Nesco Ltd.

Come to the exhibition

CMP : Rs.769

Rating : BUY

Target : Rs.1,133

STOCK INFO	
BSE	505355
NSE	NESCO
Bloomberg	NSE IN
Reuters	NSEN.BO
Sector	Misc.Commercial Services
Face Value (Rs)	10
Equity Capital (Rs mn)	141
Mkt Cap (Rs mn)	10,837
52w H/L (Rs)	827/ 578
3m Avg Daily Volume (BSE + NSE)	10,428

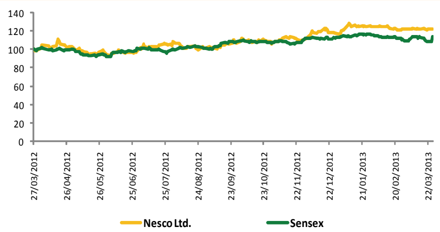
SHAREHOLDING PATTERN (as on 31st Dec. 2012)	%
Promoters	61.8
FIIs	2.0
DIIs	2.9
Public & Others	33.3

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
NESCO	0	3	22
SENSEX	3	2	14

Source: Capitaline; IndiaNivesh Research

NESCO v/s SENSEX



Source: Capitaline; IndiaNivesh Research

We initiate coverage on Nesco Ltd (Nesco) with BUY rating and FY15E price target of Rs 1,133. Our BUY recommendation is on back of (1) their cash cow asset (Bombay Exhibition Centre) which has negative working capital cycle, (2) Stability in business on a/c of higher contribution from lease revenue streams, (3) Unlevered balance sheet to fund future growth & (4) Stock trading at 47.3% discount to our FY15E based price target.

Investment Rationale

BEC- cash cow with negative working capital cycle: Bombay Exhibition Centre (BEC), one of Nesco's prime assets is the second largest exhibition center in India. BEC's huge space of 0.45 mn sq.ft, premium facilities (well designed ventilation rooms, wi-fi services and centralized air conditioning), proximity to railway stations, hotels, airports & residential/ commercial areas, positions it as one of the most chased exhibition locations in the city. This, when coupled with entire exhibition fees received in advance makes BEC a cash cow with negative working capital cycle.

Building III to drive FY14E & FY15E growth: Nesco's Commercial Building I & II with total leasable area of 0.24 mn sq ft is 100% occupied and in the last few years (except FY12), lease revenues have grown steadily. The company has finished developing Building-III and is ready for occupancy. We expect Building III to be 90% occupied in FY15E & accordingly, expect FY14E & FY15E top-line & bottom-line numbers to see strong jump.

Surge in Rental Income to assure steady Cash flows: We expect FY14E & FY15E top-line & bottom-line numbers of Nesco to see a jump, as their Building III (with ~0.65 mn sq. ft of leasable area) would be 90% occupied in FY15E. With Building III 90% occupied, lease revenues from Buildings as % of total revenues would increase from 21.1% in FY12 to 47.1% in FY15E, assuring stable cash inflows. In other words dependency on the low margin tools business would reduce over a period of time.

Impressive Balance Sheet: Nesco is zero debt company, despite their asset heavy real estate business. Company's cautious approach of developing real estate business in phased manner has helped them retain the debt free status tag. With IT-Building III up for occupancy, we are comforted that Nesco can meet its funding requirements to build IT Building IV through internal accruals. This prudent execution strategy insulates Nesco from current toughened macro environment (reduces the business risk).

Compelling Valuations

At CMP of Rs 769, the stock is trading at FY14E and FY15E, P/BV & P/E multiples of 2.5x and 2.0x & 12.1x and 10.1x, respectively. We have used Sum-of-The-Parts (SoTP) valuation methodology to arrive at our target price. Excluding the Industrial Capital Goods business (given its size and contribution to the overall financials), Bombay Exhibition Center (BEC) & IT Commercial space has been valued on Net Asset Value (NAV) basis to arrive at FY15E based price target of Rs 1,133. Given the strong 47.3% upside potential, from current levels, we recommend BUY on Nesco Ltd.

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Consolidated Financials

YE March (Rs mn.)	Net Sales	EBITDA	PAT	Equity Cap.	EPS (Rs)	P/E (x)	P/BV (x)
FY11A	1,151.7	732.9	686.3	140.9	48.7	15.8	4.8
FY12A	1,266.8	888.4	673.4	140.9	47.8	16.1	3.7
FY13E	1,293.9	914.8	690.5	140.9	49.0	15.7	3.1
FY14E	1,738.1	1,241.9	891.6	140.9	63.3	12.1	2.5
FY15E	2,149.4	1,504.6	1,075.5	140.9	76.3	10.1	2.0

Source: Company; IndiaNivesh Research

Investment Rationale

BEC- Cash Cow with negative Working Capital cycle

Bombay Exhibition Centre (BEC) is 2nd biggest exhibition center (~0.45 mn sq.ft.) in India & biggest in country's business capital, Mumbai.

