Angel Securities
Institutional Investment Services

March 17, 2010

Electrosteel Castings

`Steel'ing its way up

Electrosteel Castings (ECL) is a leading player in ductile iron (DI) pipes and is venturing into steel making through its subsidiary Electrosteel Integrated (EIL), which is setting up a 2.2mn tonne steel plant expected to be commissioned by FY2012E. ECL's backward integration initiatives through allocation of coking coal mines are expected to result in expansion of EBITDA Margin by 1,304bp over FY2009-12E. The company is also awaiting final environmental clearance for its iron ore mine, which will further lower costs, but has not been factored in our estimates. Further, listing of EIL in which ECL holds 40% stake could unlock value for ECL. **We Initiate Coverage on the stock, with a Buy recommendation and 18-month SOTP Target Price of Rs72, valuing the Core business at 8x FY2012E FDEPS and its investments in the Steel business at 1x Book Value.**

Moving towards an Integrated business model: ECL is on track to have in place an integrated business model going ahead through a) Backward integration initiatives led by the allocation of mines, and b) Focus on beefing up its logistic infrastructure to further reduce costs. The company has already started coal production from its coal mines at Parbatpur, Jharkhand. This is likely to result in EBITDA Margin improving by 1,304bp to 28.0% over FY2009-12E, despite the fall in DI realisations. Moreover, grant of iron ore mining lease, with estimated reserves of 91mn tonnes could further improve Margins, which is not factored in our estimates.

Value unlocking through listing of EIL: ECL is setting up a 2.2mn tonne steel plant through EIL, in which it holds 40% stake. The total project cost of Rs7,262cr has been funded through a Debt-Equity ratio of 3:1 and the project has already achieved financial closure. Of the total equity contribution of Rs1,815cr, ECL has made an investment of Rs726cr. ECL plans to list EIL to raise Rs300cr, which is likely to unlock value for ECL.

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2009	FY2010E	FY2011E	FY2012E
Net Sales	**1,948**	**1,451**	**1,706**	**1,818**
% chg	*35.3*	*(25.5)*	*17.6*	*6.6*
Net Profit	**135.3**	**168.5**	**211.5**	**248.8**
% chg	*17.1*	*24.5*	*25.5*	*17.7*
OPM (%)	14.9	26.8	26.2	28.0
FDEPS (Rs)	**4.2**	**4.5**	**5.6**	**6.6**
P/E (x)	11.3	10.7	8.5	7.2
P/BV (x)	1.0	1.0	0.9	0.8
RoE (%)	10.4	11.3	12.8	13.6
RoCE (%)	10.3	11.7	11.9	12.7
EV/Sales (x)	1.1	1.7	1.5	1.4
EV/EBITDA (x)	7.5	6.2	5.8	5.1

Source: *Company, Angel Research*

BUY

CMP	Rs48
Target Price	Rs72
Investment Period	18 months

Stock Info	
Sector	Steel
Market Cap (Rs cr)	1,549
Beta	1.2
52 Week High / Low	56/14
Avg. Daily Volume	934470
Face Value (Rs)	10
BSE Sensex	17,490
Nifty	5,232
Reuters Code	ELST.BO
Bloomberg Code	ELSC@IN

Shareholding Pattern (%)	
Promoters	48.1
MF / Banks / Indian FIs	17.9
FII / NRIs / OCBs	14.3
Indian Public / Others	19.7

Abs. (%)	3m	1yr	3yr
Sensex	3.5	97.3	40.7
Electrosteel	2.5	238.3	22.8

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Investment Arguments

Moving towards an Integrated business model

ECL is on track to have in place an integrated business model going ahead through a) Backward integration initiatives led by the allocation of mines, and b) Focus on beefing up its logistic infrastructure to further reduce costs.

Captive usage of coal to result in 1,304bp Margin expansion over FY2009-12E

The company was granted mining lease for the Parbatpur coking coal mine in Jharkhand in January 2008 for 30 years. The mine is estimated to have reserves of 231.2mn tonnes. Production at the mine has already started and we expect 20% and 25% of the company's total coal requirement in FY2011E and FY2012E respectively, to be met through this captive coal mine. As a result, EBITDA Margins are expected to expand by 1,304bp to 28.0% over FY2009-12E, despite an expected fall in DI pipe realisations on account of the competitors' capacity coming on-stream.

Exhibit 1: EBITDA and EBITDA Margin sensitivity to captive coal usage

FY2011E	10%	15%	20%	25%	30%
EBITDA (Rs cr)	423.2	435.5	447.7	460.0	472.2
EBITDA Margin (%)	24.8	25.5	26.2	27.0	27.7

FY2012E	15%	20%	25%	30%	35%
EBITDA (Rs cr)	482.6	495.6	508.7	521.8	534.8
EBITDA Margin (%)	26.5	27.3	28.0	28.7	29.4

Source: Angel Research

Exhibit 2: EPS sensitivity to captive coal usage

FY2011E	10%	15%	20%	25%	30%
EPS (Rs)	5.2	5.4	5.6	5.8	6.0

FY2012E	15%	20%	25%	30%	35%
EPS (Rs)	6.1	6.4	6.6	6.8	7.1

Source: Angel Research

Captive iron ore mine would result in significant cost reduction, not factored in our estimates

On the iron ore side, the company is in the process of acquiring the mining lease for the iron ore mine at Kodolibad, Jharkhand. Currently, the company is awaiting final clearance from the forest and environmental authorities. The cost reduction resulting from the captive iron ore mine would result in significant Margin expansion as iron ore cost would reduce by 40-50%. However, we have not factored the same in our estimates as the final grant of the mining lease is pending.

The company holds 49% stake in North Dhadhu Mining Company for a non-coking coal block at the North Dhadhu coal field in Jharkhand. The thermal coal from the mine will be utilised for its power plants, which would result in further reduction in costs.

Focus on beefing up the logistic infrastructure resulting in improvement in Margins

Currently, ECL outsources its logistic requirements to a third party. However, the company has started work on building a captive railway siding at Parbatpur and Kodolibad (subject to mining lease being granted) to optimise its logistic costs.

ECL is incurring capex mainly for development of the coal mines and setting up the railway siding, which will be funded through internal accruals. The company plans to incur total capex of Rs1,200cr, out of which Rs250cr has already been spent, while the balance is expected to be incurred by FY2013E.

Exhibit 3: Capex Plan (Rs cr)

Projects	Location	Project cost
Acquisition & development of coal mine	Jharkhand, Parbatpur	459
Railway Siding & Wagons	Khardah & Haldia, West Bengal	65
Iron ore mine including railway siding*	Kodolibad, Jharkhand	501
Others		175
Total		**1,200**

*Source: Company, Angel Research, * Subject to mining lease being awarded*

Value unlocking through listing of Electrosteel Integrated

EIL IPO to unlock value for ECL shareholders

ECL, through its subsidiary EIL, expects to commission its 2.2mn tonne integrated green-field steel plant in Jharkhand by FY2012E. The Rs7,262cr project is being financed through 3:1 Debt/Equity ratio and has already achieved financial closure. ECL holds 40% in the steel project, while Stemcor, ILFS and others hold 20%, 8% and 32%, respectively. Stemcor is the world's largest steel trader with a network of 80 offices across the globe. The strategic alliance with Stemcor will enable EIL to leverage on the former's well-spread distribution channel.

EIL has already acquired the land for setting up the steel plant and construction work is in progress. The company has entered into a 20-year long-term agreement with ECL-owned mines and plans to set up a 120MW captive power plant to meet 84% of the plant's power requirement. The total equity requirement of the project is Rs1,815cr, and ECL has already infused its equity obligation of Rs726cr. Out of the balance equity requirement of Rs1,100cr, Rs800cr has been infused by other stake holders and EIL proposes to make an initial public offer (IPO) of the remaining Rs300cr, which is expected to unlock value for ECL.

