IndiaNivesh
Trust......we earn it.

Detailed Coverage
3 Aug 2016

Tata Sponge Iron Ltd

Engineered to overcome constraints

Current	Previous
CMP : Rs 577	
Rating : BUY	Rating : NR
Target : Rs 930	Target : NR

(NR-Not Rated)

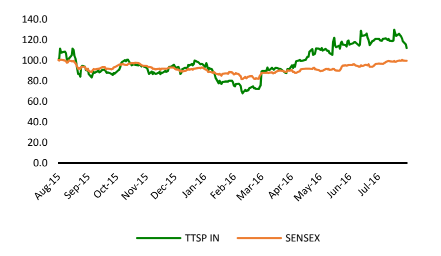
STOCK INFO	
INDEX	
BSE	513010
NSE	TATASPONGE
Bloomberg	TTSP IN EQUITY
Reuters	TTSP.NS
Sector	Metal & Mining
Face Value (Rs)	10
Equity Capital (Rs mn)	154
Mkt Cap (Rs mn)	8,883
52w H/L (Rs)	685 / 338
Avg Daily Vol (BSE+NSE)	7,13,953

SHAREHOLDING PATTERN	%
(as on June 2016)	
Promoters	54.5
FIIs	1.7
DIIs	2.2
Public & Others	41.6

STOCK PERFORMANCE(%)	3m	6m	12m
TTSP IN EQUITY	0.3	42.7	12.9
SENSEX	10.0	14.1	(0.4)

Source: Bloomberg, IndiaNivesh Research

TTSP IN EQUITY v/s SENSEX



Source: Bloomberg, IndiaNivesh Research

Daljeet S. Kohli
Head of Research
Tel: +91 22 66188826
daljeet.kohli@indianivesh.in

Amar Mourya
Research Analyst
Tel: 91-22-66188836
amar.mourya@indianivesh.in

Kamal Kant Sahoo
Research Associate
Tel:+91 22 66188833
kamal.sahoo@indianivesh.in

We initiate coverage on Tata Sponge Iron Ltd (TSIL), formerly known as Ipitata Sponge Iron Ltd. The company is a subsidiary of Tata Steel (stake 54.5%), engaged in manufacturing of high grade sponge iron (coal based method) with 390,000 MT Direct Reduced Iron (DRI) production facility. Product quality is finest amongst its peer on back of access to the high quality mine of Tata Steel Ltd. As a result, the company gets higher spread relative to its peers. TSIL also have two captive power production facilities with total capacity of ~26MW. Power is generated through waste heat generated during the sponge iron manufacturing, this minimizes power cost. Strong balance sheet, debt-free status, and increasing protectionism from government on imported steel look positive. We recommend "BUY" rating on this stock with target price of Rs.930.

Investment Rationale

- Sustaining profitability despite constraints
- Solid financials minimise gravity of global cues
- X-Ray: (Cash balance is real or intangible)
- De-bottlenecking would lead to higher turnover and efficiency
- Per unit realization moving northwards
- Performance expected to excel in time of turn around

Risk & Concern

- Legal compliances and regulatory challenges for raw materials such as iron ore and coal.
- Factors such as currency level fluctuations, higher transport charges and import duty would further create challenges for the company.

Valuations

We believe TSIL to continue the trajectory of sustainable volume and sales realization. The conclusive outlook for domestic infrastructural growth will create a demand of sponge iron in the country. The company has performed above industry average even during the weak economic environment helped by the company's strong brand image and management. In addition, the company has also zero debt status and high cash balances, which makes its balance sheet stronger. At CMP of Rs. 577 the stock is trading at EV/EBITDA multiple of 6.3x FY17E and 4.7x of FY18E EBITDA. We recommend "BUY" rating with TP of Rs.930 (EV/EBITDA multiple of 7x for FY18E + Rs. 468 Cash per Share).

Financial Performance

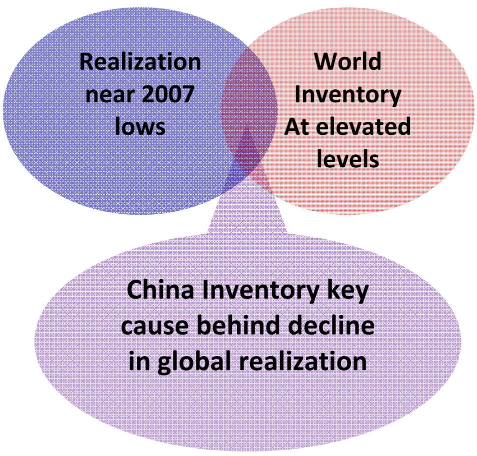
YE March (Rs Mn)	Net Sales	EBITDA	Adj.PAT	Adj.EPS (Rs)	EBITDA Margin	RoE(%)	Adj.P/E(x)	EV / EBITDA (x)
FY14	7,822	1,453	1,012	65.7	18.6	14.9	8.8	4.3
FY15	7,897	992	919	59.7	12.6	12.1	9.7	6.4
FY16	5,735	223	309	20.1	3.9	3.9	28.8	28.5
FY17E	6,022	870	740	48.0	14.5	8.8	12.0	6.3
FY18E	6,593	1,018	906	58.9	15.4	10.0	9.8	4.7

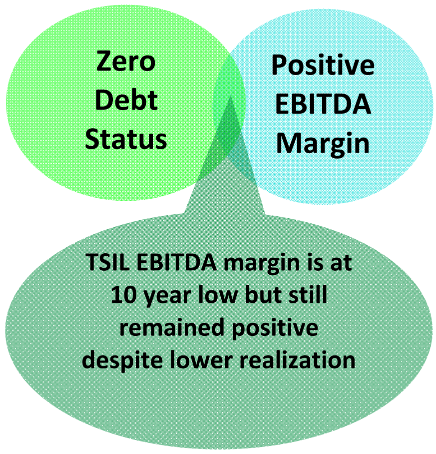
Source: Company, IndiaNivesh Research

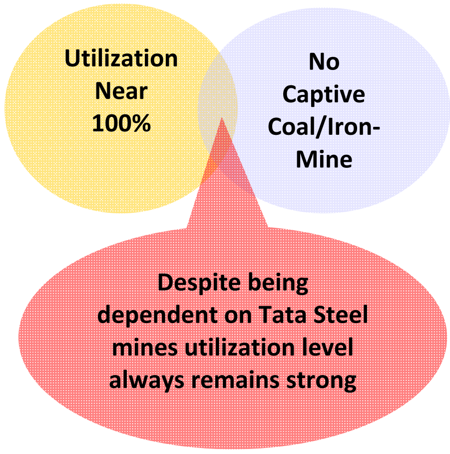
Revenue and profitability came down significantly from FY14 to FY16 on account decline in realization price of DRI (Sponge Iron) from Rs 23,500 to Rs. 12,300 per ton (~43% decreased).