List of Exhibition Centers in India

Rank	Name	Area (mn sq. ft.)	City
1	Pragati Maidan	0.68	New Delhi
2	**Bombay Exhibition Centre (BEC)**	**0.45**	**Mumbai**
3	Bangalore International Exhibition Centre	0.43	Bangalore
4	India Expo Centre	0.30	Gr. Noida
5	Renaissance Mumbai Convention Centre	0.23	**Mumbai**

Source: Company; IndiaNivesh Research

List of International Exhibitors

Sl. No.	International Exhibitors	Sl. No.	International Exhibitors
1	UBM/ CMP	5	Messe Dusseldorf
2	Reeds	6	Messe Frankfurt
3	Montgomery	7	Koeln Messe
4	IIR	8	Messe Nurnberg

Source: Company; IndiaNivesh Research

BEC's proximity to railway stations, hotels, airports, commercial/ residential areas; large exhibition space (~0.45 mn sq.ft.); premium offerings inclusive of well designed ventilation rooms, wi-fi services & centralized air conditioning, make it one of the most chased exhibition destinations (esp. by international exhibitors).

Top 10 Exhibitors (9 of the 10 are International exhibitors) a/c for ~70% of exhibition revenues, whereas remaining 30% is from smaller price sensitive domestic exhibitors. All the top 10 exhibitors tend to use the entire ~0.45 sq.ft. exhibition space. In Mumbai no exhibitor offers ~0.45 mn sq.ft. (ex. Parking space) of exhibition space, next being Renaissance Mumbai Convention Centre & Nehru Centre (each, with less than 0.30 mn sq. ft. of exhibition space). This positions BEC as one of the favorites amongst International exhibitors (contribute ~55% of BEC yearly revenues). Also, exhibition conducted by Gems & Jwellery Export Promotion Council (GJEPC) requires strong security systems and larger space to host an exhibition. Given that BEC is only competent player to address both issues, we are assured about 70% revenue stickiness to BEC revenues (GJEPC a/c's for ~15% of BEC revenues).

In FY12E, BEC registered occupancy of ~170 days, indicating effective utilization of let-out space, as remaining ~195 days fetch non-exhibition fees. Fees charged vary between Rs 150-220/ sq. m. / day as pricing is based on range of factors such as, whether the hall is a/c or non-a/c; booking is for peak or non-peak time period, etc.).

In the previous global crisis (2008-09), BEC reported average occupancy of 105-140 days. Given, that BEC has already let-out spaces for FY14E and H1FY15E (at same rates as in FY13E; prices last revised during FY12 & FY13), we sense that business risk of the company is much less for the next 1-1.5 years.

Given the large space offering for the exhibition business, competitive pricing (Nesco follows price revision once every 3 years) amongst peers, location proximity, we are comforted that no Exhibition Centre in Mumbai can take away top 10 clientele of BEC (indicating strong market positioning amongst large exhibitors). Even the upcoming Vashi Exhibition Centre (owned by CIDCO) with less than 0.3 mn sq. ft. would not eat in to top 10 clients of BEC.

The only risk comes from ~30% of BEC revenues, where smaller exhibitors decision is influenced by pricing. By resorting to pricing discounts there exists some risk of loss of business from smaller exhibitors (with less than 0.25 mn sq. ft. of requirement) as they may move to smaller exhibition centers.

A major chunk of Exhibition Fees is received in advance, before an exhibition commences (cancelation fees of up to 25%), indicating that Exhibition business by its very nature has negative working capital cycle. Cash flows generated in the current

Payment and Cancellation Details

Duration	Exhibition Fees	Cancellation Charges
1 month	10%	100%
3 months	30%	80%
6 months	25%	50%
12 months	20%	25%
Initial booking	15%	0%

Note: Duration represents before period (for payment) and after period (for cancellation).
Source: Company, IndiaNivesh Research

toughened macro outlook is positive for the company as the cash generated here could be deployed towards construction works of upcoming Building IV (indicating no need for debt).

On a whole, BEC is a cash cow with negative working capital cycle and in our view it would support funding requirements of Building IV, thereby, there won't be any stress on company's balance sheet.