Leading DI player, to benefit from Investment in Water infrastructure

ECL a majar DI player in domestic markets

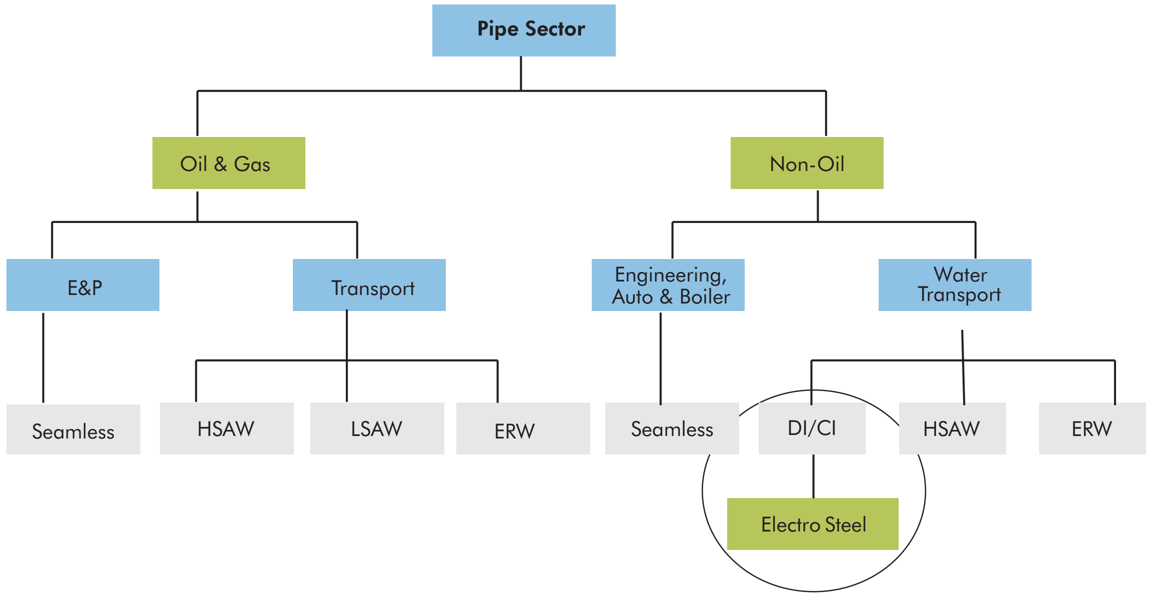
The ECL Group and Jindal Saw are the key players in the domestic DI market. ECL has total capacity of 460,000 tonnes in the DI Segment, while Jindal Saw has a capacity of 300,000 tonnes. Others players like Jai Balaji, with a capacity of 240,000 tonnes and Tata Metaliks with a capacity of 110,000 tonnes in collaboration with Kubota Corporation of Japan are expected to foray into the segment with their plants expected to come on-stream by 2010E.

Exhibit 4: ECL - Prominent player in Domestic DI market (tonnes)

ElectroSteel*	460,000
Jindal Saw	300,000
Jai Balaji**	240,000
Tata Metaliks**	110,000
Total	**1,110,000**

*Source: Company, Angel Research; * Includes Lanco Ind. capacity of 180,000 tonnes; ** Capacity expected to come on-stream by 2010E*

Exhibit 5: ECL in the Pipe Sector



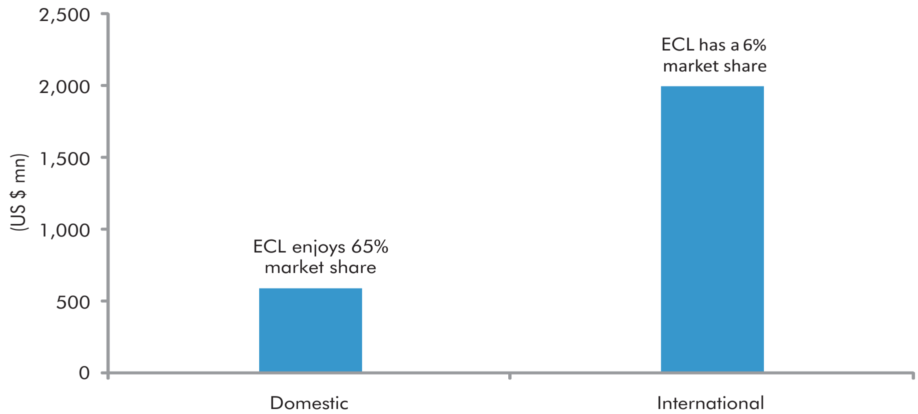
Source: Angel Research

Development of water infrastructure in the country to drive demand for DI pipes

Increasing investments in Water Infrastructure to boost demand for DI pipes

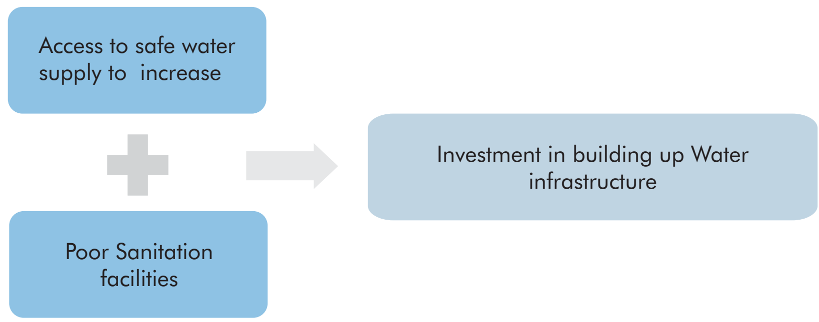
The demand for DI pipes is directly linked to the investment in water infrastructure as it facilitates water transport. Currently, domestic demand for DI pipes is estimated to be 610ktpa and is expected to grow at 15% per annum. ECL currently enjoys 65% market share in the domestic market. The international market for DI pipes is worth around US $2bn, of which ECL enjoys a market share of about 6%.

Exhibit 6: Dominant market share in DI markets



Source: CARE, Angel Research

Exhibit 7: Need for Investment in Water Infrastructure



Source: Angel Research

Water availability in India has been improving...

Availability of water in India over the past few decades has been improving. The access to improved water resources is higher in India at about 86% compared to 76% (average) in South Asia and 83% in lower middle income countries.

Exhibit 8: Comparative access to improved Water resources

	India	South Asia Average	Lower middle income countries
Improved water resources (% of population with access)	86	76	83

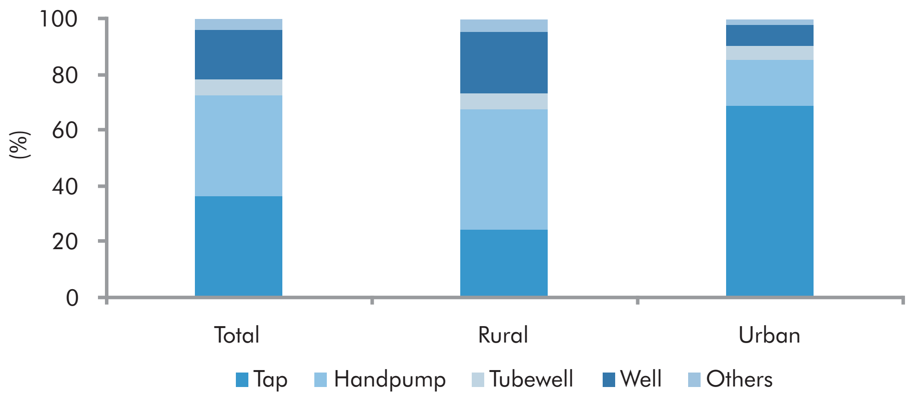
Source: World Bank, Angel Research

...while water infrastructure continues to be inadequate

As per the planning commission, in India, 9% of the urban population and ~25% of rural population does not have access to water supply. While access to water resources is high, 76% of the water supply in rural India is still being sourced from tubewells, handpumps, wells and others. In urban India, 31% of the water supply is through sources other than tap. This indicates the strong potential for developing pipeline network for supplying safe drinking water to households.

There exists strong potential for developing a pipeline network for supplying safe drinking water

Exhibit 9: Sources of Water supply in India



Source: Census 2001, Angel Research

Improved sanitation facilities in India stand at an abysmal 33%

In India, poor sanitation system continues to be a major area to be addressed by the government. Improved sanitation facilities, as a percentage of total population, in India is very low at 33% as compared to 53% (average) in South Asia and 68% in the lower middle income countries.

Exhibit 10: Comparative access to Improved Sanitation facilities

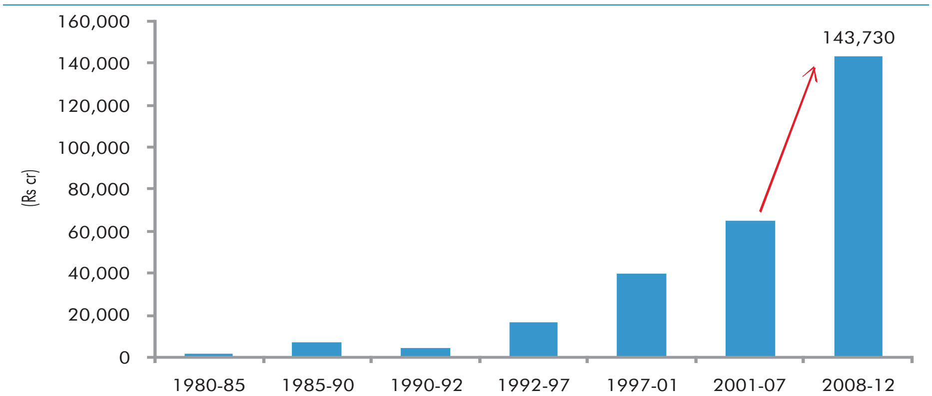
	India	South Asia Average	Lower middle income countries
Improved sanitation facilities (% of population with access)	33	53	68

Source: World Bank, Angel Research

Expanding opportunity for water infrastructure

Over the years, the Indian Government has been laying emphasis on setting up adequate water supply facilities and improving sanitation levels in the country. This is reflected in the higher Plan allocation of Rs143,730cr in the Eleventh Plan, up 122% over the previous Plan.

