pure-play test specialists like TGSL fulfil a quarter of the stand-alone contracts worth about $300mn.This implies that SQS& TGSL combine has ~37% share of the pure play test specialist market, 9% of the standalone test market and 3% share of the external test market. Nelson estimates that the external testing market in TGSL-served countries will grow at a CAGR of 13.2% (N.America) / 12.5% (APAC) / 11.9% (Europe) from 2013 to 2020.

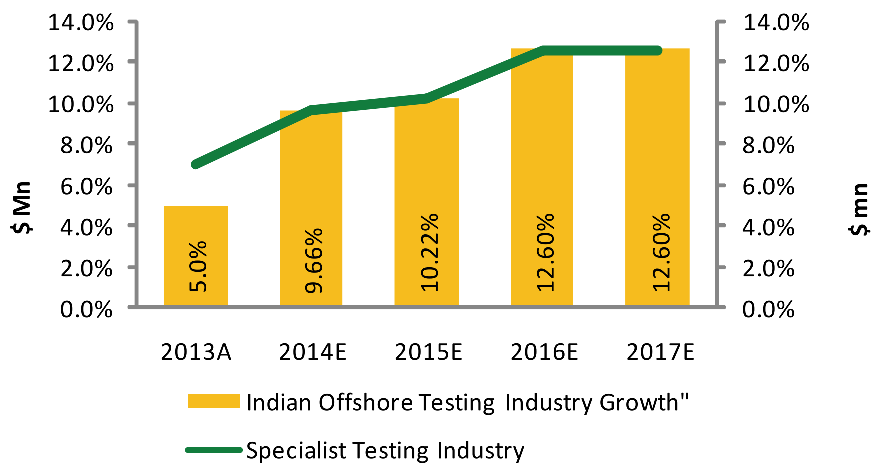
IDC forecasts that global IT services spending will rise 4.3% in 2014. Within this we would expect software testing to show faster growth, as more companies decide to appoint independent software testers for new projects or outsource ongoing testing work to independent service providers.

Addressable market size



Source: Company Filings; IndiaNivesh Research

Chart: Testing Industry Growth - Specialist Testing V/S Offshore



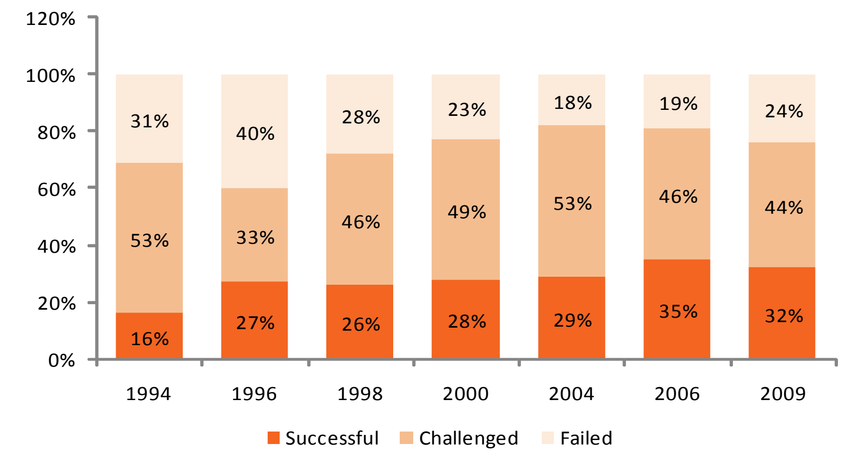
Source: Nelson Hall 2013

Market Driver: Independent Software Testing Companies

Rate of successful projects is still low (28-32%), illustrates huge potential for pure play testing companies

The market for independent software testing has grown rapidly in recent years, driven by need to reduce the failure rate of IT projects. A global study by the Standish Group on success rate of IT projects showed that in 2009, 24% of projects failed, 44% were challenged (either late and/or over budget) and only 32% were classified as successful. The below mentioned chart also shows that the rate of success has improved since the study first began in 1994, but remained relatively stable for the last eight years.