Investment Scenario

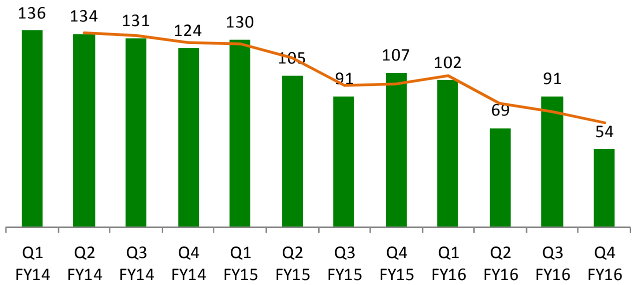
Macro Factor	Micro Factor	Micro Factor





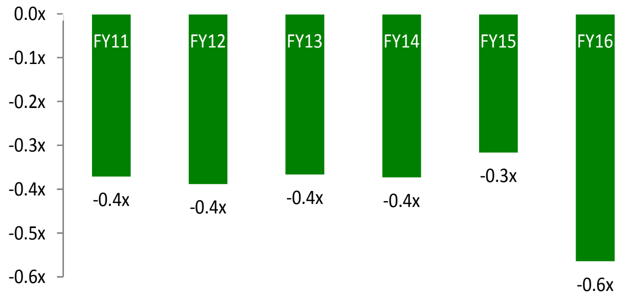


Coal Purchase Price/Ton (USD)



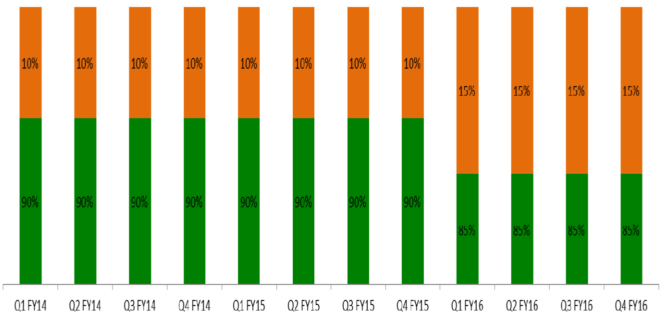
Source: Company filings, IndiaNivesh Research

Net debt/Equity (x) - Zero Debt



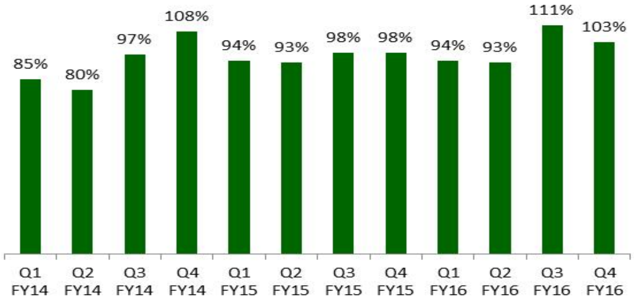
Source: Company filings, IndiaNivesh Research

Procurement of Iron ore (Tata Steel V/S Others)



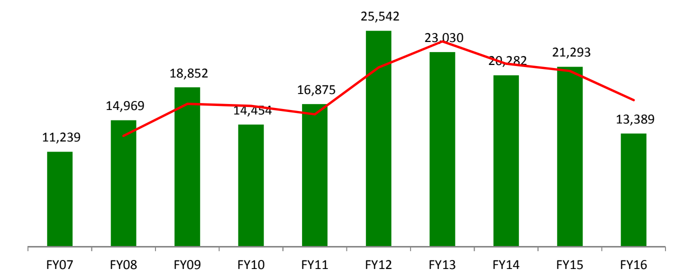
Source: Company filings, IndiaNivesh Research

Capacity Utilization %



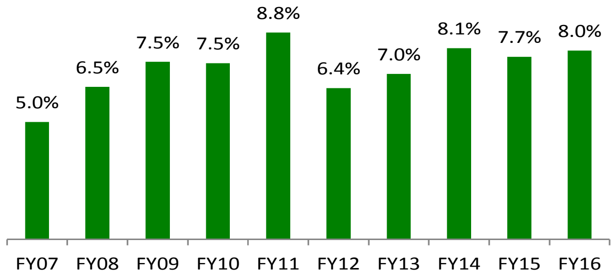
Source: Company filings, IndiaNivesh Research

Average Realization/Ton (INR)



Source: Company filings, IndiaNivesh Research

China Inventory (as % of Global Production)



Source: Company filings, IndiaNivesh Research

The concept of using sponge iron to produce high grade steel is still uneven in India. Dependency over sponge iron as a key raw material is more in central and eastern India, while steel units in northern parts operates on a combination of sponge iron and scrap metals. Indian government has announced Minimum Import Price and 2.5% customs duty on import of scrap iron to generate demand for Indian sponge iron industry. This move could be more favourable to TSIL due to its significant size and scale in industry, while other players have comparatively lesser depth.

Steel industry used to rely on scrap metal for steel production due to easy availability and low cost recycling. Over past several years, expensive rates and shortage of scrap metal has made sponge iron a key raw material for manufacturing of quality steel. In addition, reliance on imported steel exposes it to several other issues including international freight charges, currency volatility and global uncertainties. We believe that demand recovery for finished steel in the near future could provide for significant strength in the operating metrics of TSIL.

Investment Rationale

Multiple Competitive Advantages

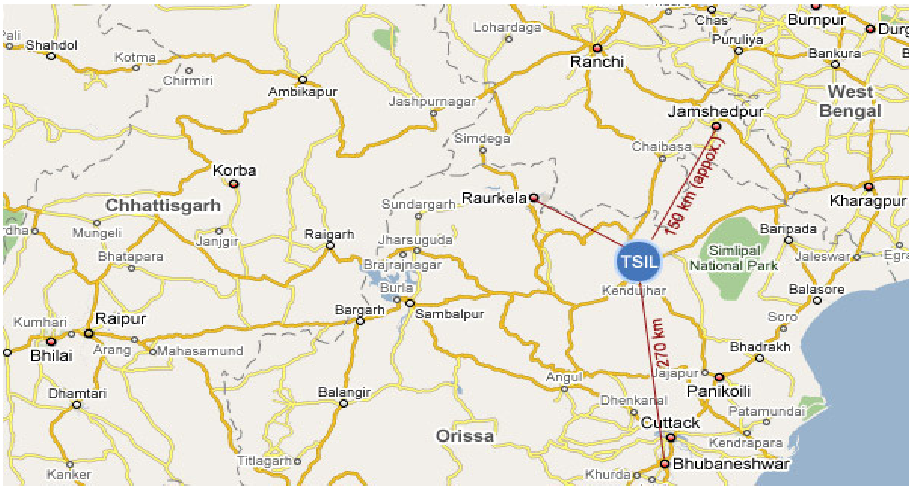
a) The production plant of Tata sponge iron ltd is located in the close vicinity (30 Km) of high grade iron ore mines. As a result, the company enjoys saving on logistic costs.

b) Captive Railway siding facility for inbound raw materials and despatch of finished product in bulk enhances the competitive edge.

c) The company also has integrated power generating plants to reduce the cost of manufacturing and also offer revenue from sale of surplus power.

d) Tata sponge iron limited is having a strong goodwill in the market, which assures consistent product quality.