Exhibit 11: Water Management - Plan-wise allocation of funds



Source: Planning Commission, Angel Research

By end of the Eleventh Five-Year Plan (2012), the government aims to provide 100% water supply to the entire urban population at an estimated investment of Rs53,666cr. Moreover, with a view to develop water and sanitation facilities in the urban areas, the government has launched two new programmes, viz. Jawaharlal Nehru National Urban Renewal Mission (JNNURM) and Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT).

- JNNURM will cover 63 cities with a population above one million including 35 metros and other State capitals with a total outlay of Rs1,00,000cr where water supply, and sanitation accounts for 40% of the outlay.

- UIDSSMT will cover the remaining 5,098 towns having a population less than one million.

ECL's strong relationship with government to hold it in good stead

Risks of losing market share is minimal for ECL as it has strong relationship with the government

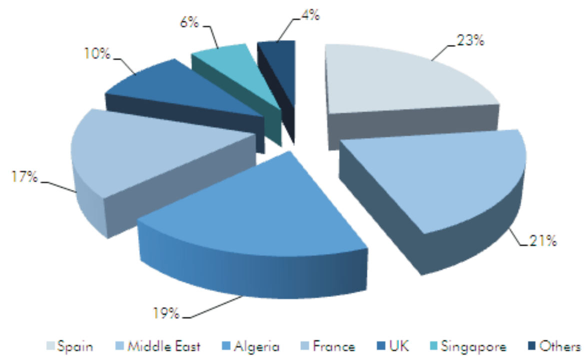
Lately, the company has been facing stiff competition due to the entry of Jindal Saw and competition is likely to intensify going ahead with the upcoming capacity of Jai Balaji and Tata Metalliks in the same space. However, we believe that the risks of ECL losing market share is minimal, as it has a long-standing relationship with the government agencies. We believe that the strong relationship with the government coupled with the company's integration initiatives will aid it in maintaining its market share.

Thrust on Exports

ECL is well poised to benefit from its expanding export initiatives

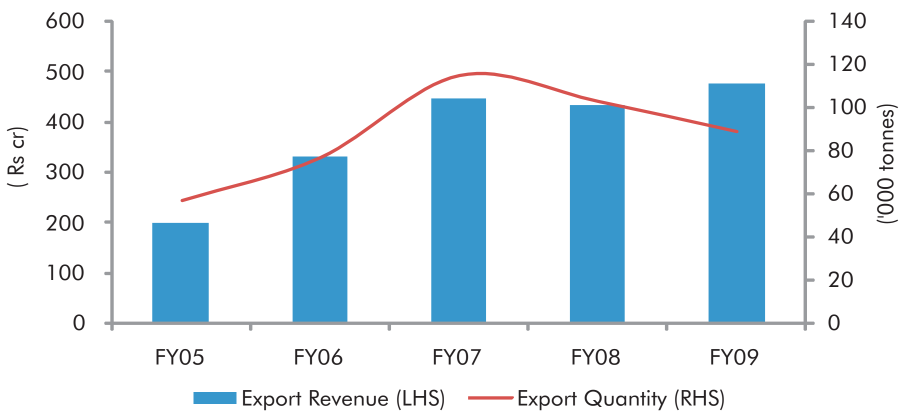
ECL continues to focus on its export strategy through its presence in Europe (France, Spain, UK and Portugal), Algeria in Africa and Asian markets (Singapore, Hong Kong, Mauritius, Sri Lanka, Bangladesh, Qatar and Bahrain). Currently, the company is exploring new markets like USA with the establishment of its American subsidiary. Moreover, with the investment in water infrastructure expected to increase worldwide to US $180bn by 2025E from current levels of around US $70bn as estimated by the World Commission on Water, we believe that ECL is well poised to benefit from its expanding export initiatives.

Exhibit 12: Export sales by geography (FY2009)



Source: Company, Angel Research

Exhibit 13: Export Growth Trend



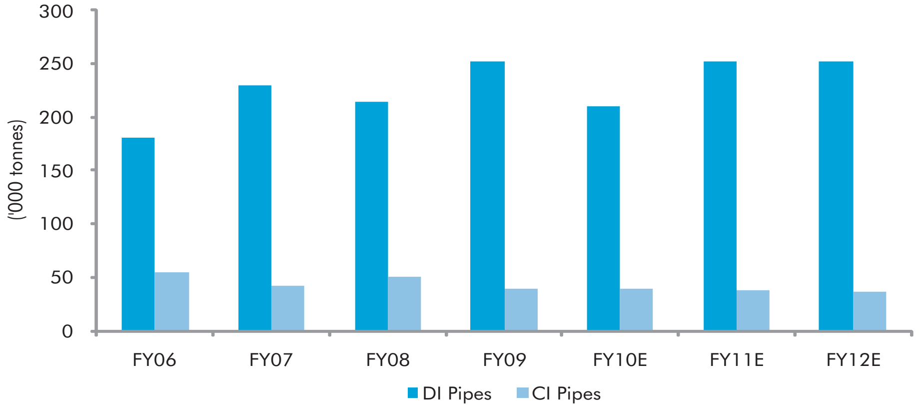
Source: Company, Angel Research

DI pipes better placed than Cast Iron (CI) pipes

ECL has been focusing on increasing the production of DI pipes

Globally, DI pipes have replaced CI pipes and mild steel pipes primarily due to its inherent quality of providing superior strength, greater resistance power, corrosion resistance and ductility. As the demand for DI pipes has been growing over the years, ECL has been focusing on increasing its production of DI pipes, while the production of CI pipes has been muted. The company's DI pipes production registered a CAGR of 11.6% over FY2006-09, while CI pipes production declined at a CAGR of 10.3% in the mentioned period.

Exhibit 14: DI & CI pipes Production Trend



Source: Company, Angel Research

Key Concerns

Delay in the development of the mines

Any delay in the development of the Parbatpur coal mines could adversely impact our estimates of lower coal cost. Although we have not accounted for the iron ore mines, any delay in the allotment process will impact the company's vision of becoming an integrated player.

Delay in setting up of the steel plant

ECL has already invested its equity component of Rs726cr and expects the green-field steel plant to get commissioned by FY2012E. It may be noted here that management has no prior experience in steel making. Hence, any delay could impact future plans of the company.

Adverse movement in product prices

Any significant price fluctuation for DI/CI pipes may impact the company's Earnings as well as our estimates.

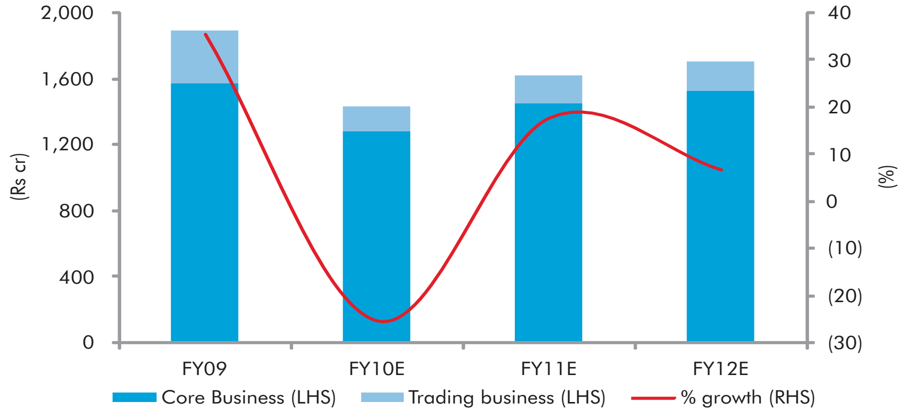
Financial Analysis

Core business to grow...