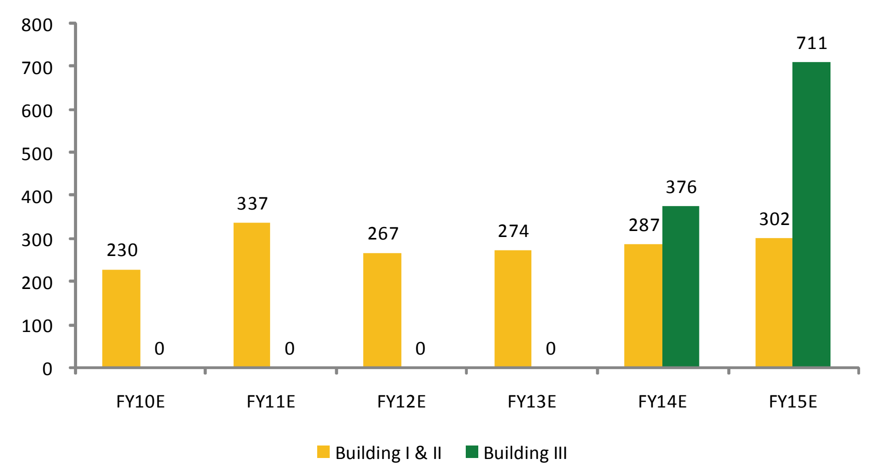
Building III to boost FY14E & FY15E growth

Nesco currently has 100% occupancy at its Commercial Buildings I & II (total leasable area of 0.24 mn sq ft). In the last few years (except in FY12), Nesco witnessed steady revenue growth from these 2 Buildings. Nesco's recently developed Building-III is ready for occupancy. We expect this building to start revenue contribution from Q2FY14E-end onwards (vs. management expectations of Q1FY14E). Nesco has been following the strategy of making leases to large ticket clients at relatively lower rates, keeping in mind the over-supply scenario in the Commercial Real Estate inventory and slow-down seen across broader economy.

Despite the current over-supply scenario, Nesco is able to maintain 100% occupancy levels at Building I & II. Also, Nesco has seen commitments from 3-4 large BFSI clients, who intend to set-up their back-office operations at Building III. Notably all these 3 Buildings are to be let out at Rs 95/sq ft/month.

Unlike other real estate players, we expect 90% occupancy rates for Building III in FY15E, owing to conservative lease rates offered by the company, which captures (1) lower cost of construction vs. the peers, (2) inviting large ticket clients to occupy & revising the rates by ~5% every year (which is below inflation levels). On a whole, we expect Nesco's Realty segment to report FY14E and FY15E top-line of Rs 663.5 mn and Rs 1,013 mn, respectively, indicating, 59.9% CAGR during FY12-15E.

Revenue Split between Building I, II & upcoming III (Rs mn)



Source: Company; IndiaNivesh Research

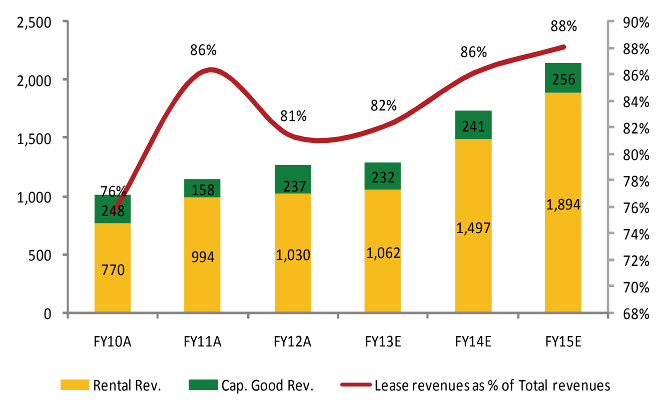
Assured and Stable cash flows generated

Nesco has 2 revenue streams, namely, lease revenues and product sales from Industrial capital goods business. In FY12, lease revenues & industrial capital good revenues accounted for 81.3% & 18.7% of total revenues, respectively. With Building III being 90% occupied in FY15E, we expect lease revenue contribution to total revenues to increase to 88.4% by FY15E.

Further, if we look at FY12 lease revenues split, assured revenues from Buildings a/c for 25.9% and revenues from BEC a/c for 74.1%. With Building-III 90% occupied (in FY15E), we expect such contribution of lease revenues from Buildings (to total lease revenues) to increase to 53.5% by FY15E. This eliminates any business risk originating from Exhibition's business.

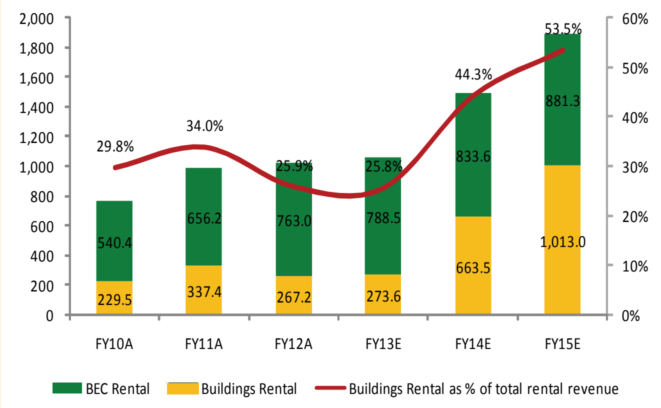
With contribution of lease revenues to total business increasing, we expect company's dependence on low margin tools business to reduce, we are assured of revenue stickiness, stable cash inflows and lower business risk.