Chart: IT Projects Success Rate



Source: Standish

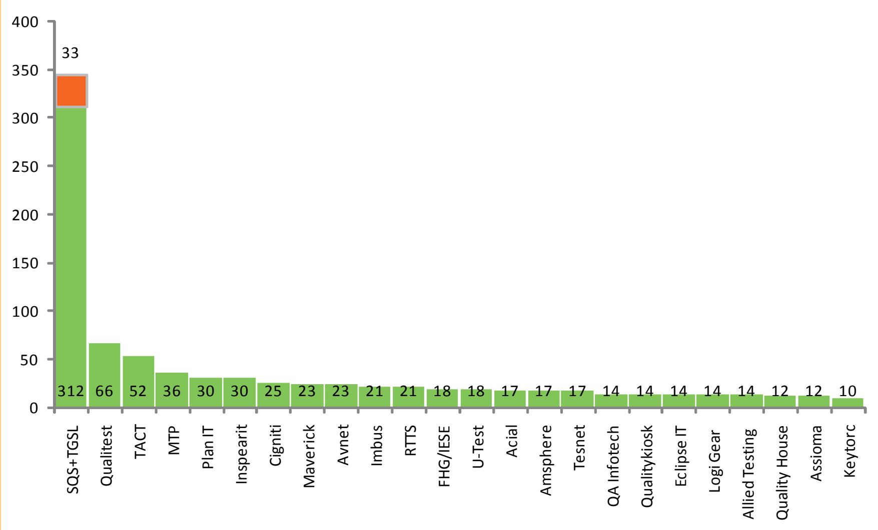
In 2008, SQS had also conducted its own research on the importance of independent software testing companies' services by surveying 1,030 companies in 13 countries. Following were the outcome: (I) 79% think that poor testing has a significant cost impact on the company, (II) 68% need to adapt their testing to compliance and regulatory requirements, (III) 65% agree software testing should be independent from development, (IV) 33% see testing as essential investment in the product, and (V) Only 20% have no problems in the first few months that the product goes live.

TGSL competes against a variety of independent software testing companies and in-house testing divisions of systems integrators

Competition: Systems integrators and pure play specialists

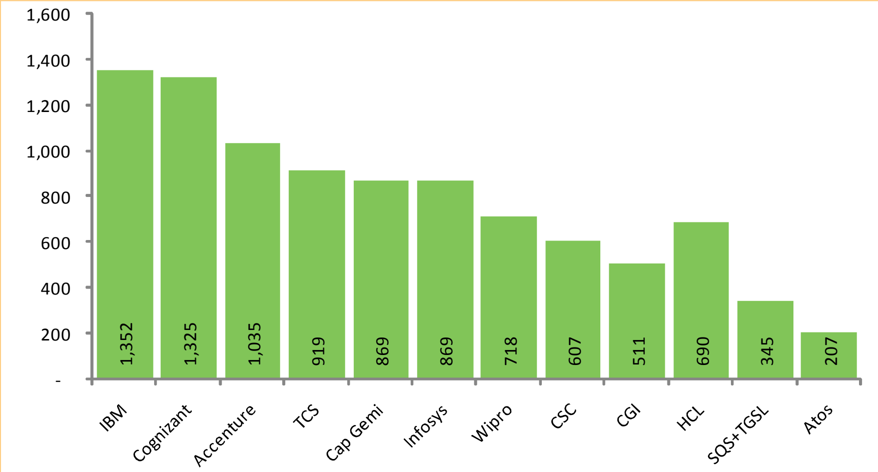
TGSL competes against a variety of independent software testing companies as well as the inhouse testing divisions of systems integrators. TGSL in combination with SQS is the largest specialist testing company with $345 mn revenues in CY13. In comparison with SQS+TGSL, the second next competitor is less than one-third. Hence, we do not see any nearest pure play testing player to reach SQS+TGSL scale in medium-term. However, largest systems integrator and test provider like IBM, Cognizant, Accenture, TCS and other remains the key competitors and generating revenues above or at a similar level to SQS+TGSL.