Revenue is expected to grow by 17.6% in FY2011E primarily led by volume growth in the DI Segment

We expect Revenue to de-grow by 25.5% in FY2010E to Rs1,451cr on account of lower sales volume of DI pipes due to the blast furnace shutdown in 4QFY2010 and absence of low-Margin trading revenues in FY2010E. However, we expect Revenues to grow by 17.6% and 6.6% in FY2011E and FY2012E respectively, primarily led by volume growth in the DI Segment. The Core business is expected to constitute around 89% of Revenues in FY2012E as compared to 83% in FY2009.

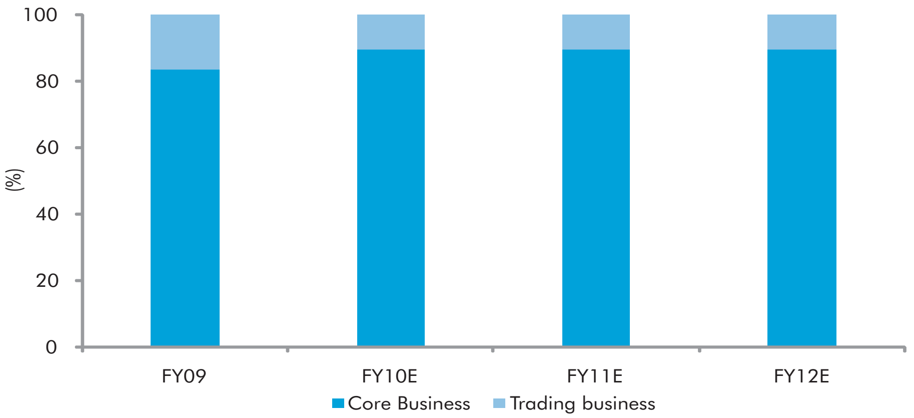
Exhibit 15: DI to drive Revenue growth in FY2011E



Source: Company, Angel Research

Core business is expected to constitute around 89% of FY2012E Revenues

Exhibit 16: Proportion of Trading Revenues to decline



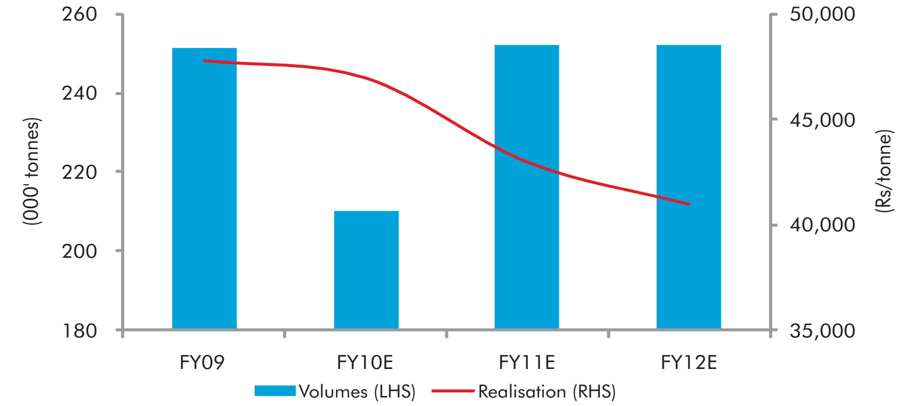
Source: Company, Angel Research

EBITDA Margins to improve

Margins expansion primarily led by lower coal cost

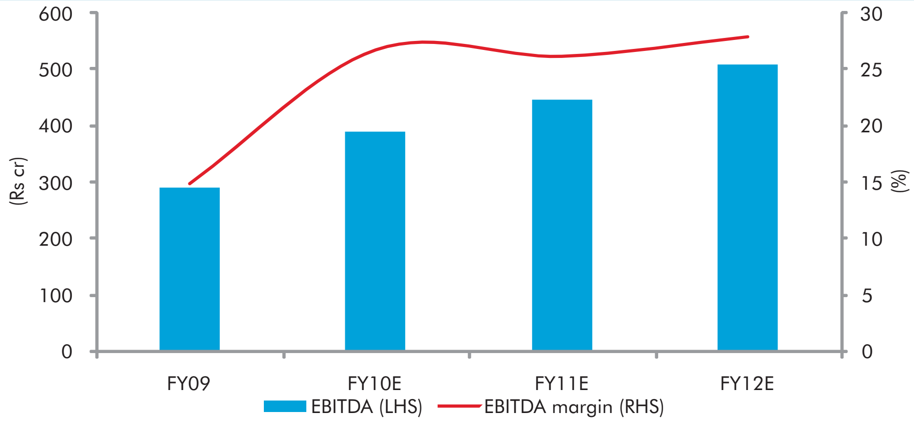
With competitors' DI capacities coming on-stream, we expect an 8.5% and 4.6% fall in DI pipe realisations in FY2011E and FY2012E, respectively. Benchmark coking coal prices have also increased by 55% for FY2011. Nonetheless, we expect ECL's Margins to improve over FY2009-12E on account of increased usage of coking coal from the captive mine.

Exhibit 17: DI Realisations expected to fall...



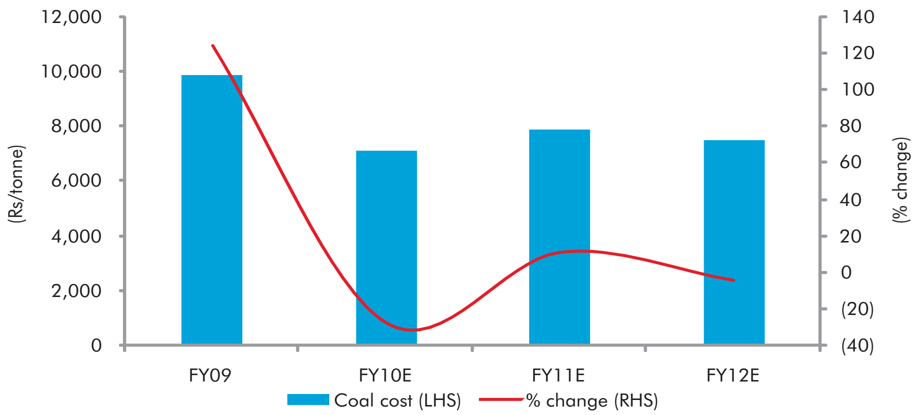
Source: Company, Angel Research

Exhibit 18: ...but EBITDA Margin to almost double over FY2009-12E...



Source: Company, Angel Research

Exhibit 19: ...as benefits of Captive coal are realised



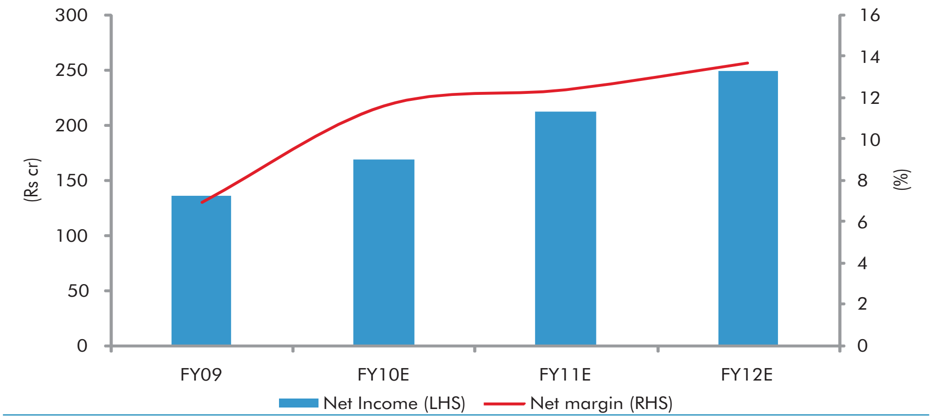
Source: Company, Angel Research

Net Profit to increase

Net income is expected to grow at a CAGR of 22.5% over FY09-12E

Net Income is expected to register CAGR of 22.5% over FY2009-12E to Rs 249cr. Consequently, Net Interest Margins are expected to increase to 13.7% in FY2012E from 6.9% in FY2009 on the back of better Operating performance.