Plant Location



Source: Company filings, IndiaNivesh Research

Remarkable Achievements

- Even in the tough time, TSIL maintained its debt free status.
- The company is consistently paying dividends from last 23 years.
- Most eco-friendly company amongst all the coal based DRI plants in India.
- First DRI plant in the World to achieve TPM (Total Productive Maintenance) certification.
- Production rate exceeding the capacity of three Kilns
- Installed an iron ore crusher and crushed 2,20,597 MT of 10-40 mm ore to ensure continuity of operation and cost control.
- Received 19,404 e-certificates from BEE for energy saving.

Strong Operational Performance

TSIL consistently generated strong operating cash flows of 16.7% Further, the company's debt free and strong cash balance status (Rs.468 cash per share) despite operating in capex intensive industry speaks allot on the competitive strength.

As well as, despite subdued domestic market demand, TSIL was able sell its entire product during FY14-16. Additionally, the generation of power from the extra heat generated produced from its kilns not only reduces operating cost but also adds to the revenue.

	FY16				
Revenue Breakup (Rs.Mn)	Q1	Q2	Q3	Q4	**Total**
Sponge	1329.6	1442	1256.6	1228.8	5257
Power	122.21	111.1	170.1	209.6	613.1
					5870.1
Inter-segmental Revenue	2%				134.8
Total					***5735.3***

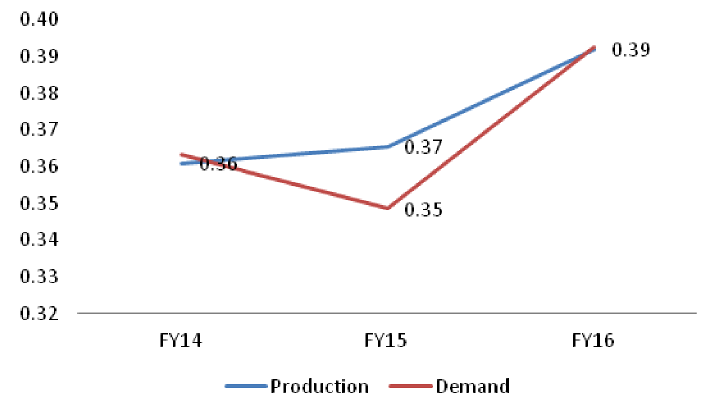
	FY16				
Consumption Price(In Rs Mn)	Q1	Q2	Q3	Q4	**Total**
Iron Ore	578.17	489.32	575.07	442.61	2085.17
	51.62%	51.62%	51.62%	51.62%	
Coal	536.59	454.14	533.72	410.92	1935.37
	47.91%	47.91%	47.91%	47.91%	
Dolomite	8.12	6.87	8.08	6.22	29.28
	0.73%	0.73%	0.73%	0.73%	
Pallet	2.90	2.85	2.87	2.88	11.50
	0.74%	0.74%	0.74%	0.74%	
Expenditure in material	**1126**	**953**	**1120**	**863**	**4061.32**

Source: Company filings, IndiaNivesh Research

Anti-dumping Should Bode Well on Revenue

Govt of India's observation to impose anti-dumping duty on China steel imports could be positive for Indian sponge iron industry. This will safeguard the Indian steel industry, which is facing stiff competition from China. The domestic steel makers are under threat against rising imports from China which has curtailed the domestic production. Hence, imposition of anti-dumping duty could boost the domestic steel production, which in turn can uplift the demand. Going ahead we also expect some uptick in the realization. We expect prices to remain stable in base case scenario.

Demand Vs Production (Mn.Tons)



Source: Company filings, IndiaNivesh Research

Backward Integration Reduces Business Risk

The company secured 24,000 tons per annum of coal linkage from Coal India Limited. This will help the company to reduce the dependence upon imported coal from South Africa. The base price for coal that the government has fixed which is around Rs 3,000 per tonne for the grade the company requires.

The landing cost of coal excavated from Coal India Limited would be around Rs.3900 per tonne, However the current procurement cost of RB1 coal from South Africa is Rs.3740 (around USD 55) per tonne. The advantage here is in case of increase in international price would reduce the impact, due to partial domestic procurement of coal support.

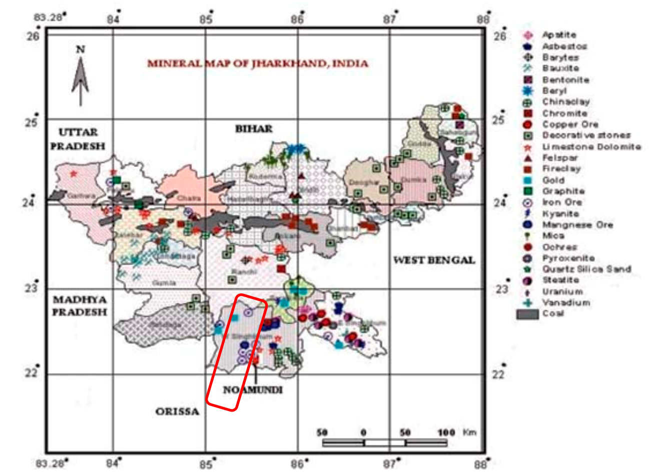
However, this tonnage will constitutes only less than 10% of the Company's annual coal requirement (350,000 tonnes). Further, the company's long-term tie-up with Tata Steel gives access to high quality iron ore in the nearby vicinity. Going ahead, we expect the company to bid for more coal linkages.

The raw-material cost constitutes ~66% of TSIL's gross operating revenue. Basic raw materials for the production of sponge iron are Iron ore, Coking coal, and Dolomite. Tata Steel Gomardih dolomite quarry caters to TSIL's overall requirement of dolomite. Both iron ore and coal individually contribute 48% and 50% respectively of the overall raw material cost, while dolomite covers hardly 1-2%. TSIL has a long term supply agreement with parent company for iron ore supply from Joda east iron mines and Khondbond iron mines. Given the regulatory hurdles mines in Odisha are not operating at full capacity. As a result, TSIL has to import deficit iron-ore from outside.

The qualities of these mines are one amongst the best in the country. TSIL getting the similar quality of mines in the nearby geography through acquisition looks difficult as per the geological data (See Chart Below). TSIL acquiring inferior grade mines would lead to disturbance in current input-output (1700 Kg Iron-ore for 1 Ton of sponge Iron) ratio. On the other hand, TSIL is also looking to acquire more coal-linkages for backward integration. So, the cash balance would be maintained as company is not acquiring any full-fledged mine.

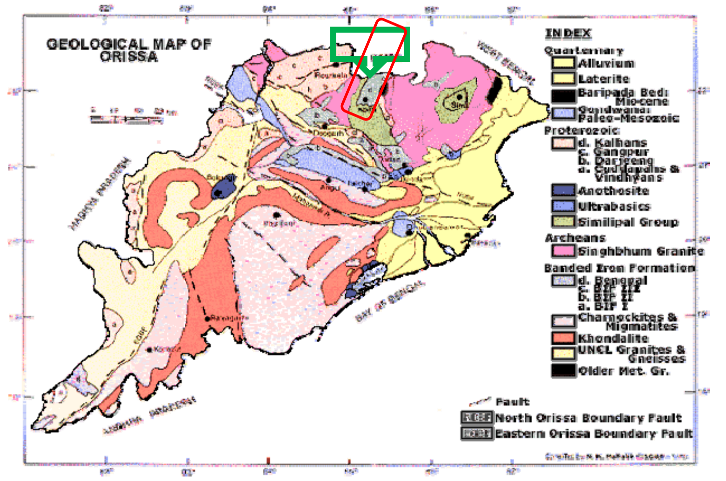
Geological Study

Jharkhand



Source: Geological Survey of India, IndiaNivesh Research

Odisha



Source: Geological Survey of India, IndiaNivesh Research

Bidding for iron ore blocks does not look advisable..