Pure Play Test Specialists ($ Mn)



Source: Nelson Hall 2013

Testing Segment Revenue - System Integrator ($ Mn)



Source: Nelson Hall 2013

Growth strategy: We estimate TGSL's revenue growth will come from the following areas:

- The continued trend towards independent software testing.
- Focus on managed services business.
- Attract more and more volume to off-shore location.
- Expansion into under-penetrated geographies.

Managed Testing services?

SQS targets ~50% (v/s 41% in 2013) of revenue from MTS vertical in 2017

SQS has significantly expanded its business into the managed testing market (41% of SQS Revenue). On back of strong fixed price business (c.30% of overall revenue), we are of the view that, TGSL's managed testing services should be of the similar size (35-40% of TGSL's revenue). In managed services, SQS has major presence in the automated services. Many clients have in-house IT staff dedicated to testing software and software updates before roll-out firm-wide. SQS is able to support this function, reducing the number of in-house staff required. SQS charges for this service on a service level rather than a day-rate basis and signs up customers to longer-term contracts with assured revenue for the contract period improves revenue visibility for the group. Another advantage of this type of business is that it offers SQS an insight into the customer's plans for future IT projects, helping position SQS to win project-based work earlier in the process.

In 2013, managed services contracts, SQS generated 41% of group revenues (v/s 22% in 2011). SQS would like to grow this to nearer 50% by 2017. We expect huge cross-selling and up-scaling and higher use of offshore staff to undertake going ahead.

Outlook

On back of favourable industry demand outlook, improving macro data, significant revival in CEO confidence index, we expect discretionary spending to improve further from here-on. This remains the key driver for pure play testing companies. Further, the proper mix of onsite and offshore along with large scale and size should lead to trajectory growth in TGSL's revenue and profitability going ahead. The overall software testing market remains buoyant. The 2013 Nelson Hall market report forecasts 9.9% per annum until 2015 in 'Specialist Testing Services', which is a segment in which SQS is well positioned.

Business Snapshot

Company description: Leader in independent testing

After being integrated with SQS, TGSL is largest provider of independent software testing and quality management company. The company's revenue is derived from consultancy services to financial sector clients in Europe, Asia, and US. The company was founded 15 years ago by Mr. A V Asvini Kumar mainly focused in the area of domain consulting. As a result, the company has 100% revenue coming from BFSI vertical. The company has track record of over 14 million person hours, the company has a ~700 strong work force, with delivery centers in Chennai and Mumbai, supported by local offices in Bengaluru, New York, London, Dubai, Singapore, Brussels and Sydney. On nov-2013, SQS Software Quality Systems AG, acquired majority stake in the company by investing ~Rs.1234 mn (€17.5mn).

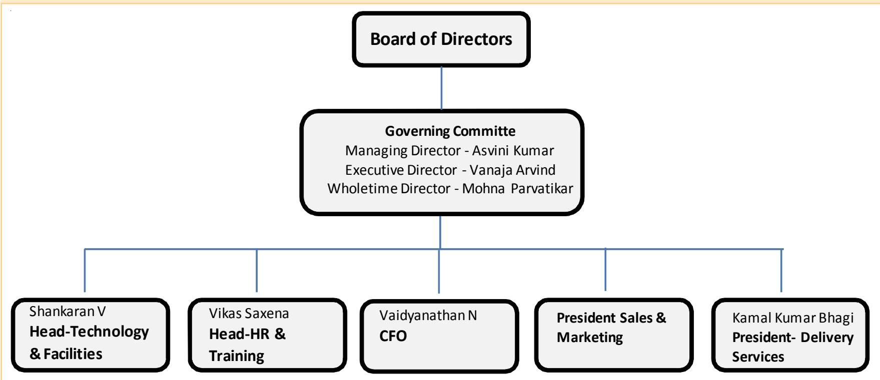
Background: Track record of nearly 47 (15+32) years

TGSL was founded in 1999 in India by Mr.Asvini Kumar AV to provide requirements testing, documentation and domain consulting. In 2001, the company started its international expansion, opened office in UK and founded subsidiary in Singapore. The company first entered the US market in 2004 by opening subsidiary. In 2009, the company listed on BSE.