Exhibit 20: Net Profit Margins to expand



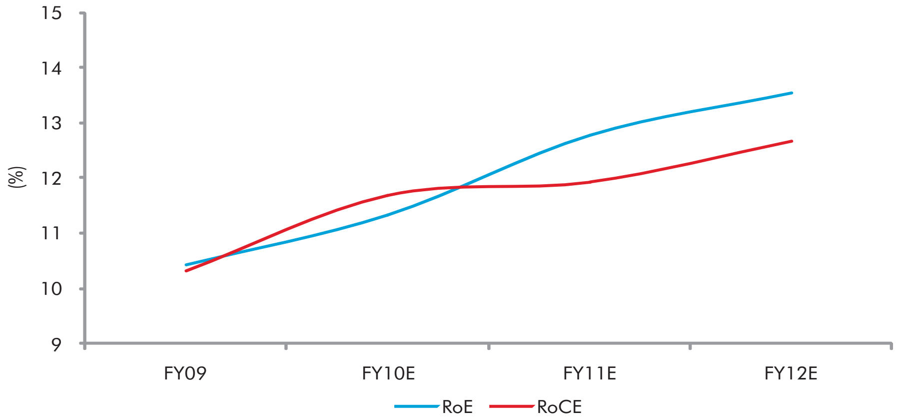
Source: Company, Angel Research

Return Ratios on uptrend

Return Ratios to improve going ahead

We expect a significant improvement in the Operational performance of the company primarily led by higher volumes and lower coal cost. As a result, RoCE is expected to increase from 10.3% in FY2009 to 12.7% in FY2012E, while RoE is expected to improve from 10.4% in FY2009 to 13.6% in FY2012E.

Exhibit 21: Return Ratios



Source: Company, Angel Research

Liquidity not a concern...

Fund raising and operating cash flows to provide enough liquidity

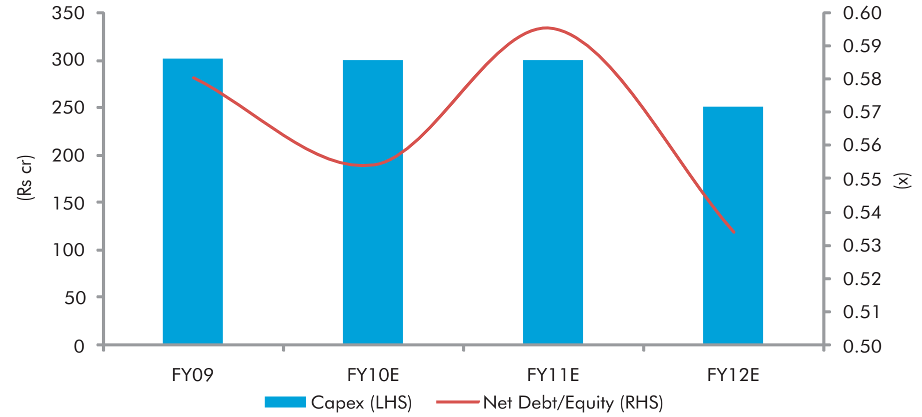
The company recently raised Rs200cr through a QIP issue and plans to use the issue proceeds for acquisition/development of mines. The company also issued 3.4cr warrants at an exercise price of Rs59.6/warrant. We believe that the fund raising through the QIP along with Operating cash flows would provide enough liquidity for the company to fund its Capex plan of Rs1,200cr.

...Net Debt-to-Equity in comfortable zone

Despite high capex plans, leverage is manageable

Despite the high Capex plans, we feel that the company's leverage is manageable. The Net Debt/Equity ratio is expected to fall to 0.5x in FY2012E compared to 0.6x in FY2009 owing to sufficient liquidity.

Exhibit 22: Net Debt/Equity Ratio to decline



Source: Company, Angel Research

Outlook and Valuation

We like ECL's inititatives of gradually venturing into steel making through its subsidiary EIL which is setting up a 2.2mn tonne steel plant expected to be commissioned by FY2012E. In addition, the company's backward integration initiatives through allocation of coking coal mines are expected to result in EBITDA Margin expansion by 1,304bp to 28.0% over FY2009-12E. The company is also awaiting final environmental clearance for its iron ore mine, which will further lower costs, but has not been factored in our estimates. Further, listing of EIL could result in a value unlocking for ECL shareholders. **We Initiate Coverage on the stock with a Buy recommendation and 18-month SOTP Target Price of Rs72, valuing the Core business at 8x FY2012E FDEPS and its investments in the Steel business at 1x Book Value.**

Exhibit 23: SOTP Valuation (Rs)

FY2012E EPS	6.6
Multiple (x)	8
Value Per share	53
Steel business at cost	19
Target Price	**72**

Source: Angel Research

Valuation including earnings from steel business

We have valued ECL's share in the steel plant at Rs35 after giving a discount of 20%. We have assumed EBITDA/tonne of US $175/tonne, in line with JSW Steel which is also a partly integrated company. While we have valued the Core business at 8x FY2012E FDEPS, the share in Steel business is valued at Rs35 per share. **Accordingly, we have arrived at a value of Rs88 per share.**

Exhibit 24: Valuation of Steel business (Rs cr)

Sales Volume (mn tonne)	2.0
EBITDA/tonne (US $)	175
EBITDA	**1,628**
Depreciation	360
EBIT	**1,268**
Interest	486
PBT	**782**
Tax @33%	258
Net Income	**524**
Target Multiple (x)	8
Market cap	4,189
ECL's share	**1,676**
Assuming a 20% discount	1,340
Steel Business (Rs)	**35**

Source: Angel Research

Exhibit 25: Valuation including earnings from steel business (Rs)

Standalone business	53
Steel business	35
Price	**88**

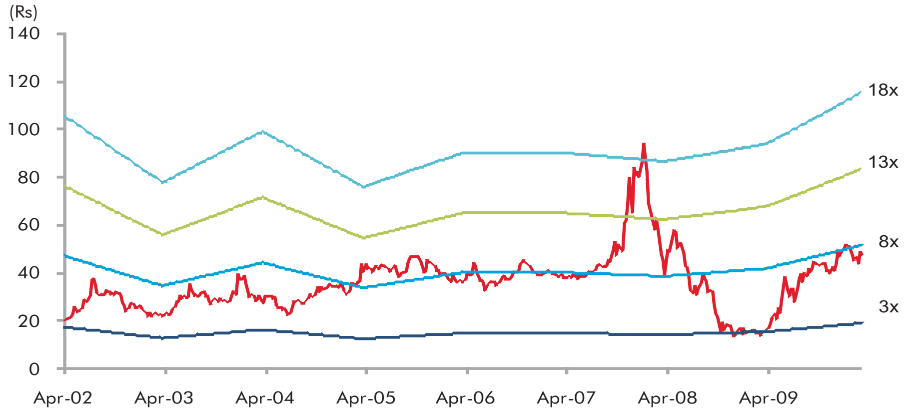
Source: Angel Research

Exhibit 26: Relative Valuation

Company	P/E (x)			EV/EBITDA (x)			P/BV (x)		
	CY09/FY10	CY10/FY11	CY11/FY12	CY09/FY10	CY10/FY11	CY11/FY12	CY09/FY10	CY10/FY11	CY11/FY12
Welspun	10.4	9.5	8.5	5.5	4.9	3.9	2.1	1.7	1.4
Jindal Saw	10.7	13.4	12.9	6.0	6.7	5.7	1.7	1.5	1.4
PSL	6.7	6.3	5.8	4.5	4.3	5.3	0.9	0.9	0.8
Electrosteel	10.7	8.5	7.2	6.2	5.8	5.1	1.0	0.9	0.8