We believe the company is following right strategy of looking for tie up for coal rather than acquiring fully developed coal mine and tie-up with Tata Steel for iron ore mines.

Why?

High grade iron-ore deposits are already being captured by incumbents. Secondly acquiring, developing and realizing of ore content from mine are costly and time taking affair. Further, the balance sheet size of TSIL does not support large-size iron-ore acquisition [E.g Essar Steel won Ghoraburhani-Sagasahi Iron mine *(44% premium from base price)* costing Rs.113 bn. However, TSIL is having cash balance of as on FY16.

The company's 4 years avg. operating cash flow is ~ Rs.1 bn. and current cash balance is ~Rs8 bn. We believe the TSIL management will not move to acquire a wholly developed mines which will require an investment of >Rs.100 Bn. Secondly the company requires only 7-8 lakh MT of iron ore per annum (~1900-2000 MT per day) which make no sense to acquire a wholly developed mine. However, the company may continue with its standing agreement with Tata Steel or may get some linkage approvals from authorities like OMC or NMDC.

Hence, the cash which is visible in the balance sheet is going to stay and not likely to be diverted to a high gestation period project.

Sustaining profitability despite constraints…

In FY16, out of three kiln the oldest kiln went for major maintenance where management did some modifications to produce more capacity, during the tenure company produced the materials through bi-party agreement with nearby sponge iron producers. Also due to the regulatory pressure and issues over coal field allocation, the company sourced high quality coal from South Africa. Despite these two key challenges, the company has been able to maintain its EBITDA margin intact at 3.9% in FY16 (v/s12.6% in FY15, 18.6% inFY14, 15.1 inFY13 and 17.8% in FY12).

The EBITDA margin narrowed because of steep fall in sponge iron realization and higher cost of production

Cost of production Table

Cost of Production (In Rs. Million)	FY14	FY15	FY16	FY17 E	FY18 E	FY19 E	FY20 E
Net Sales	7822.2	7897.4	5735.3	6022.098	6592.768	6656.618	7122.581
Raw Materials	5,471	5,789	4,139	4,247	4,571	4,616	4,939
% of Net Sales	*69.9%*	*73.3%*	*72.2%*	*70.5%*	*69.3%*	*69.3%*	*69.3%*
Other Manu. & Employee Exp	277	362	367	248	285	302	340
% of Net Sales	*3.5%*	*4.6%*	*6.4%*	*4.1%*	*4.3%*	*4.5%*	*4.8%*
Selling and Admin Expenses	255	205	357	221	242	244	261
% of Net Sales	*3.3%*	*2.6%*	*6.2%*	*3.7%*	*3.7%*	*3.7%*	*3.7%*
Miscellaneous Expenses	383	607	519	436	477	482	515
% of Net Sales	*4.9%*	*7.7%*	*9.1%*	*7.2%*	*7.2%*	*7.2%*	*7.2%*
Preoperative Exp Capitalised	-17	-57	130	-	-	-	-
% of Net Sales	*-0.22%*	*-0.72%*	*2.27%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*
Total Expenses	6,369	6,905	5,512	5,152	5,575	5,644	6,055
% of Net Sales	*81.4%*	*87.4%*	*96.1%*	*85.5%*	*84.6%*	*84.8%*	*85.0%*

Source: Company Filings; IndiaNivesh

Solid financials minimise gravity of global cues…

Despite top-line pressure, company generated strong operating cash flow (CAGR of 16.8%) over FY12-16. In last five years, the company's average OCF/Sales was +7.4% (FY12-FY16). Even in the striving phase of industry, when whole steel and steel allied industry was bleeding TSIL delivered outperforming results. In this tough condition, TSIL maintained huge cash balance, remained debt free and consistently rewarded shareholders with dividends. During this phase ROE 11.2% and ROCE 12% for this company remained strong.

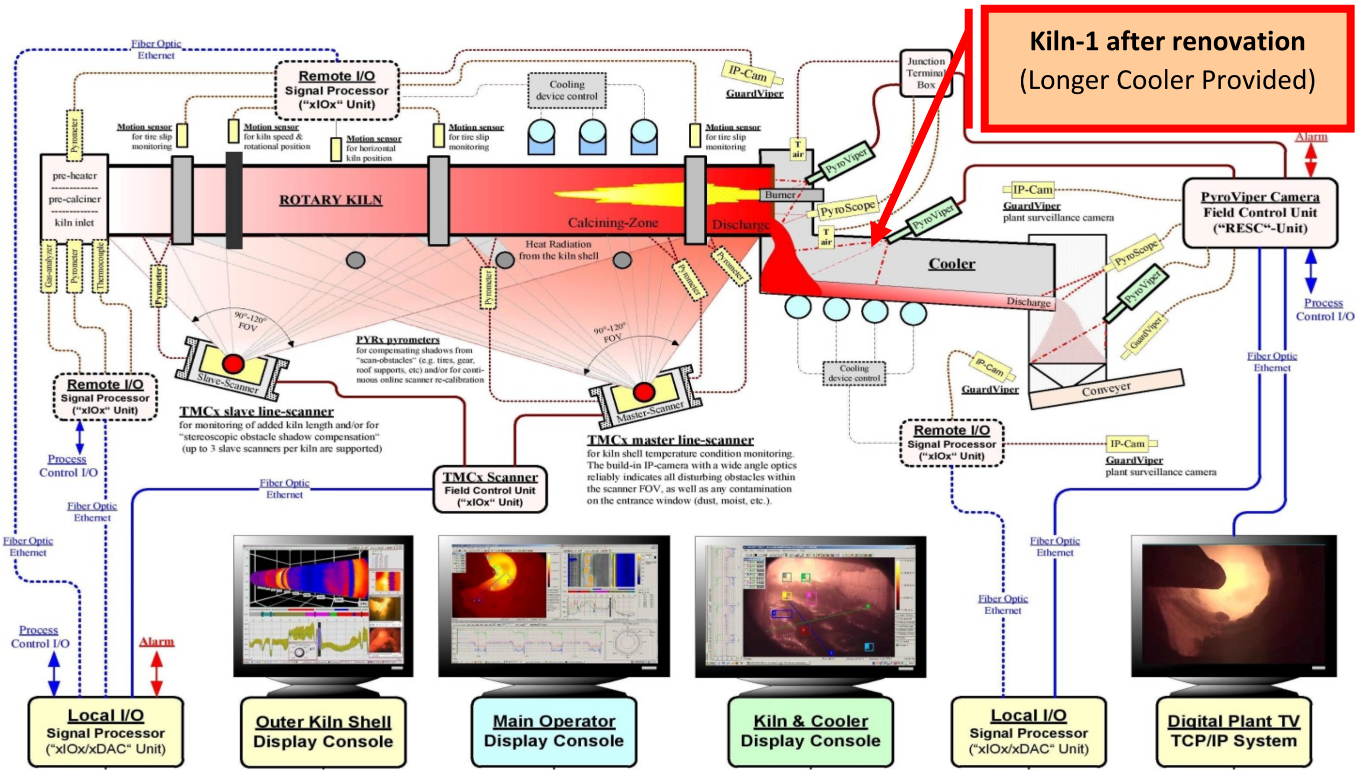
De-bottlenecking of production would lead to higher turnover and efficiency…

Tata sponge iron Ltd operates with three rotary kilns running at full capacity. In Q4FY16, TSIL went into temporary shutdown of Kiln-1 (operating since 1986) for 115 days. During this period, the customer's requirement was taken care through contract manufacturing (22,000 MT) of sponge iron in nearby plants.