SQS was founded in 1982 in Germany by Rudolf van Megen (current CEO) and Heinz Bons (exCOO) to introduce systematic and methodical software testing to IT projects with the aim of reducing error rates. In 2010, SQS acquired HP enterprise license agreement to strengthen automation offerings.

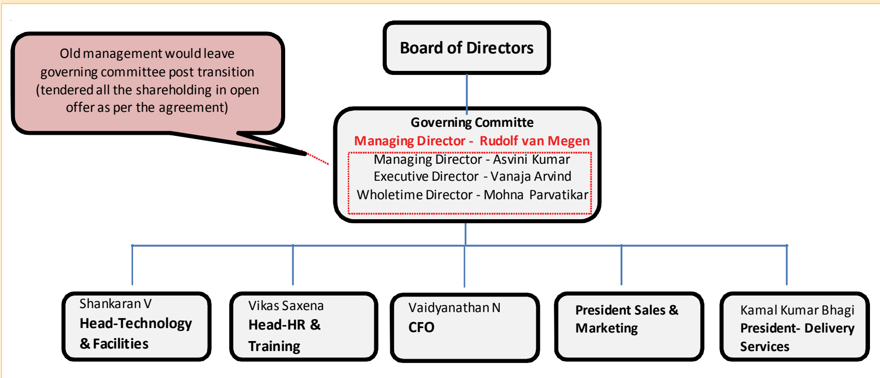
Combining TGSL+SQS experience, the group has nearly five decades of experience in the area of testing and managed services.

Old Organization Structure



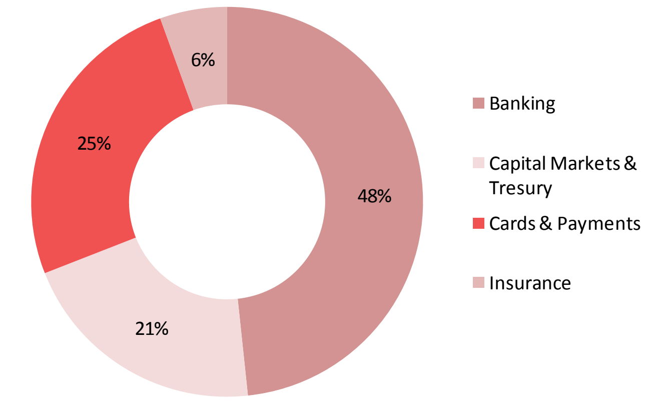
Source: Company Filings; IndiaNivesh Research

New Organization Structure



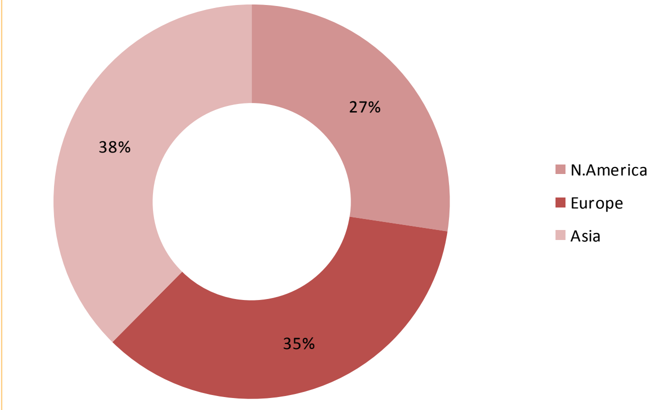
Source: Company Filings; IndiaNivesh Research