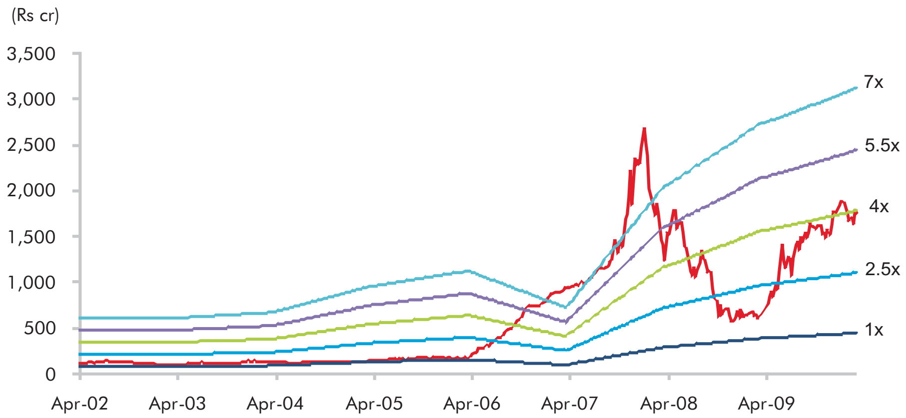
Source: Bloomberg, Angel Research

Exhibit 27: One year forward P/E Band



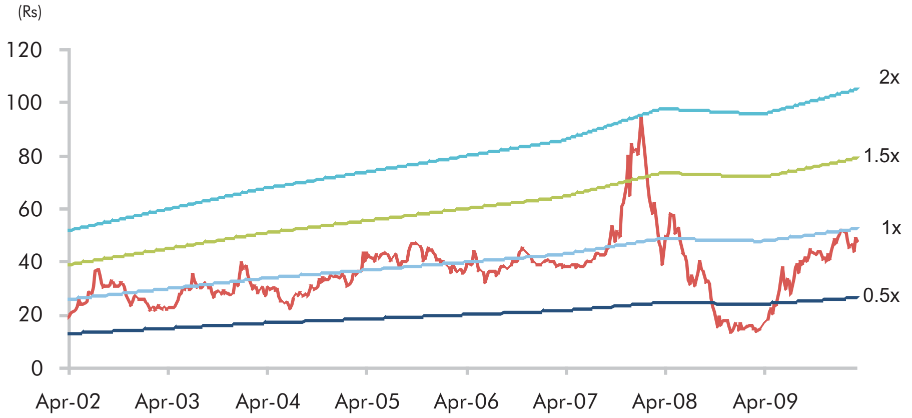
Source: Bloomberg, Angel Research

Exhibit 28: One year forward EV/EBITDA Band



Source: Bloomberg, Angel Research

Exhibit 29: One year forward P/BV Band



Source: Bloomberg, Angel Research

Business Overview

Incorporated on November 26, 1955, ECL formerly known as Dalmia Iron and Steel was promoted by Orissa Cement, Dalmia Cement and the Kejriwal family. Subsequently, over the years, ECL diversified into the production of DI pipes and increased capacity in both the segments through acquisitions and/or setting up green-field units. The company also undertakes turnkey contracts, viz. execution of DI pipe related engineering, procurement and construction (EPC) projects. The company sells DI pipes and DI fittings in both the domestic and international markets through its subsidiaries mainly in South-East Asia, the Middle East, Europe, Africa, and USA. The CI pipes are only sold in the domestic market.

Exhibit 30: ECL - Growth path

FY2012E
- Integrated Steel Plant - 2.2mtpa

2009
- Coke oven plant - 295,000tpa
- DI pipe capacity - 280,000tpa
- BF capacity - 250,000tpa

2008
- Sinter plant - 360,000tpa
- Coke oven plant - 225,000tpa

2006
- DI pipe capacity - 250,000tpa
- BF capacity - 235,000tpa
- Power plant -12MW
- Sponge Iron plant - 60,000tpa
- Allocation of Iron ore mine - 91.2mt
- Allocation of non coking coal block - 120mt

2005
- Coke oven plant - 150,000tpa
- Sponge iron plant - 30,000 tpa
- Allocation of coking coal mine - 231.2mt

2002-03
- Acquired 46.4% stake in Lanco Ind.
- DI pipe capacity - 200,000tpa

2001
- Pig Iron capacity - 200,000tpa
- DI pipe capacity - 150,000tpa

1999-00
- DI pipe capacity - 120,000tpa

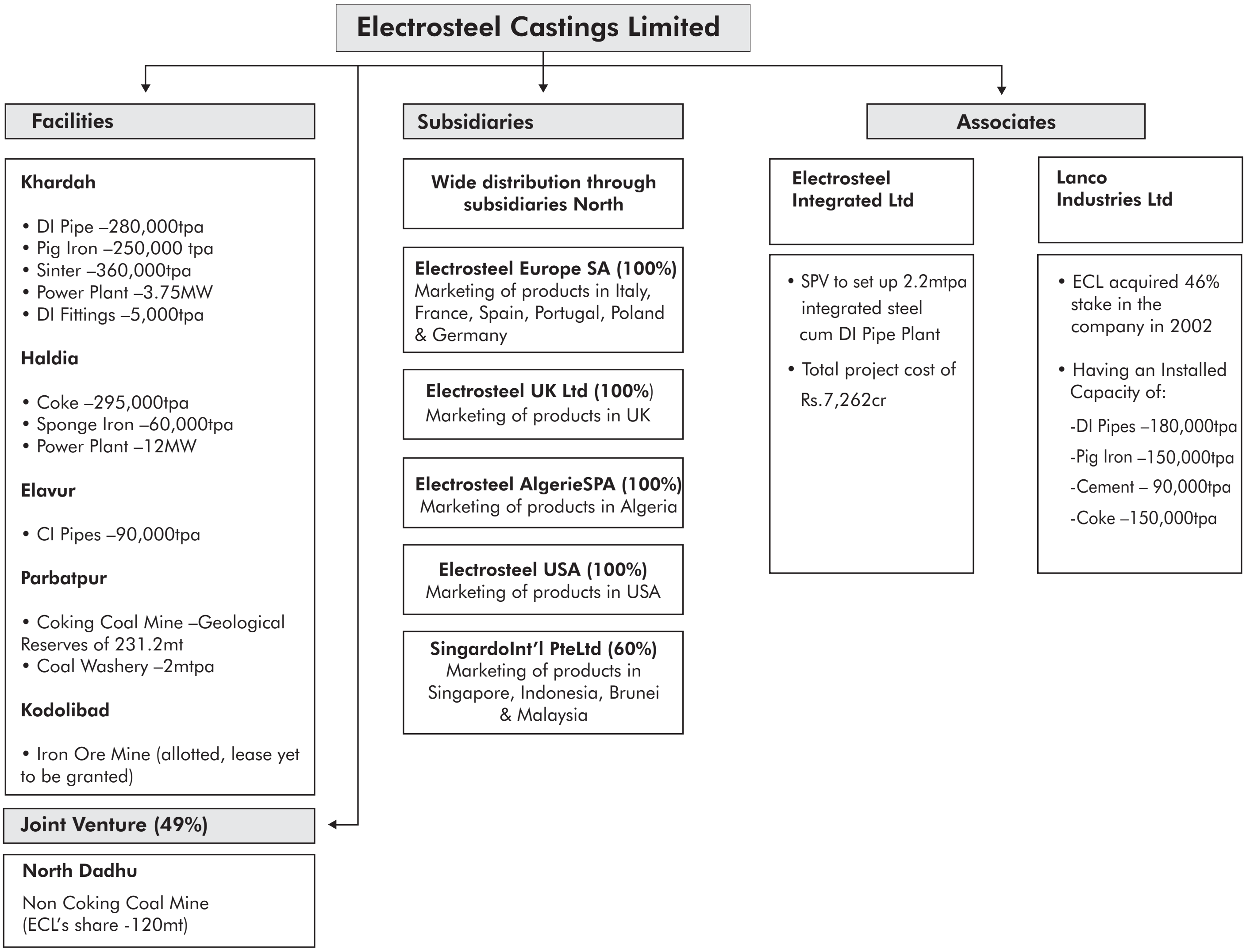
1994-96
- DI pipe capacity - 60,000tpa
- Pig iron capacity - 109,000tpa

Source: Company, Angel Research

Business Operations

ECL's manufacturing facilities are located at Khardah, West Bengal (for DI pipes and fittings), Elavur, Tamil Nadu (for CI pipes) and Haldia (for intermediate products). The company's operations also include facilities to manufacture pig iron, low ash metallurgical coke (LAMC), sponge iron and power. ECL has five subsidiaries, two associates companies and a joint venture to develop non-coking coal mines in Jharkhand.

Exhibit 31: ECL Group Structure



Source: Company, Angel Research

DI Pipes and Fittings

ECL has an installed capacity of 2,80,000 tonnes for DI pipes, which are used in water infrastructure and sewerage industries. The company manufactures DI pipes in the range of 80mm to 1,100 mm in diameter and 6 metres in length. ECL also has an installed capacity of 5,000 tonnes for DI Fittings that are used along-with the DI spun pipes, to extend the length of pipes, joining across distances and providing bends for complete pipe-laying solutions.

Cast Iron (CI) Pipes

ECL's total installed capacity of CI pipes is 90,000 tonnes. The company manufactures CI pipes with diameters ranging from 80-1100mm with a corresponding length ranging from 4-5.5meters.

Coke Plants

Currently, the company has four coke oven batteries plants, having an aggregate capacity of 2,95,000 tonnes at Haldia, West Bengal. Due to the unavailability of coking coal with low ash content, the company meets its additional requirement through imports from Australia. The company has already received the mining lease for coking coal mine at Parbatpur in Jharkhand having estimated reserves of 231.2mn tonnes and expects 25% of its coal requirement to be met through captive mines in FY2012E.

Iron Ore and Sinter plant

Currently, the company sources its iron ore requirement from Orissa. ECL has been allotted the iron ore mine in Kodolibad, Jharkhand and is awaiting final Forest and Environmental clearances. The company has also installed a sinter plant having a capacity of 3,60,000 tonnes at Khardah, which facilitates usage of low-cost fines.