Rev. Split (Rs mn): Lease Revenues as % of Total Revenues



Source: Company; IndiaNivesh Research

Rev. Split (Rs mn): Buildings Rental as % of Total Rental Revenue



Source: Company; IndiaNivesh Research

Unlevered balance sheet and prudent execution to fund future growth

Nesco is a zero debt company, despite being present in an asset heavy real estate business. Nesco's cautious approach of developing Building III post stabilization of Building I & II has helped the company remain debt free. Notably, this is despite toughened macro-economic scenario. With 90% of Building III likely to be occupied in FY15E, we expect regular cash flows being generated to be diverted towards the development of Building IV (with leasable area of ~1.2 mn sq.ft). With total project cost of Building IV being at ~Rs 2.5 bn, we expect the cost of construction to be at ~ Rs 2,100/ sq. ft (lower than the peers). With IT Building I, II & III combined generating PAT of ~Rs 1.5 bn in next 3 years (FY14E-16E), coupled with investments to the tune of Rs 2.5 bn (at FY13-end), comforts us that, funding Building IV project would be met through internal accruals. This prudent execution strategy insulates the company from any debt piling up on the books.

Understanding the Valuations

We have valued Nesco based on Sum-of-The-Parts (SoTP) methodology, given its diversified nature of business, where for lease revenues business we have used Net Asset Value (NAV) methodology. Given the smaller size of the Tools business (to contribute 11.6% of FY15 revenues), we have excluded it from valuation exercise.

Assumption

Specification	Value
Discount rate	12%
Cap rate	9%
FY13E rent/sq m/day (approx.)	160
FY13E Occupancy (days/ year)	170
Hike in Rent / 3 years	10%

Source: IndiaNivesh Research

BEC: Bombay Exhibition Centre (BEC) is cash cow & prime asset of Nesco. It is India's second biggest exhibition centre with total leasable area of ~0.45 mn sq. ft. Given their state of the art facilities, and proximity to airports, stations, hotels, BEC has been able to conduct large international exhibitions (clients include UBM, Reeds and Montgomery to name a few). It held ~ 120 trade fairs and exhibitions in FY12 and had occupancy of ~170 days. In the previous global crisis (2008-09), BEC reported average occupancy of 105-140 days. Given, that BEC has already let-out spaces for FY14E and H1FY15E (at same rates as in FY13E; prices last revised during FY12 & FY13), we sense that business risk of the company is much less for next 1-1.5 years. Also, BEC's conservative pricing policy supports higher occupancy rate of ~170 days (maximum occupancy attainable, given the very nature of business). Unlike its peers, BEC has a policy of hiking the fee rates by 10% once every 3 years (next price revision due in FY15-FY16). Given that exhibition industry's growth is very much linked to outlook of the international economy we have used higher discount rate of 12% and a cap rate of 9% to arrive at the fair value of BEC. Thus, we derived NAV of Rs 6.5 bn for BEC and accordingly arrived NAV per share of Rs 465.

Assumption

Specification	Value
Discount rate	11%
Cap rate	9%
Avg. rent/sq ft/month	95
Current Occupancy	100%
Peak Occupancy	100%
Hike in Rent / year	5%

Source: IndiaNivesh Research

Building I & II: Building I & II combined have leasable area of 0.24 mn sq. ft. The entire 0.24 mn sq. ft. of leasable area has been leased out. Except in FY12 (Schlumberger vacated, total leasable area declined as building was restructured), the company has reported steady growth in lease revenues from these two buildings. The average lease rates for the leased out area is at Rs 95/ sq. ft./ month, lower than lease rentals being offered by Oberoi and other realtors in nearby areas in the range of Rs 100 -125 / sq. ft./ month. We are of the view that, lower lease rates charged by Nesco is owing to (1) Over-supply of Commercial space in Mumbai (especially in Goregaon & nearby areas) and (2) impact of lower construction spending (vs. the peers). Given the steady and certain cash flows generated from this asset, we have preferred lower discount rate of 11% and assigned a cap rate of 9% to value the Buildings. Accordingly, we have arrived at NAV of Rs 2.1 bn and NAV per share of Rs 155.