Business Offerings



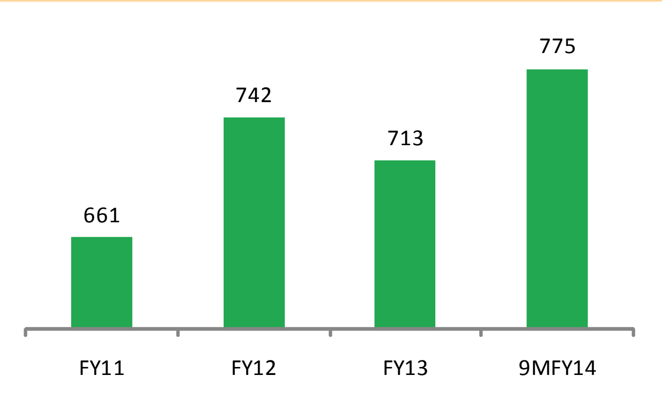
Source: Company Filings; IndiaNivesh Research

Geographic Mix



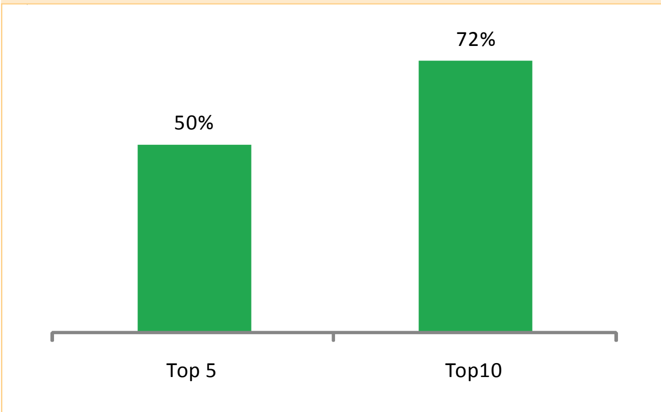
Source: Company Filings; IndiaNivesh Research

Total Billable Staff



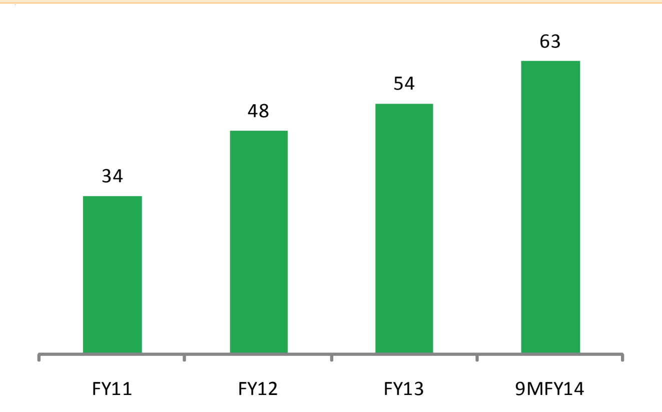
Source: Company Filings; IndiaNivesh Research

Top Client Contribution



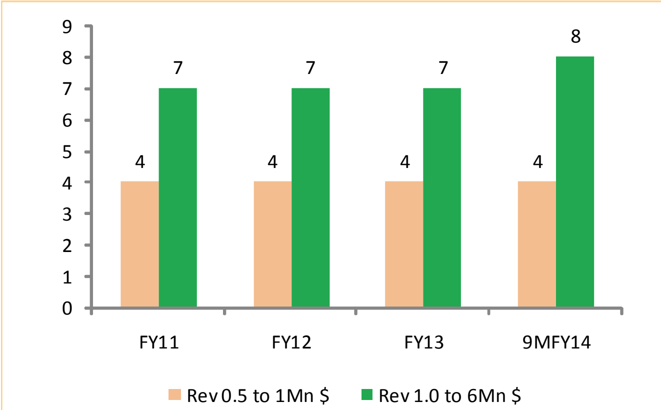
Source: Company Filings; IndiaNivesh Research