Pig Iron plant

The company's pig iron has capacity of 250,000 tonnes, which is used to manufacture DI and CI pipes. The company however, sources pig iron from a third party for its CI facility at Khardah due to the relatively high logistic cost.

Sponge Iron Plant

In order to reduce its dependence on scrap imports, the company has set up a sponge iron plant at Haldia with total capacity of 60,000 tonnes.

Power

- **Haldia facility:** The company has a 12MW power plant. While the captive power requirement is only 2MW, the balance power produced is sold to the West Bengal State Electricity Board.

- **Khardah unit:** The unit's power requirement of 23MW is mainly supplied by CESC. The company has 3.75MW Steam turbine generator (STG) and three 1.1MW diesel generators.

- **Elavur facility:** The unit's total power requirement of 1MW is supplied by the Tamil Nadu Electricity Board. The company also has two 0.79MW diesel generators and one 0.5MW diesel generator as a standby arrangement in case of any shortfall.

Appendix

Grant of Mining lease

Mineral resources of country are regulated both by the Central and State governments. The Mineral Concession Rules, 1960, regulates the grant of mineral concessions. There are three types of Mineral concessions, viz. Reconnaissance Permit (RP), Prospecting License (PL) and Mining Lease (ML).

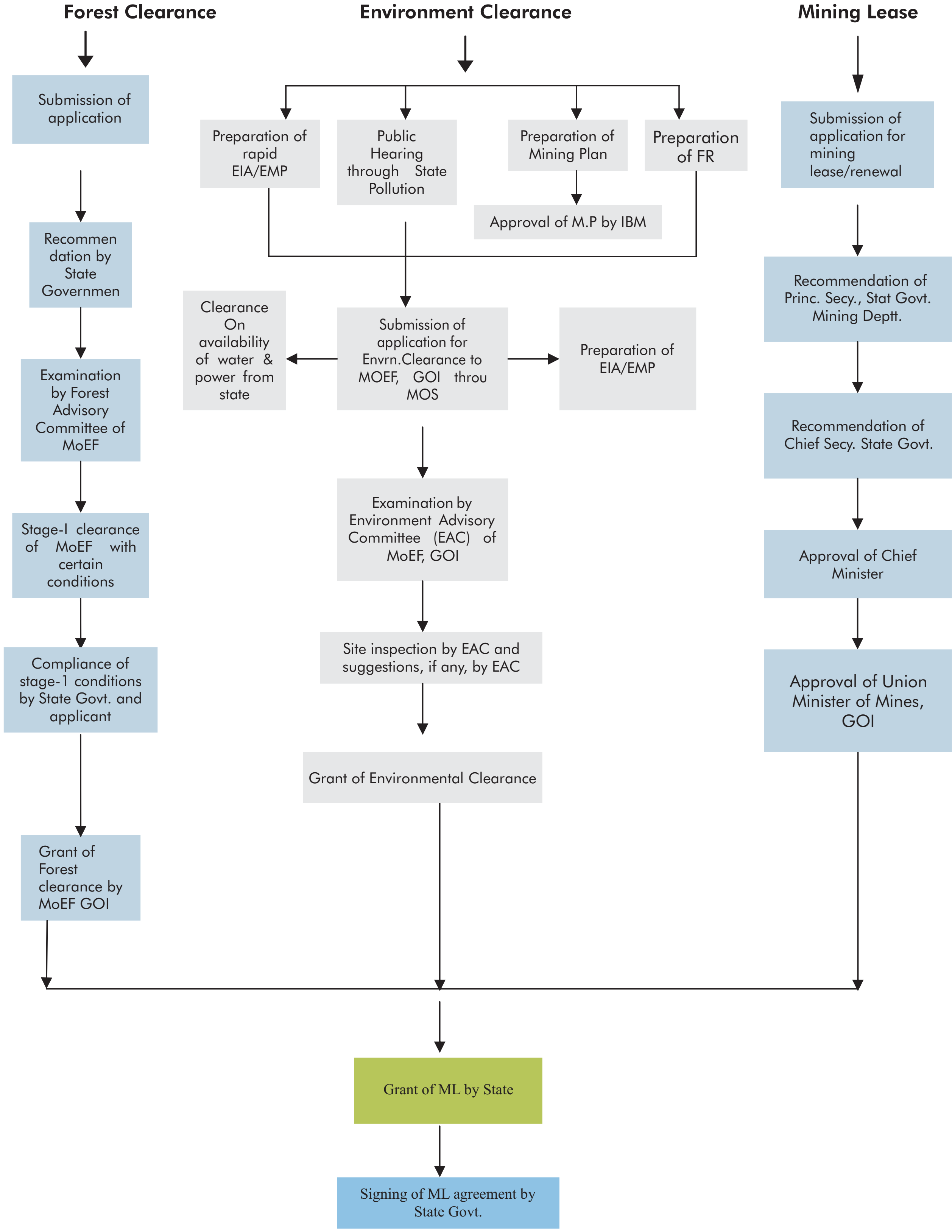
Exhibit 32: Types of Mineral concession

	Reconnaissance Permit (RP)	Prospecting License (PL)	Grant of Mining Lease
Time Frame	Maximum period of 3years	Maximum period of 3 years but can be renewed up to 5years.	Maximum period of 30 years Minimum period of 20 years ML renewed for a period not exceeding 20 years
Area	Maximum area of 5,000 granted for 3 years for a sq km, to be relinquished progressively. After 2 years, the area reduced to 1,000 sq km or 50% of the area granted, whichever is less. At the end of 3 years, area	In a State, maximum area granted is 25 sq km in 1 or more PLs, but the Central Govt. may relax the maximum area limit.	In a State, maximum area granted is 10 sq km in 1 or more MLs, but the Central Govt. may relax the maximum area limit.
Purpose	Preliminary prospecting through regional, aerial, geophysical surveys and geological mapping.	Granted for undertaking operations like exploration, location of mineral deposit.	Undertaking mining operation.

Source: Ministry of Mines, Angel Research

Before start of any mining activity, two important clearances are required, viz. Forest and Environmental clearance. The Central Government grants forest and environmental clearance based on the recommendation of the State Government. Total number of agencies involved are around 10 where the inter-dependency between the different agencies delays the process. The total time taken is usually 7-8 years for a Mining Lease to be granted.

Exhibit 33: Forest and Environmental clearance process



Source: Ministry of Mines, Angel Research

Exhibit 34: Grant of Mining Lease in India v/s Other countries

	India	**Western Australia**	Nova Scotia,Canada	Indonesia
Ownership	Centre and Federal	Federal State	FederalState	Central Govt.
Time taken for grant of Mining Lease	7-8 years	About 12-24 months	12-36 months	Max. 2 years.
No. of agencies involved	10	4	3	-
Term of ML	30 years	21 years	Min.20 years	30 years

Source: Ministry of Mines, Angel Research

Profit & Loss Statement (Consolidated)