Post renovation Klin-1 will be able to run at full design capacity, which was not possible due to short cooler length and war-page in its shell. The total cost incurred for enhancing and renovating the cooler length and removing the bottlenecks was ~Rs.300 mn. This initiative will improve the productivity by 13.5% (445640 MT), increase in quality of sponge iron and reduction in coal consumption by 1.75%

Kiln-1 in dismantled condition	Kiln-1 after renovation
	

Source: Company Filings, IndiaNivesh Research

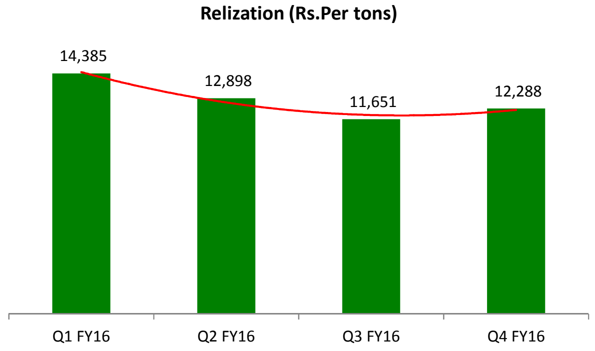


Source: IndiaNivesh Research

Particulars	FY16 (MT)	Capacity Utilization	FY15 (MT)	Change
Manufacturing Sponge Iron (MnT)				
Production	3,91,996	92%	3,65,451	26545
Sale	3,92,634		3,48,580	44054
Electricity (MnKwH)				
Production	163	71%	173	-9
Sale	113		121	-8

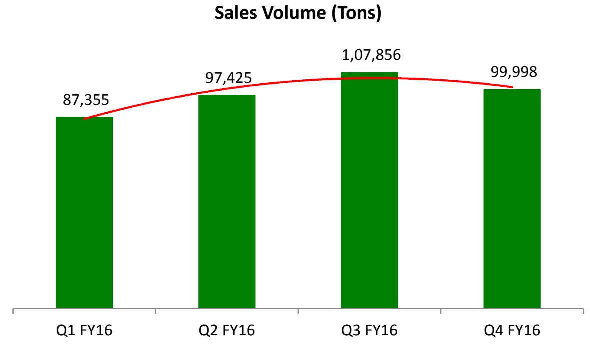
Source: Company Filings, IndiaNivesh Research

Per Unit Realization is coming out of trough (Q3 onwards)



Source: Company filings, IndiaNivesh Research

Sales Volume



Source: Company filings, IndiaNivesh Research

Break-Even Point (BEP) Analysis

Break-Even Analysis gives the clear cut understanding about the change in the realization and how this impact the overall required utilization level.

Scenario-I: Realization per ton unchanged at Rs.12,300. Under this scenario the break-even despatch stands at 375,248 tonnes and the total realization of Rs 4616 Mn.

In commodity cycle it is uncertain to assume the realization costs, but if we assume the prices remain unchanged then, company may not show an attractive result but company can easily chase the break-even point.

Scenario-II: Realization per ton goes-up by Rs.500 (to Rs.12,800 v/s Rs.12,300 (in FY17E). Under this scenario the break-even despatch comes down to 3,59,994 tonnes (v/s 3,75,248 T in FY17). with total realization of Rs 4608 Mn.

The optimum capacity of plant is to produce 390,000. The company has history of 100% average utilization. Clearly imply any buoyancy in the selling price of sponge iron will give northward move to earnings.

Scenario-III: Realization per ton goes-down by Rs.500 (to Rs.11,800 v/s Rs.12,300 in FY17E). Under this scenario the break-even despatch will rise up to (3,91,851 Tonnes v/s 3,75,248 tonnes in FY17E) of total realization Rs 4624 Mn.

Though we are positive on the selling price of sponge iron in coming days but in worst case if the selling price dropped down by Rs.500 then also company is well placed to overcome the break- even- point.

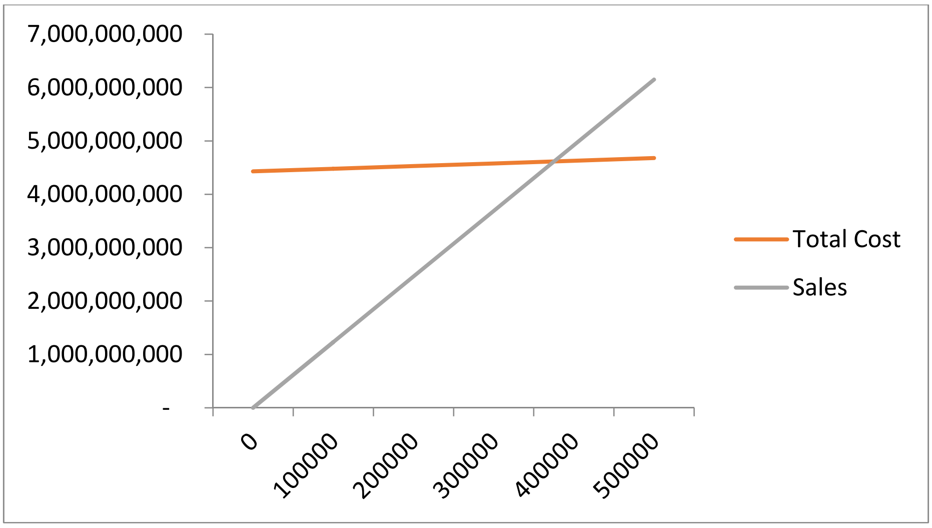
Scenario-I: Break-Even Analysis (Realization Unchanged)

Break- Even Chart

Total Fixed Cost	4,42,79,20,661
Variable Cost per Ton	500
Sales/ Unit per Ton	12,300
Sale Unit Increament for (x)	100000

Break even Units	3,75,248
Break even Price (Mn)	4,616

Units	Fixed Cost	Variable Cost	Total Cost	Sales
0	4,42,79,20,661	0	4,42,79,20,661	-
100000	4,42,79,20,661	50000000	4,47,79,20,661	1,23,00,00,000
200000	4,42,79,20,661	100000000	4,52,79,20,661	2,46,00,00,000
300000	4,42,79,20,661	150000000	4,57,79,20,661	3,69,00,00,000
400000	4,42,79,20,661	200000000	4,62,79,20,661	4,92,00,00,000
500000	4,42,79,20,661	250000000	4,67,79,20,661	6,15,00,00,000