Active Client



Source: Company Filings; IndiaNivesh Research

Number of million dollar clients



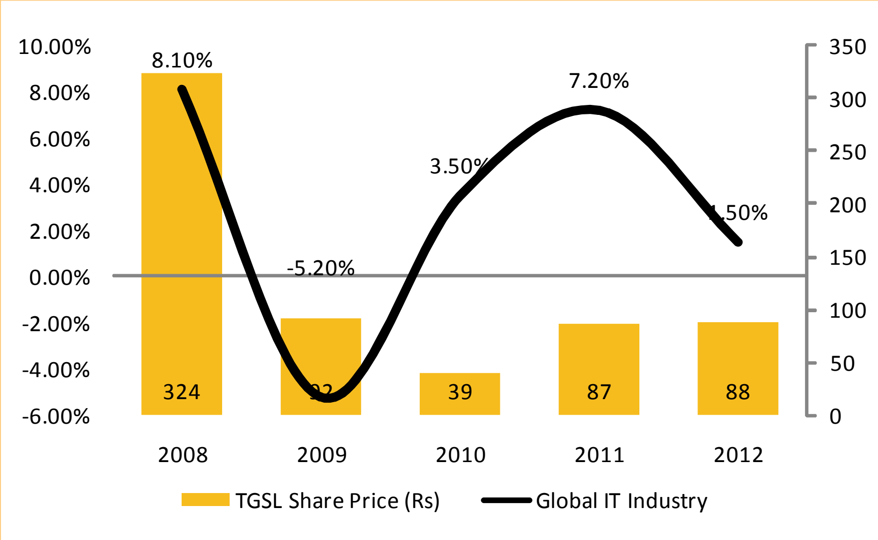
Source: Company Filings; IndiaNivesh Research

Risk & Concern

Cyclicality:

Despite its advantages, external testing represents an initial cost and is therefore not immune to economic downturns, as experienced in 2009 and 2011.

Chart: Global IT Services Industry v/s TGSL's Share Price Performance



Source: Bloomberg; IndiaNivesh Research

Financial services:

The financial and insurance sectors represented 100% of revenue. The worsening of economic condition in Europe again due to ongoing hostile environment could affect budgets for new software implementation and testing.

Integration Risk:

SQS strategy to acquire and integrate had yielded good result so far and helped to fill the gaps. But this strategy does have various risks like integration, scaling and also possed to offshoring related challenges.

Valuations - Re-rating Opportunity

In combination with SQS, TGSL has huge capacity expansion opportunity from current level. We are of opinion that P/E multiple will inch up to 11.0x over a year as there is possibility of huge cross-selling and up-scaling opportunity. Post-acquisition TGSL be seen as a $330 mn revenue company which remains key catalyst to qualify for large size deal. Further, the increase in scale and becoming a part of global company could generate some institutional interest. The valuation discount (v/s Tier-II peers) and high growth opportunity could lead to re-rating. On back of various available growth opportunities, we maintain our BUY with our DCF based price target of Rs.494. This implies an FY15E/FY16E P/E of 10.6x/8.3x, which is at discount to Tier-II IT service peers FY16E P/E c10.4x (consensus estimates).