Assumption

Specification	Value
Discount rate	12%
Cap rate	9%
FY14E rent/sq ft/month	95
FY14E-end Occupancy	50%
FY15E-end Occupancy	90%
Hike in Rent / year	5%

Source: IndiaNivesh Research

Building III: Nesco recently finished developing Building III, with total leasable area of ~0.65 mn sq. ft. The company has already signed KPMG and is in the process of closing 3-4 MNC's (from BFSI vertical), who intend to open their back-office operations. We expect entire Building to be let out and 90% peak occupancy from FY15E onwards. Nesco management sounded confident to close the deals at average lease rates of ~Rs 100/ sq ft/ month (vs. our assumption of Rs 95/ sq. ft/ month) by Q1FY14E-end. Again given their lease rates vs. peers, and strategy of capturing large ticket clients, indicates more certainty in cash flow prediction, further comforts us that this business could be fairly valued at 12% discount rate and at a cap rate of 9%, to arrive at NAV of Rs 4.6 bn and NAV per share of Rs 326.

Assumption

Not included in current valuation

Building IV: Nesco has been drawing plans for IT Building IV with total leasable area of ~1.2 msf over the last few quarters. Nesco currently is finalizing architecture plans and is expecting to get requisite approvals sooner. Management expects to start construction works on this project in H1FY14E (vs. our expectations of construction works starting in H2FY14E and ready for fit-outs by H2FY16E). However, given the early stages of the project and the uncertainties, we have not included value of this project in our target price derivation.

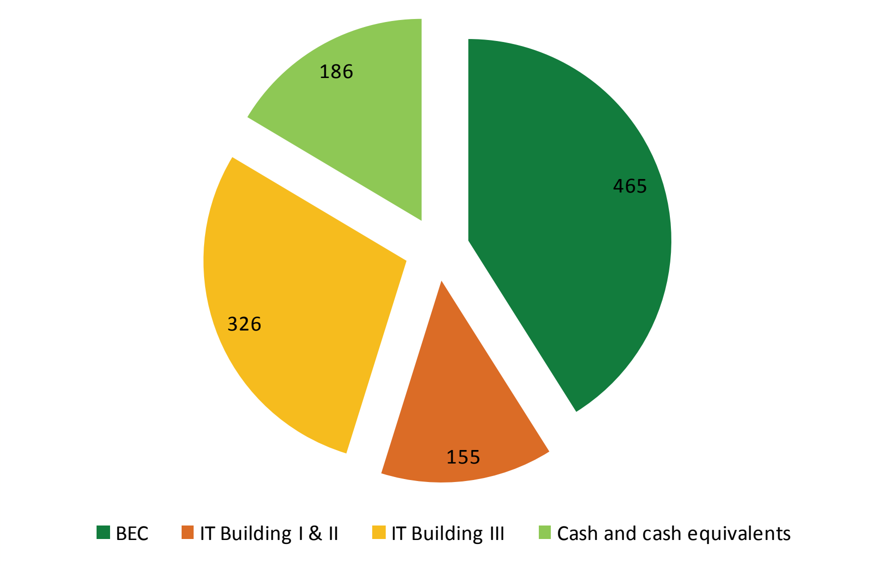
Industrial Capital Goods: Nesco has a single plant that manufactures various engineering products such as forging hammers and presses, blow room lines, high production cards for textile industry. Nesco has long term contracts with reputed clients such as BHEL, NACLO and BEML to name a few. This business segment was in the red in FY11, and from there-on has it has returned to profitability (except in

Q3FY13 where again at EBIT level it was in red). This segment reported FY12 revenues of Rs 168.2 mn (18.7% of consolidated revenues) and EBIT of Rs 24.4 mn (2.5% of consolidated EBIT). To come out with more efficient, better quality products, widen product portfolio and improve segment margins Nesco is in the process of establishing Research Centre, which in our view shall commence operations in FY14E. Given the commoditized nature of business, higher dependency on macro outlook, and the insignificant contribution to earnings, we have excluded this business from our valuation exercise.

Further, we expect the company to have a cash and current investments of Rs 54 mn and Rs 2.5 bn at FY15E-end, which translates to per share value of Rs 186.

All the businesses discussed above (based on SoTP basis) adds up to per share intrinsic value of Rs 1,133. Our SoTP analysis indicates that 42.5% (i.e. Rs 481/ share) of derived value would come from Buildings segment, which generates steady stream of lease revenues. Thereby, we remain comforted by any major downside risk from current levels for Nesco.

Target Price Split up (Rs per share)



Source: IndiaNivesh Research

At CMP of Rs 769, the stock is trading at FY14E and FY15E, P/BV & P/E multiple of 2.5x and 2.0x & 12.1x and 10.1x, respectively. After taking into account following factors (1) Building III to drive FY14E and FY15E revenue growth, (2) market leadership position in Exhibitions space & (3) the practice of prudently developing land and maintaining healthy balance sheet, we strongly believe that the stock is trading at attractive valuations. We initiate Nesco with BUY rating 24-month price target of Rs 1,133, reflecting 47.3% upside from current levels.