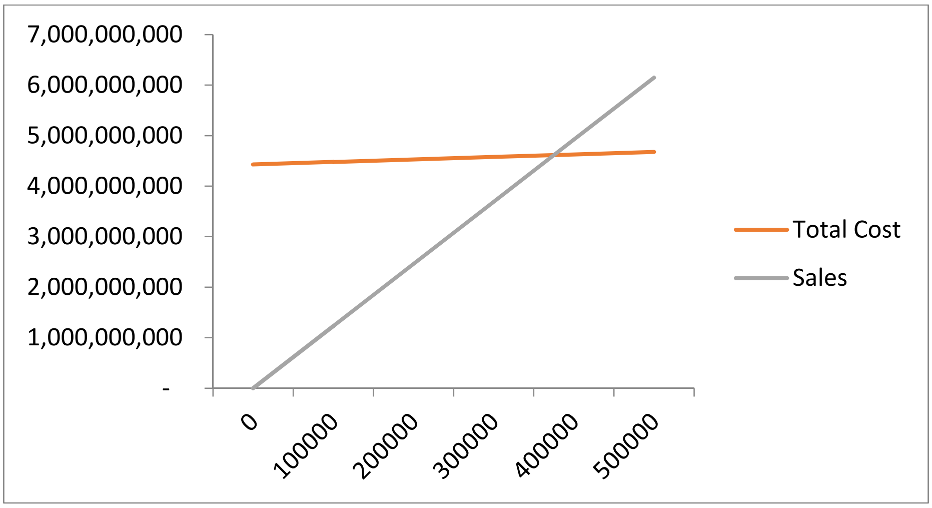


Scenario-II: Break-Even Analysis (Realization - Rs. 500)

Total Fixed Cost	4,42,79,20,661
Variable Cost per Ton	500
Sales/ Unit per Ton	11800
Sale Unit Increament for (x)	100000

Break even Units	3,91,851
Break even Price (Mn)	4,624

Units	Fixed Cost	Variable Cost	Total Cost	Sales
0	4,42,79,20,661	0	4,42,79,20,661	-
100000	4,42,79,20,661	50000000	4,47,79,20,661	1,23,00,00,000
200000	4,42,79,20,661	100000000	4,52,79,20,661	2,46,00,00,000
300000	4,42,79,20,661	150000000	4,57,79,20,661	3,69,00,00,000
400000	4,42,79,20,661	200000000	4,62,79,20,661	4,92,00,00,000
500000	4,42,79,20,661	250000000	4,67,79,20,661	6,15,00,00,000



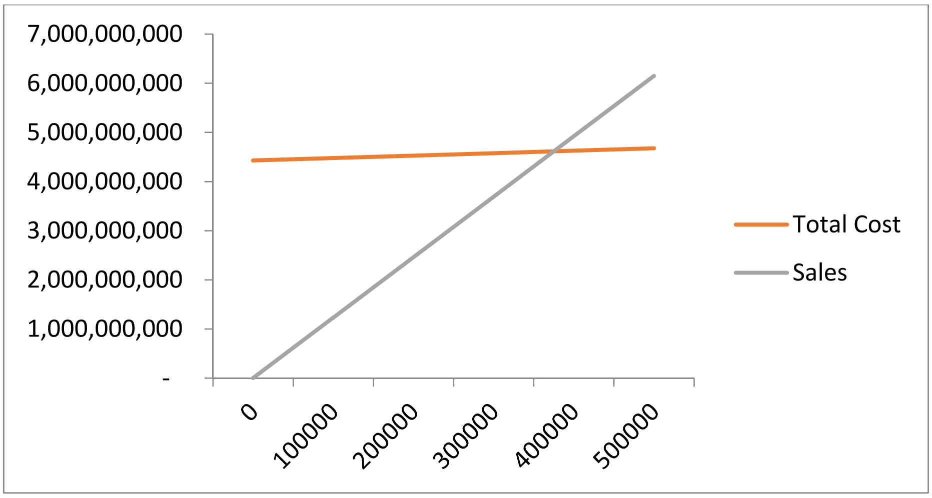
Scenario-III: Break-Even Analysis (Realization + Rs. 500)

Total Fixed Cost	4,42,79,20,661
Variable Cost per Ton	500
Sales/ Unit per Ton	12800

Sale Unit Increament for (x)	100000

Break even Units	3,59,994
Break even Price (Mn)	4,608

Units	FC	VC	Total Cost	Sales
0	4,42,79,20,661	0	4,42,79,20,661	-
100000	4,42,79,20,661	50000000	4,47,79,20,661	1,23,00,00,000
200000	4,42,79,20,661	100000000	4,52,79,20,661	2,46,00,00,000
300000	4,42,79,20,661	150000000	4,57,79,20,661	3,69,00,00,000
400000	4,42,79,20,661	200000000	4,62,79,20,661	4,92,00,00,000
500000	4,42,79,20,661	250000000	4,67,79,20,661	6,15,00,00,000



The above factor analysis (Scenario-I, II & III) indicates that amongst all above mentioned factors, realization has a strong impact on the company's fundamentals.

Risk & Concerns

- Sluggish domestic steel demand and continued weak sentiments from global economies could impact demand drivers and keep per ton realization under pressure, etc.
- Company is facing few constrains to procure good quality iron ore from its mother company Tata Steel, as the mines assigned (Joda and Khondbond mines) to it are operating partially due to compliance issues.

Peer Analysis

- As per peer analysis, the company has been performing way ahead of its peer group. TSIL is currently trading at a P/E of 29x, while its peer competitors are in negative P/E as the preceding financial year was a tough year for the whole steel Industry. We are expecting a positive growth in this financial year as the Industry has turned around due to strong domestic demand and fiscal policies.
- The company's debt/ equity ratio is nil as it's a debt free company.

COMPANY NAME	Equity (Rs Mn)	BVPS	Promoters Holding	RONW	ROCE	Debt/Equity	EPS	CMP	PE Ratio
Adhunik Metalik	1235	45.88	64.71%	-85.33%	-5.88%	7.36	-37.54	8	-0.21
Godawari Power	327.6	282.21	64.89%	7.16%	11.08%	1.93	-29.57	60	-2.03
Jai Balaji Ind	737.8	-26.61	60.77%	206.84%	-5.06%	0	-93.47	8.24	-0.09
Jindal Steel	914.9	229.99	61.89%	-6.07%	4.66%	2.01	-20.79	67.75	-3.26
Monnet Ispat	2408.4	281.12	25.27%	-46.30%	-1.04%	6.08	-187.48	24.15	-0.13
MSP Steel	1069.2	66.76	71.90%	-18.00%	-2.42%	2.03	-20.26	11.65	-0.58
Sarda Energy	359.5	336.45	71.29%	4.53%	13.85%	1.07	4.27	126.6	29.65
Tata Sponge	154	524.36	54.50%	3.82%	5.83%	0	20.05	577	28.78

Source: Company Filings, IndiaNivesh Research

Valuation

We believe TSIL to continue the trajectory of sustainable volume and sales realization. The conclusive outlook for domestic infrastructural growth will create a demand in sponge iron. From FY14 to FY16 the realization for DRI (Sponge Iron) has reduced from the level of Rs 23,500 to Rs. 12,300 per ton (~43% down). Hence despite of high production company's net sales have declined during the period. With the recovery in raw-material prices would push prices high.