DCF Valuation Analysis

Discounted Cash Flow/Share	2013	2014E	2015E	2016E	2017E	2018E	Terminal
Sales	**1,614**	**1,973**	**2,349**	**2,826**	**3,535**	**3,817**	**5,686**
Adjusted EBIT	255	403	499	629	803	878	1,308
Tax on adjusted EBIT	(68)	(121)	(140)	(170)	(233)	(237)	(353)
Rate	26.6%	30.0%	28.0%	27.0%	29.0%	27.0%	27.0%
NOPAT	**187**	**282**	**359**	**460**	**570**	**641**	**955**
Depreciation	46	50	57	65	74	103	154
Changes in working capital	2	161	(25)	(33)	(55)	(19)	(28)
Property, Plant & Equipment, Net	(279)	(59)	(70)	(85)	(106)	(115)	(171)
Others	0	0	0	0	0	0	0
Unlevered Free Cash Flow	**(43)**	**435**	**320**	**407**	**483**	**610**	**909**
WACC	14.5%	14.5%	14.5%	14.5%	14.5%	14.5%	
Discount factor	1.00	0.87	0.76	0.67	0.58	0.51	0.51
Present value of FCF	**(43)**	**380**	**244**	**271**	**281**	**310**	**462**

Source: Company Filings; IndiaNivesh Research

DCF Value Per Share (Rs Mn)	Amount
Present value of forecast period FCF (FY14-17E)	1,176
Present value of second stage FCF (FY18-23E)	1,437
Present value of terminal value	2,162
Enterprise value	**4,775**
Plus net cash (Ex Debt)	273
Pension liabilities	-
Associates/minorities	-
Equity value	**5,048**
Shares outstanding	10
Value per share	**494**

Source: Company Filings; IndiaNivesh Research

WACC (%)	14.5%
Cost of Debt	17.6%
Tax rate	29.0%
Post tax cost of debt	12.5%
Cost of equity	14.8%
Debt/Equity	13.0%
Beta	1.3
Debt/Capital	11.5%
Equity/Capital	88.5%

Source: Company Filings; IndiaNivesh Research

Consolidated Financials

Income Statement

Y E March (Rs m)	FY12	FY13	FY14e	FY15e	FY16e
Net sales	1,214	1,614	1,973	2,349	2,826
Y/Y Ch %	*46.4*	*32.9*	*22.2*	*19.1*	*20.3*
COGS	799	966	1,145	1,341	1,587
SG&A	287	347	375	453	545
EBITDA	**129**	**302**	**454**	**555**	**694**
Y/Y Ch %	*354.4*	*134.7*	*50.3*	*22.4*	*25.0*
EBITDA Margin %	*10.6*	*18.7*	*23.0*	*23.6*	*24.6*
Interest	2	15	20	20	20
Deprecaition	37	46	50	57	65
EBIT	**89**	**241**	**383**	**478**	**609**
EBIT Margin %	*7.4*	*14.9*	*19.4*	*20.4*	*21.6*
Other Income (Inc Forex)	96	24	118	22	26
Extra Ordinary Exps/(Income)	0	0	0	0	0
PBT	**185**	**265**	**501**	**500**	**636**
Tax	71	70	150	140	172
Effective tax rate %	*38.5*	*26.6*	*30.0*	*28.0*	*27.0*
Reported PAT	**114**	**194**	**351**	**360**	**464**
Y/Y Ch %	*508.6*	*70.8*	*80.3*	*2.7*	*28.9*
Forex Gain	49	10	108	5	5
Adj. PAT (APAT)	**65**	**184**	**243**	**355**	**459**
RPAT Margin %	*5.3*	*11.4*	*12.3*	*15.1*	*16.2*
Y/Y Ch %	*1678.8*	*183.2*	*31.9*	*46.4*	*29.3*