Understanding the Financials

Nesco reported 11.5% CAGR growth in its top-line during FY10-12 to Rs 1.2 bn. Slow-down in top-line is partly owing to loss of revenues from Schlumberger (total leasable area declined as building was restructured). BEC registered 18.8% CAGR during FY10-12 and contributed ~60% of FY12 consolidated revenues.

We expect the top-line of the company to grow at 19.3% CAGR during FY12A-15E mainly due to (1) Building-III to start contributing to revenues from H2FY14E onwards and (2) 4.9% CAGR in BEC revenues during the same period. Further, Industrial capital goods business is expected to report 2.6% CAGR during FY12A-15E due to slow-down in economy, thereby delaying the benefits flowing-in from new research centre.

Segmental Revenue

Rs mn	FY10A	FY11A	FY12A	FY13E	FY14E	FY15E
BEC	540.4	656.2	763.0	788.5	833.6	881.3
Buildings	229.5	337.4	267.2	273.6	663.5	1,012.7
Industrial Cap. Goods	248.3	158.1	236.6	231.7	241.0	255.5
Net Sales	1,018.3	1,151.7	1,266.8	1,293.8	1,738.1	2,149.5
As % of Net Sales						
BEC	*53.1%*	*57.0%*	*60.2%*	*60.9%*	*48.0%*	*41.0%*
Buildings	*22.5%*	*29.3%*	*21.1%*	*21.1%*	*38.2%*	*47.1%*
Industrial Cap. Goods	*24.4%*	*13.7%*	*18.7%*	*17.9%*	*13.9%*	*11.9%*

Source: Company; IndiaNivesh Research

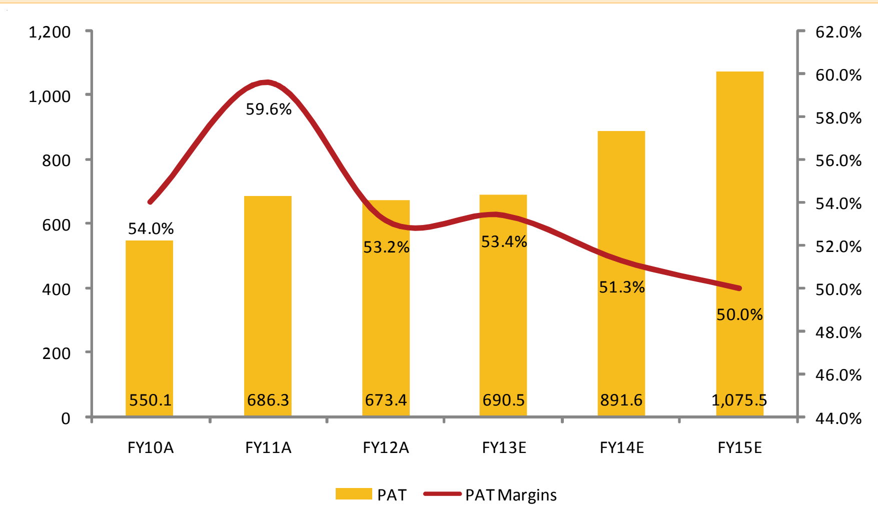
Income Statement

Rs mn	FY10A	FY11A	FY12A	FY13E	FY14E	FY15E
Net Sales	1,018.3	1,151.7	1,266.8	1,293.8	1,738.1	2,149.5
EBITDA	643.0	732.9	888.4	914.8	1,241.9	1,504.6
Dep. & Amort.	22.9	22.6	34.2	41.3	83.9	93.1
Int. Exp.	12.8	6.2	13.7	15.0	20.0	21.0
Other income	179.9	118.2	128.0	135.0	145.0	157.0
PBT	787.3	1,000.2	968.2	993.5	1,282.9	1,547.5
Taxes	227.4	313.9	294.9	303.0	391.3	472.0
PAT	550.1	686.3	673.4	690.5	891.6	1,075.5
EPS (Rs.)	78.1	48.7	47.8	49.0	63.3	76.3

Source: Company; IndiaNivesh Research

The company has reported 10.6% CAGR growth in its bottom-line during FY10-12 to Rs 673.4 mn. Debt free status of the company when coupled with their negative working capital cycle across the exhibitions business helped them report 53.2% net profit margins for FY12. Increase in marketing, registration and architecture design costs for Building III & IV, practice of increasing exhibition rates once every 3 years (vs. yearly inflation rate of 7-8%), our conservative other income estimates, should lead to slight margin compression for the company. We expect Nesco to report FY14E & FY15E PAT margins of 51.3% and 50.0%, respectively.