Again, TSIL has an ability to sustain current margin profile. New government has taken steps to create favourable environments for sponge iron industry and TSIL reflected the same during H2 FY16. TSIL is expected to deliver significant improvement in return ratios in coming years. Company has minimized the production cost by using electricity generated from waste heat. Interestingly the company is producing surplus energy to trade and to compensate the profit margins in trough markets. The Company is strategically well placed, going ahead we expect the company will outperform in future days. At CMP of Rs. 577 the stock is trading at EV/EBITDA multiple of 6.3x FY17E and 4.7x of FY18E EBITDA. We assign "**BUY**" rating with TP of Rs 930 per share (EV/EBITDA multiple of 7x for FY18E + Rs.468 cash per share) on account of its superior production facilities, full utilization level, strong brand image and debt free balance sheet. Going ahead we are accessing the impact of rising steel prices and recent fiscal policies will give certain buoyancy to TSIL.

Particulars	
FY 18e EBITDA (Rs. Mn)	1018
No. of O/S Shares (Mn)	15.4
EV/EBITDA Multiple (x)	7
Enterprise Value (Rs. Mn)	7124
EV/Share (Rs)	462
Cash/Share	468
Target Price/ Share (Rs)	**930**

Income Statement (Consolidated)

Y E March (Rs m)	FY14	FY15	FY16	FY17E	FY18E
Net sales	**7,822**	**7,897**	**5,735**	**6,022**	**6,593**
Growth (%)	*(2)*	*1*	*(27)*	*5*	*9*
Operating expenses	(6,369)	(6,905)	(5,512)	(5,152)	(5,575)
Operating profit	**1,453**	**992**	**223**	**870**	**1,018**
Other operating income	0	0	0	0	0
EBITDA	**1,453**	**992**	**223**	**870**	**1,018**
Growth (%)	*21.0*	*(31.7)*	*(77.5)*	*289.8*	*16.9*
Depreciation	(178)	(129)	(129)	(135)	(148)
Other income	0	0	0	0	0
EBIT	**1,276**	**863**	**94**	**735**	**869**
Finance cost	(132)	(53)	(54)	0	0
Exceptional item	0	0	0	0	0
Profit before tax	**1,498**	**1,365**	**418**	**1,088**	**1,342**
Tax (current + deferred)	(486)	(446)	(109)	(348)	(436)
Profit / (Loss) for the period	**1,012**	**919**	**309**	**740**	**906**
Associates, Min Int	0	0	0	0	0
Reported net profit	**1,012**	**919**	**309**	**740**	**906**
Extraordinary item	354	555	377	353	472
Adjusted net profit	**1,012**	**919**	**309**	**740**	**906**
Growth (%)	18	(9)	(66)	140	23

Source: Company, IndiaNivesh Research

Balance Sheet (Consolidated)

Y E March (Rs m)	FY14	FY15	FY16	FY17E	FY18E
Share capital	154	154	154	154	154
Reserves & surplus	7,072	7,798	7,921	8,507	9,259
Net Worth	**7,226**	**7,952**	**8,075**	**8,661**	**9,413**
Minority Interest	0	0	0	0	0
Total Liabilities	**2,067**	**1,777**	**1,678**	**1,696**	**1,754**
Non-current liabilities	**265**	**283**	**344**	**344**	**344**
Long-term borrowings	0	0	0	0	0
Deferred tax liabilities	218	230	275	275	275
Other Long term liabilities	47	53	69	69	69
Long term provisions	0	0	0	0	0
Current Liabilities	**1,802**	**1,494**	**1,334**	**1,352**	**1,410**
Short term borrowings	0	0	0	0	0
Trade payables	959	645	592	610	668
Other current Liabilities	844	850	742	742	742
Short term provisions	0	0	0	0	0
Total Liabilities and Equity	**9,293**	**9,729**	**9,753**	**10,357**	**11,167**
Non Current Assets	**5,492**	**5,713**	**6,614**	**6,372**	**6,423**
Net Block	1,666	1,676	1,933	1,691	1,742
Goodwill	0	0	0	0	0
Non-current Investments	3,827	4,037	4,681	4,681	4,681
Long-term loans and advances	0	0	0	0	0
Deferred tax Assets	0	0	0	0	0
Other non current Assets	0	0	0	0	0
Current Assets	**3,801**	**4,016**	**3,139**	**3,985**	**4,745**
Inventories	619	1,085	324	412	452
Sundry Debtors	261	89	294	198	217
Cash & Bank Balances	2,693	2,515	2,521	3,375	4,076
Other current Assets	0	0	0	0	0
Loans & Advances	229	327	0	0	0
Current Investments	0	0	0	0	0
Total (Assets)	**9,293**	**9,729**	**9,753**	**10,357**	**11,167**

Source: Company, IndiaNivesh Research

Cash Flow Statement (Consolidated)

Y E March (Rs m)	FY14	FY15	FY16	FY17E	FY18E
Profit before tax	**1,498**	**1,365**	**418**	**1,088**	**1,342**
Depreciation	178	129	129	135	148
Change in working capital	339	(701)	722	26	0
Total tax paid	(566)	(434)	(64)	(348)	(436)
Others	132	53	54	0	0
Cash flow from operations (a)	**1,580**	**413**	**1,258**	**901**	**1,055**
Capital expenditure	(70)	(140)	(385)	107	(199)
Change in investments	(841)	(210)	(644)	0	0
Others	0	0	0	0	0
Cash flow from investing (b)	**(912)**	**(351)**	**(1,030)**	**107**	**(199)**
Free cash flow (a+capex)	**1,510**	**273**	**873**	**1,008**	**856**
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	0	0	0	0	0
Dividend (incl. tax)	(154)	(154)	(185)	(154)	(154)
Others	(158)	(92)	(54)	0	0
Cash flow from financing (c)	**(320)**	**(240)**	**(223)**	**(154)**	**(154)**
Net change in cash (a+b+c)	**348**	**(178)**	**6**	**854**	**702**
Reconciliation of Other balances	0	0	0	0	0
Cash as per Balance Sheet	2,693	2,515	2,521	3,375	4,076

Source: Company, IndiaNivesh Research

Key Ratios (Consolidated)

Y E March	FY14	FY15	FY16	FY17E	FY18E
Adjusted EPS (Rs)	65.7	59.7	20.1	48.0	58.9
Growth	*18.4*	*(9.2)*	*(66.4)*	*139.6*	*22.5*
Dividend/share (Rs)	10.0	10.0	10.0	10.0	10.0
Dividend payout ratio	15.2	16.8	49.9	20.8	17.0
EBITDA margin	18.6	12.6	3.9	14.5	15.4
EBIT margin	16.3	10.9	1.6	12.2	13.2
Net Margin	12.9	11.6	5.4	12.3	13.7
Tax rate (%)	32.5	32.7	26.1	32.0	32.5
Debt/Equity(x)	0.0	0.0	0.0	0.0	0.0
Inventory Days	29	50	21	25	25
Sundry Debtor Days	12	4	19	12	12
Trade Payable Days	45	30	38	37	37
Du Pont Analysis - ROE					
Net margin	12.9	11.6	5.4	12.3	13.7
Asset turnover (x)	0.9	0.8	0.6	0.6	0.6
Leverage factor (x)	1.3	1.3	1.2	1.2	1.2
ROE(%)	14.9	12.1	3.9	8.8	10.0
RoCE (%)	17.9	11.0	1.1	8.4	9.3
Valuation (x)					
PER	8.8	9.7	28.8	12.0	9.8
PCE	7.5	8.5	20.3	10.1	8.4
Price/Book	1.2	1.1	1.1	1.0	0.9
EV/EBITDA	4.3	6.4	28.5	6.3	4.7