Balance Sheet

Y E March (Rs m)	FY12	FY13	FY14e	FY15e	FY16e
Share Capital	101	101	101	101	101
Reserves & Surplus	655	781	1,025	1,275	1,598
Net Worth	**755**	**882**	**1,126**	**1,376**	**1,699**
Minority	0	0	0	0	0
Long-term loans	0	114	114	114	114
Others	0	0	0	0	0
Total Liabilities	**755**	**996**	**1,240**	**1,490**	**1,813**
Gross Block	225	457	516	587	672
Less Depreciation	117	146	196	253	317
Net Block	**108**	**312**	**320**	**334**	**354**
Capital Work in Progress	1	1	1	1	1
Investments	0	0	0	0	0
Defered tax (net)	4	10	10	10	10
Others	7	12	10	12	14
Current Assets	**899**	**952**	**1,246**	**1,546**	**1,930**
Sundry Debtors	236	413	395	470	565
Cash & Bank Balance	401	387	666	856	1099
Loans & advances	263	151	185	221	266
Others	0	0	0	0	0
Current Liabilities	**159**	**170**	**200**	**238**	**287**
Provisions	104	119	146	174	209
Net Current Assets	**636**	**663**	**900**	**1,134**	**1,435**
Total assets	**755**	**996**	**1,240**	**1,490**	**1,813**

Cash Flow

Y E March (Rs m)	FY12	FY13	FY14e	FY15e	FY16e
Operaing Profit	91	255	403	499	629
Depreciation	37	46	50	57	65
Interest Exp	-2	-15	-20	-20	-20
Changes in Working Capital	100	2	161	-25	-33
Cash Flow After Chang in WCapital	**227**	**289**	**595**	**510**	**641**
Tax	-71	-70	-150	-140	-172
Others	0	0	0	0	0
Cash flow from operations	**156**	**219**	**444**	**370**	**470**
Capital expenditure (net)	-69	-279	-59	-70	-85
Free Cash Flow	**87**	**-60**	**385**	**300**	**385**
Other income	0	0	0	0	0
Investments	0	0	0	0	0
Cash flow from investments	**-69**	**-279**	**-59**	**-70**	**-85**
Long-Term Debt (Decrease) Increase	0	114	0	0	0
Dividend paid (incl tax)	-30	-60	-107	-110	-141
Share Issue / Repurchase & Others	-53	-7	0	0	0
Cash flow from Financing	**-83**	**47**	**-107**	**-110**	**-141**
Net change in cash	**4**	**-13**	**278**	**190**	**244**
Cash at the beginning of the year	**397**	**401**	**387**	**666**	**856**
Cash at the end of the year	**401**	**387**	**666**	**856**	**1,099**

Key Ratios

Y E March	FY12	FY13	FY14e	FY15e	FY16e
Adj.EPS (Rs)	6.4	18.0	23.7	34.8	44.9
Cash EPS (Rs)	15.0	23.6	39.2	40.8	51.7
DPS (Rs)	3.0	5.9	10.5	10.7	13.8
BVPS	75.1	87.1	110.2	134.7	166.3
ROCE %	12.1	25.6	32.5	33.5	34.7
ROE %	15.1	22.0	31.1	26.2	27.3
ROIC %	10.7	24.6	28.6	33.4	37.0
EBITDA Margin %	10.6	18.7	23.0	23.6	24.6
Net Margin %	5.3	11.4	12.3	15.1	16.2
PER (x)	33.2x	19.7x	10.9x	10.6x	8.3x
P/BV (x)	5.1x	4.3x	3.4x	2.8x	2.3x
P/CEPS (x)	25.0x	15.9x	9.6x	9.2x	7.2x
EV/EBITDA (x)	27.7x	11.8x	7.8x	6.4x	5.1x
Dividend Yield %	0.3	0.8	1.6	2.8	2.9
m cap/sales (x)	3.2x	2.4x	1.9x	1.6x	1.4x
net debt/equity (x)	-0.5x	-0.3x	-0.5x	-0.5x	-0.6x
net debt/ebitda (x)	-3.1x	-0.9x	-1.2x	-1.3x	-1.4x
Debtors (Days)	70	73	73	73	73
Creditors (Days)	45	37	37	37	37
Cash Conversion Cycle (Days)	25	36	36	36	36

Source: Company Filings; IndiaNivesh Research

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1.	Analyst ownership of the stock	No
2.	Clients/Company Associates ownership of the stock	No
3.	Broking relationship with company covered	No
4.	Investment Banking relationship with company covered	No

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