PAT (Rs mn) and PAT Margins (%)



Source: Company; IndiaNivesh Research

Balance Sheet

With no debt on the books, we look upon Nesco to be very well positioned amongst its peer's in real estate development, who have been reeling under heavy stress on their balance sheets. Given their prudent execution strategy, we are comforted that they would be able to fund the project cost of Building IV (~Rs 2.5 bn), through internal accruals. We assume that of the total Rs 2.5 bn capex towards Building IV, Rs 630 mn and Rs 400 mn would be spent in FY14E and FY15E, respectively, with the remaining in FY16E.

Post execution of Building III, we remain impressed with Nesco's current unlevered balance sheet status, given their impressive cash & investments balance of ~Rs 2.5 bn (at Q2FY13-end). Again after adjusting for spends towards Building IV, Tools business R&D centre, when coupled with cash flows generated from BEC and Building leases, we expect Nesco to be left with cash & current investments surplus of Rs 2.5 bn (by FY15E-end; reflecting cash flow from operations to the tune of Rs 733 mn in FY14E). This provides the company with the required monetary resources in taking future decisions to grow its business.

Balance Sheet

Rs mn	FY11A	FY12A	FY13E	FY14E	FY15E
Share Capital	140.9	140.9	140.9	140.9	140.9
Reserves & Surplus	2,136.8	2,760.4	3,392.3	4,185.6	5,146.6
Non-current liabilities	411.0	370.7	371.2	403.3	443.3
Current Liabilities	446.8	538.7	576.6	661.1	732.4
Total Equity & Liabilities	3,135.5	3,810.7	4,481.0	5,390.9	6,463.3
Net block	1,132.9	1,476.7	1,690.2	2,392.1	3,478.8
Other Non-current assets	18.9	12.4	12.4	12.4	12.4
Current Assets	1,983.7	2,321.5	2,778.3	2,986.4	2,972.0
Total Assets	3,135.5	3,810.7	4,481.0	5,390.9	6,463.3

Source: Company; IndiaNivesh Research

Risks & Concerns

- In the previous global crisis (2008-09) BEC segment witnessed average occupancy of 105-140 days. BEC business is already booked for FY14E and H1FY15E. Although business risk of the company is much less for next 1-1.5 years, any prolonged weakness in domestic/ international macro environment may impact top-line of BEC, as it is very much linked to dispensable income in economy and corporate spending on promotion and advertisements.
- Weaker than anticipated pick-up in demand for IT commercial space may impact the occupancy rate of up-coming Building III and hence the financials.

Consolidated Financial Statements

Income statement

Y E March (Rs mn)	2011A	2012A	2013E	2014E	2015E
Net sales	**1,151.7**	**1,266.8**	**1,293.9**	**1,738.1**	**2,149.4**
Growth %		*10.0%*	*2.1%*	*34.3%*	*23.7%*
Raw materials expenses	113.6	123.0	116.4	156.4	223.5
Employee Expenses	48.5	61.7	62.1	80.0	101.0
SG&A Expenses	210.1	152.7	161.7	207.7	255.8
Other expenses	46.6	41.0	38.8	52.1	64.5
Total Operating Expenses	418.8	378.4	379.1	496.2	644.8
EBITDA	**732.9**	**888.4**	**914.8**	**1,241.9**	**1,504.6**
Growth %		*21.2%*	*3.0%*	*35.8%*	*21.2%*
EBITDA Margin %	*63.6%*	*70.1%*	*70.7%*	*71.5%*	*70.0%*
Depreciation & Amortisation	22.6	34.2	41.3	83.9	93.1
Other operating Income	11.9	17.8	15.0	15.0	15.0
Other Income	106.4	110.2	120.0	130.0	142.0
EBIT	**828.6**	**982.2**	**1,008.5**	**1,302.9**	**1,568.5**
EBIT Margin %	*71.9%*	*77.5%*	*77.9%*	*75.0%*	*73.0%*
Interest	6.2	13.7	15.0	20.0	21.0
Exceptional items	(177.7)	0.2	0.0	0.0	0.0
PBT	**1,000.2**	**968.2**	**993.5**	**1,282.9**	**1,547.5**
Tax	313.9	294.9	303.0	391.3	472.0
Effective tax rate %	*31.4%*	*30.5%*	*30.5%*	*30.5%*	*30.5%*
Profit after tax	**686.3**	**673.4**	**690.5**	**891.6**	**1,075.5**
Extra-ordinary items	0.0	0.0	0.0	0.0	0.0
PAT	**686.3**	**673.4**	**690.5**	**891.6**	**1,075.5**
Growth%		*-1.9%*	*2.5%*	*29.1%*	*20.6%*
PAT margin %	*59.6%*	*53.2%*	*53.4%*	*51.3%*	*50.0%*