Rs crore

Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Gross sales	**1,283.0**	**1,492.6**	**2,004.8**	**1,560.6**	**1,777.4**	**1,894.1**
Less: Excise duty	51.6	52.9	56.6	109.2	71.1	75.8
Net Sales	**1,231.4**	**1,439.6**	**1,948.2**	**1,451.3**	**1,706.3**	**1,818.4**
Other operating income	11.4	22.6	27.1	75.0	75.0	75.0
Total operating income	**1,242.9**	**1,462.3**	**1,975.3**	**1,526.3**	**1,781.3**	**1,893.4**
% chg	*21.3*	*17.7*	*35.1*	*(22.7)*	*16.7*	*6.3*
Total Expenditure	1,083.4	1,360.1	1,684.4	1,137.1	1,333.6	1,384.7
Net Raw Materials	589.1	776.5	985.8	571.1	719.3	730.0
Other Mfg costs	416.8	493.8	586.0	478.9	511.9	545.5
Personnel	77.6	89.8	112.6	87.1	102.4	109.1
Other	-	-	-	-	-	-
EBITDA	**159.5**	**102.2**	**290.9**	**389.2**	**447.7**	**508.7**
% chg	*17.7*	*(35.9)*	*184.6*	*33.8*	*15.0*	*13.6*
(% of Net Sales)	*12.9*	*7.1*	*14.9*	*26.8*	*26.2*	*28.0*
Depreciation& Amortisation	34.8	37.8	53.4	70.5	91.0	106.3
EBIT	**124.6**	**64.4**	**237.5**	**318.7**	**356.8**	**402.5**
% chg	*17.5*	*(48.3)*	*268.8*	*34.2*	*11.9*	*12.8*
(% of Net Sales)	*10.1*	*4.5*	*12.2*	*22.0*	*20.9*	*22.1*
Interest & other Charges	24.3	36.9	103.2	95.8	103.6	103.6
Other Income	57.9	78.4	64.0	20.0	50.0	60.0
(% of PBT)	*36.6*	*74.0*	*32.3*	*8.2*	*16.5*	*16.7*
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	**158.3**	**106.0**	**198.3**	**242.9**	**303.2**	**358.9**
% chg	*44.6*	*(33.1)*	*87.2*	*22.5*	*24.8*	*18.4*
Extraordinary Inc/(Expense)	-	(60.2)	-	-	-	-
PBT (reported)	**158.3**	**45.8**	**198.3**	**242.9**	**303.2**	**358.9**
Tax	53.5	1.7	70.4	81.8	99.7	118.1
(% of PBT)	*33.8*	*3.8*	*35.5*	*33.7*	*32.9*	*32.9*
PAT (reported)	**104.9**	**44.0**	**127.9**	**161.1**	**203.5**	**240.8**
Add: Share of earnings of associate	-	11.4	8.6	8.6	9.0	9.0
Less: Minority interest (MI)	0.1	0.1	1.2	1.2	1.0	1.0
Extraordinary Expense/(Inc.)	-	-	-	-	-	-
PAT after MI (reported)	**104.7**	**55.3**	**135.3**	**168.5**	**211.5**	**248.8**
ADJ. PAT	**104.7**	**115.5**	**135.3**	**168.5**	**211.5**	**248.8**
% chg	*34.5*	*10.3*	*17.1*	*24.5*	*25.5*	*17.7*
(% of Net Sales)	*8.5*	*8.0*	*6.9*	*11.6*	*12.4*	*13.7*
Basic EPS (Rs)	**5.0**	**5.0**	**4.8**	**5.2**	**6.5**	**7.6**
Fully Diluted EPS (Rs)	**3.8**	**4.0**	**4.2**	**4.5**	**5.6**	**6.6**
% chg	*(10.0)*	*3.9*	*7.2*	*5.4*	*25.5*	*17.7*

Balance Sheet (Consolidated)

Rs crore

Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
SOURCES OF FUNDS						
Equity Share Capital	20.8	28.1	28.7	32.6	32.6	32.6
Reserves& Surplus	801.6	1,132.5	1,338.1	1,487.2	1,650.9	1,852.0
Shareholders Funds	**822.3**	**1,160.6**	**1,366.8**	**1,519.8**	**1,683.5**	**1,884.6**
Share Warrants	-	33.7	34.2	50.9	50.9	50.9
Minority Interest	3.1	3.1	4.3	5.5	6.5	7.5
Total Loans	719.4	844.3	1,101.3	1,294.6	1,294.6	1,294.6
Deferred Tax Liability	32.7	19.9	36.9	36.9	36.9	36.9
Total Liabilities	**1,578**	**2,062**	**2,544**	**2,908**	**3,072**	**3,275**
APPLICATION OF FUNDS						
Gross Block	547.5	642.5	797.8	1,047.8	1,297.8	1,497.8
Less: Acc. Depreciation	196.7	226.1	279.3	349.8	440.7	547.0
Net Block	**350.8**	**416.4**	**518.5**	**698.0**	**857.1**	**950.8**
Capital Work-in-Progress	58.3	149.6	301.7	351.7	401.7	451.7
Goodwill						
Investments	**174.3**	**179.2**	**466.4**	**666.4**	**666.4**	**666.4**
Current Assets	1,259.7	1,685.7	1,593.9	1,467.8	1,445.9	1,505.8
Cash	315.2	184.2	95.4	231.2	69.5	68.1
Loans & Advances	110.4	517.6	441.4	441.4	441.4	441.4
Other	834.2	983.9	1,057.1	795.2	935.0	996.4
Current liabilities	265.6	369.3	337.0	276.2	298.6	300.2
Net Current Assets	**994.2**	**1,316.4**	**1,256.9**	**1,191.6**	**1,147.3**	**1,205.6**
Mis. Exp. not written off	-	-	0.0	0.0	0.0	0.0
Total Assets	**1,578**	**2,062**	**2,544**	**2,908**	**3,072**	**3,275**

Cash Flow Statement (Consolidated)

Rs crore

Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Profit before tax	151.5	51.4	192.7	242.9	303.2	358.9
Depreciation	35.4	38.7	53.4	70.5	91.0	106.3
Change in Working Capital	(38.8)	(223.2)	(160.4)	201.1	(117.4)	(59.8)
Less: Other income	(29.9)	69.5	123.5	8.6	9.0	9.0
Direct taxes paid	(44.7)	(14.4)	(43.6)	(81.8)	(99.7)	(118.1)
Cash Flow from Operations	**73.5**	**(78.0)**	**165.6**	**441.3**	**186.0**	**296.3**
Inc./ (Dec.) in Fixed Assets	(80.2)	(179.4)	(300.8)	(300.0)	(300.0)	(250.0)
Inc./ (Dec.) in Investments	71.3	13.0	(177.3)	-	-	-
Inc./ (Dec.) in loans and advances	-	-	-	-	-	-
Other income	21.0	(278.6)	(89.9)	(200.0)	-	-
Cash Flow from Investing	**12.1**	**(445.0)**	**(568.1)**	**(500.0)**	**(300.0)**	**(250.0)**
Issue of Equity	-	74.0	121.4	49.0	-	-
Inc./(Dec.) in loans	306.7	349.2	246.3	193.2	-	-
Dividend Paid (Incl. Tax)	(51.9)	(26.5)	(7.1)	(47.7)	(47.7)	(47.7)
Others	(39.9)	(4.7)	(46.9)	-	-	-
Cash Flow from Financing	**214.9**	**392.0**	**313.6**	**194.5**	**(47.7)**	**(47.7)**
Inc./(Dec.) in Cash	300.4	(131.0)	(88.8)	135.8	(161.7)	(1.4)
Opening Cash balances	**14.8**	**315.2**	**184.2**	**95.4**	**231.2**	**69.5**
Closing Cash balances	**315.2**	**184.2**	**95.4**	**231.2**	**69.5**	**68.1**

Key Ratios

Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Valuation Ratio (x)						
P/E (on FDEPS)	12.6	12.1	11.3	10.7	8.5	7.2
P/CEPS	9.4	9.1	8.1	7.5	6.0	5.1
P/BV	1.2	1.1	1.0	1.0	0.9	0.8
Dividend yield (%)	2.6	2.6	2.6	2.6	2.6	2.6
EV/Sales	1.1	1.2	1.1	1.7	1.5	1.4
EV/EBITDA	8.8	17.3	7.5	6.2	5.8	5.1
EV / Total Assets	0.9	0.9	0.9	0.8	0.8	0.8
Per Share Data (Rs)						
EPS (Basic)	5.0	5.0	4.8	5.2	6.5	7.6
EPS (fully diluted)	3.8	4.0	4.2	4.5	5.6	6.6
Cash EPS	5.1	5.2	5.9	6.3	8.0	9.4
DPS	1.3	1.3	1.3	1.3	1.3	1.3
Book Value	39.6	42.6	48.8	48.1	53.1	59.3
Dupont Analysis						
EBIT margin	10.0	4.4	12.0	20.9	20.0	21.3
Tax retention ratio (%)	66.2	96.2	64.5	66.3	67.1	67.1
Asset turnover (x)	1.0	0.8	0.9	0.6	0.6	0.6
RoIC (Post-tax)	6.5	3.3	6.8	8.5	8.5	9.0
Cost of Debt (Post Tax)	2.8	4.5	6.8	5.3	5.4	5.4
Leverage (x)	0.5	0.6	0.6	0.6	0.6	0.5
Operating RoE	8.4	2.6	6.8	10.3	10.4	10.9
Returns (%)						
RoCE (Pre-tax)	8.9	3.5	10.3	11.7	11.9	12.7
Angel RoIC (Pre-tax)	9.9	3.4	10.5	12.8	12.7	13.4
RoE	13.1	5.5	10.4	11.3	12.8	13.6
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.4	2.4	2.7	1.6	1.5	1.3
Inventory / Sales (days)	111.9	117.0	93.6	95.0	95.0	95.0
Receivables (days)	135.4	132.5	104.4	105.0	105.0	105.0
Payables (days)	107.7	97.3	54.4	55.0	55.0	55.0
Working capital cycle (days)	183.6	182.2	158.1	203.6	164.3	171.9
Solvency ratios (x)						
Net debt to equity	0.5	0.6	0.6	0.6	0.6	0.5
Net debt to EBITDA	2.5	6.5	2.8	2.2	2.3	2.0
Interest Coverage	5.1	1.7	2.3	3.3	3.4	3.9

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1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	Yes
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