Source: Company, IndiaNivesh Research

Disclaimer: This report has been prepared by IndiaNivesh Securities Limited **("INSL")** and published in accordance with the provisions of Regulation 18 of the Securities and Exchange Board of India (Research Analysts) Regulations, 2014, for use by the recipient as information only and is not for circulation or public distribution. INSL includes subsidiaries, group and associate companies, promoters, directors, employees and affiliates. This report is not to be altered, transmitted, reproduced, copied, redistributed, uploaded, published or made available to others, in any form, in whole or in part, for any purpose without prior written permission from INSL. The projections and the forecasts described in this report are based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. Projections and forecasts are necessarily speculative in nature, and it can be expected that one or more of the estimates on which the projections are forecasts were based will not materialize or will vary significantly from actual results and such variations will likely increase over the period of time. All the projections and forecasts described in this report have been prepared solely by authors of this report independently. None of the forecasts were prepared with a view towards compliance with published guidelines or generally accepted accounting principles.

This report should not be construed as an offer to sell or the solicitation of an offer to buy, purchase or subscribe to any securities, and neither this report nor anything contained therein shall form the basis of or be relied upon in connection with any contract or commitment whatsoever. It does not constitute a personal recommendation or take into account the particular investment objective, financial situation or needs of individual clients. The research analysts of INSL have adhered to the code of conduct under Regulation 24 (2) of the Securities and Exchange Board of India (Research Analysts) Regulations, 2014. The recipients of this report must make their own investment decisions, based on their own investment objectives, financial situation or needs and other factors. The recipients should consider and independently evaluate whether it is suitable for its/ his/ her/their particular circumstances and if necessary, seek professional / financial advice as there is substantial risk of loss. INSL does not take any responsibility thereof. Any such recipient shall be responsible for conducting his/her/its/their own investigation and analysis of the information contained or referred to in this report and of evaluating the merits and risks involved in securities forming the subject matter of this report. The price and value of the investment referred to in this report and income from them may go up as well as down, and investors may realize profit/loss on their investments. Past performance is not a guide for future performance. Actual results may differ materially from those set forth in the projection.

Except for the historical information contained herein, statements in this report, which contain words such as 'will', 'would', etc., and similar expressions or variations of such words may constitute 'forward-looking statements'. These forward-looking statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Forward-looking statements are not predictions and may be subject to change without notice. INSL undertakes no obligation to update forward-looking statements to reflect events or circumstances after the date thereof. INSL accepts no liabilities for any loss or damage of any kind arising out of use of this report.

This report has been prepared by INSL based upon the information available in the public domain and other public sources believed to be reliable. Though utmost care has been taken to ensure its accuracy and completeness, no representation or warranty, express or implied is made by INSL that such information is accurate or complete and/or is independently verified. The contents of this report represent the assumptions and projections of INSL and INSL does not guarantee the accuracy or reliability of any projection, assurances or advice made herein. Nothing in this report constitutes investment, legal, accounting and/or tax advice or a representation that any investment or strategy is suitable or appropriate to recipients' specific circumstances. This report is based / focused on fundamentals of the Company and forward-looking statements as such, may not match with a report on a company's technical analysis report. This report may not be followed by any specific event update/ follow-up.

Following table contains the disclosure of interest in order to adhere to utmost transparency in the matter;

Disclosure of Interest Statement		
1	Details of business activity of IndiaNivesh Securities Limited (INSL)	INSL is a Stock Broker registered with BSE, NSE and MCX - SX in all the major segments viz. Cash, F & O and CDS segments. INSL is also a Depository Participant and registered with both Depository viz. CDSL and NSDL. Further, INSL is a Registered Portfolio Manager and is registered with SEBI.
2	Details of Disciplinary History of INSL	No disciplinary action is / was running / initiated against INSL
3	Research analyst or INSL or its relatives'/associates' financial interest in the subject company and nature of such financial interest	No (except to the extent of shares held by Research analyst or INSL or its relatives'/associates')
4	Whether Research analyst or INSL or its relatives'/associates' is holding the securities of the subject company	No
5	Research analyst or INSL or its relatives'/associates' actual/beneficial ownership of 1% or more in securities of the subject company, at the end of the month immediately preceding the date of publication of the document.	No
6	Research analyst or INSL or its relatives'/associates' any other material conflict of interest at the time of publication of the document	No
7	Has research analyst or INSL or its associates received any compensation from the subject company in the past 12 months	No
8	Has research analyst or INSL or its associates managed or co-managed public offering of securities for the subject company in the past 12 months	No
9	Has research analyst or INSL or its associates received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months	No
10	Has research analyst or INSL or its associates received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months	No
11	Has research analyst or INSL or its associates received any compensation or other benefits from the subject company or third party in connection with the document.	No
12	Has research analyst served as an officer, director or employee of the subject company	No
13	Has research analyst or INSL engaged in market making activity for the subject company	No
14	Other disclosures	No

INSL, its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within. This information is subject to change, as per applicable law, without any prior notice. INSL reserves the right to make modifications and alternations to this statement, as may be required, from time to time.

Definitions of ratings

BUY. We expect this stock to deliver more than 15% returns over the next 12 months.

HOLD. We expect this stock to deliver -15% to +15% returns over the next 12 months.

SELL. We expect this stock to deliver <-15% returns over the next 12 months.

Our target prices are on a 12-month horizon basis.

Other definitions

NR = Not Rated. The investment rating and target price, if any, have been arrived at due to certain circumstances not in control of INSL

CS = Coverage Suspended. INSL has suspended coverage of this company.

UR=Under Review. Such e invest review happens when any developments have already occurred or likely to occur in target company & INSL analyst is waiting for some more information to draw conclusion on rating/target.

NA = Not Available or Not Applicable. The information is not available for display or is not applicable.

NM = Not Meaningful. The information is not meaningful and is therefore excluded.

Research Analyst has not served as an officer, director or employee of Subject Company

One year Price history of the daily closing price of the securities covered in this note is available at www.nseindia.com and www.economictimes.indiatimes.com/markets/stocks/stock-quotes. (Choose name of company in the list browse companies and select 1 year in icon YTD in the price chart)

IndiaNivesh®
Trust......we earn it.

IndiaNivesh Securities Limited

Research Analyst SEBI Registration No. INH000000511

601 & 602, Sukh Sagar, N. S. Patkar Marg, Girgaum Chowpatty, Mumbai 400 007.

Tel: (022) 66188800 / Fax: (022) 66188899

e-mail: research@indianivesh.in | Website: www.indianivesh.in