Balance sheet

Y E March (Rs mn)	2011A	2012A	2013E	2014E	2015E
Share Capital	140.9	140.9	140.9	140.9	140.9
Reserves & Surplus	2,136.8	2,760.4	3,392.3	4,185.6	5,146.6
Net Worth	**2,277.7**	**2,901.3**	**3,533.2**	**4,326.5**	**5,287.5**
Deferred tax liabilities	8.6	8.5	8.5	8.5	8.5
Long term liabilities & provisions	402.4	362.2	362.7	394.8	434.9
Non-current liabilities	**411.0**	**370.7**	**371.2**	**403.3**	**443.3**
Trade payables	77.6	79.1	82.7	115.9	155.2
Short term liabilities & provisions	369.2	459.6	493.9	545.2	577.1
Current liabilities	**446.8**	**538.7**	**576.6**	**661.1**	**732.4**
Total Equity & Liabilities	**3,135.5**	**3,810.7**	**4,481.0**	**5,390.9**	**6,463.3**
Gross Block	1,425.7	1,801.6	2,056.9	2,843.2	4,023.5
Accumalated Depreciation	292.8	324.9	366.7	451.1	544.7
Net Block	**1,132.9**	**1,476.7**	**1,690.2**	**2,392.1**	**3,478.8**
Non-current investments	0.3	0.3	0.3	0.3	0.3
Long term loans & advances	18.5	12.1	12.1	12.1	12.1
Non-current assets	**1,151.8**	**1,489.2**	**1,702.7**	**2,404.5**	**3,491.2**
Current investments	1,585.5	2,101.3	2,500.0	2,650.0	2,565.0
Inventories	46.3	44.1	43.1	55.5	77.6
Trade receivables	95.1	81.2	82.7	111.0	125.4
Cash & Bank Balance	101.6	42.5	122.6	49.8	54.0
Loans & advances	152.6	52.0	30.0	120.0	150.0
Other Current Assets	2.6	0.4	0.0	0.0	0.0
Current assets	**1,983.7**	**2,321.5**	**2,778.3**	**2,986.4**	**2,972.0**
Total Assets	**3,135.5**	**3,810.7**	**4,481.0**	**5,390.9**	**6,463.3**

Cash flow

Y E March (Rs mn)	2011A	2012A	2013E	2014E	2015E
Profit before tax & exceptional items	822.4	968.5	993.5	1,282.9	1,547.5
Depreciation & Amortisation	22.6	34.2	41.3	83.9	93.1
Other adj. prior to WC changes	(55.8)	(81.9)	(105.0)	(110.0)	(121.0)
Changes in working capital	202.1	176.9	59.8	(46.3)	4.8
Tax, dividend and exceptional Items	(207.1)	(372.1)	(375.5)	(477.0)	(566.9)
Cash flow from operations	**784.1**	**725.6**	**614.0**	**733.6**	**957.5**
Capital expenditure	(529.0)	(381.5)	(255.3)	(786.3)	(1,180.3)
Free Cash Flow	**1,313.1**	**1,107.0**	**869.3**	**1,519.9**	**2,137.8**
Other Income	70.9	103.7	120.0	130.0	142.0
Inc./Dec. in Investments	(246.5)	(506.9)	(398.7)	(150.0)	85.0
Cash flow from investments	**(704.5)**	**(784.7)**	**(534.0)**	**(806.3)**	**(953.3)**
Cash flow from Financing	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Net change in cash	**79.6**	**(59.1)**	**80.1**	**(72.7)**	**4.2**
Cash at the beginning of the year	**22.0**	**101.6**	**42.5**	**122.6**	**49.8**
Cash at the end of the year	**101.6**	**42.5**	**122.6**	**49.8**	**54.0**

Key ratios

Y E March	2011A	2012A	2013E	2014E	2015E
Adj. EPS (Rs)	48.7	47.8	49.0	63.3	76.3
Cash EPS (Rs)	50.3	50.2	51.9	69.2	82.9
DPS (Rs)	3.3	3.0	3.5	4.0	4.5
BVPS (Rs)	161.6	205.9	250.7	307.0	375.2
ROCE (%)	36.4	33.9	28.5	30.1	29.7
ROE (%)	30.1	23.2	19.5	20.6	20.3
Inventories days	14	13	12	12	13
Sundry debtors days	30	23	23	23	21
Trade payables days	24	22	23	24	26
PER (x)	15.8	16.1	15.7	12.1	10.1
P/BV (x)	4.8	3.7	3.1	2.5	2.0
EV/EBITDA (x)	14.6	12.1	11.7	8.7	7.2
Dividend Yield %	0.4	0.4	0.5	0.5	0.6
M-Cap/Sales (x)	9.4	8.6	8.4	6.2	5.0
Net Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
Net Debt/EBITDA (x)	-0.1	0.0	-0.1	0.0	0.0

Source: Company; IndiaNivesh Research

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1.	Analyst ownership of the stock	Yes
2.	Group/Directors ownership of the stock	Yes
3.	Broking relationship with company covered	No
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