Sushil Finance
Intelligent Research. Insightful Solutions.

Ahluwalia Contracts (India) Ltd.

December 31 , 2009 | ACCUMULATE | MEDIUM RISK | PRICE Rs.194 | TARGET Rs.228

CONSTRUCTION

Ahluwalia Contracts (India) Ltd. (ACIL) is among the best contractors in the country with operations in Commercial buildings, Hotels, Hospitals, Educational institutions, Industrial plants, Residential projects, Townships, BOOT projects and Urban infrastructure. It has a proven track record in execution of projects along with a list of reputed clients which gives it an edge over its competitors. The Company has ventured into Urban infrastructure sector and is increasing its presence in Government contracts would ensure its future growth. A revival in retail and commercial projects would further boost its top-line.

Robust order book with strong visibility: The Company has an order book of ~Rs. 53 bn as of Dec 2009, which has grown at a CAGR of 55% from FY04-FY09 and is further expected to grow at a CAGR of 23% for the next 4 years. The average book-to-bill ratio of the Company stood at 3.1x in FY09 and is expected to improve further to 2.8x by FY12E.

Venturing into Urban Infrastructure Projects to reduce dependency on private sector : ACIL is currently associated and is engaged in bidding for projects like Metro Rail, Airports, sewage, water treatment, multilevel car parking etc. ACIL has made its entry into Urban infrastructure projects by winning the Sonia Vihar Water Treatment Project and completion of multilevel car parking for about 3000 cars in Nehru Place, New Delhi.

Venturing into BOT Projects to de-risk its business portfolio: ACIL has bagged a DBOT project from Rajasthan State Road Transport Corporation (RSRTC), to build a bus terminal along with commercial complex, at Kota, Rajasthan. After the completion of the project the bus terminal will be rendered to "Rajasthan State Road Transport Corporation" while the commercial complex will remain in the possession of ACIL for next 40 years.

Strong Financials & Low Debt-Equity: ACIL has grown at a CAGR of 42% in last 3 years and is expected to grow at CAGR of 30% YoY from FY09 to FY12E on back of robust order book and likely decline in average book-to bill ratio. It has been able to maintain a low-debt-equity ratio in the past and is debt free on net debt basis owing to its prudent management of working capital cycle and free operating cash flows.

SHARE HOLDING (%)

Promoters	74.5
FII	3.5
FI / MF	3.2
Body Corporates	13.1
Public & Others	5.6

STOCK DATA

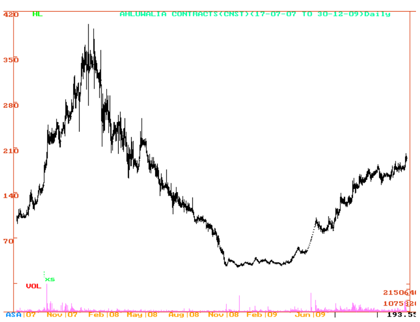
Reuters Code	AHLU.BO
Bloomberg Code	AHLU@IN
BSE Code	532811
NSE Symbol	AHLUCONT
Market Capitalization (*)	Rs. 12176 mn US$ 261 mn
Shares Outstanding(*)	62.8 mn
52 Weeks (H/L)	Rs.201 / 27
Avg. Daily Volume (6m)	196761 Shares

Price Performance (%)

1 M	3 M	6 M
14	12	128

200 Days EMA Rs.132

* fully diluted equity Shares



OUTLOOK & VALUATION

ACIL has a strong order book of Rs. 53 bn and its order-book to bill ratio is likely to improve further in near future. This gives a clear visibility to the earnings of the company for more than two years. Its strategy to increase infrastructure order book would ensure growth until a demand revival is seen in the retail and commercial projects. We expect the company to grow at a CAGR of 30% for next two years. At CMP of Rs.194, the stock is trading 14x FY11E EPS of Rs.14 & 10x FY12E EPS of Rs. 19. Given its strong order book, strong balance sheet and proven track record of the management of timely execution of the projects, ACIL is well poised to ride the construction boom in the country and thus we initiate coverage with a Accumulate rating on the Company with a target price of Rs.228 (based on 12x its FY12E EPS of Rs.19).

KEY FINANCIALS (Cons.)

Y/E March	Revenue (Rs mn)	APAT (Rs mn)	APAT (%Chg)	P/BVPS (x)	AEPS (Rs.)	PER (x)	ROE (%)	ROCE (%)
FY10E	14418.7	662.8	17.7	5.2	10.6	18.4	32.1	27.8
FY11E	19364.4	886.6	33.8	3.9	14.1	13.7	32.4	28.8
FY12E	26141.5	1195.4	34.8	2.9	19.0	10.2	32.8	30.5

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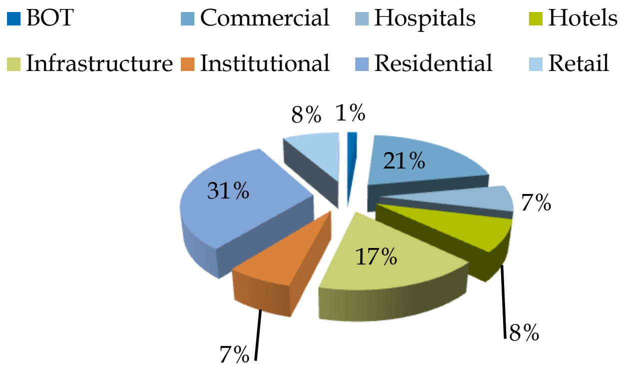
Robust order book with strong visibility for more than two years

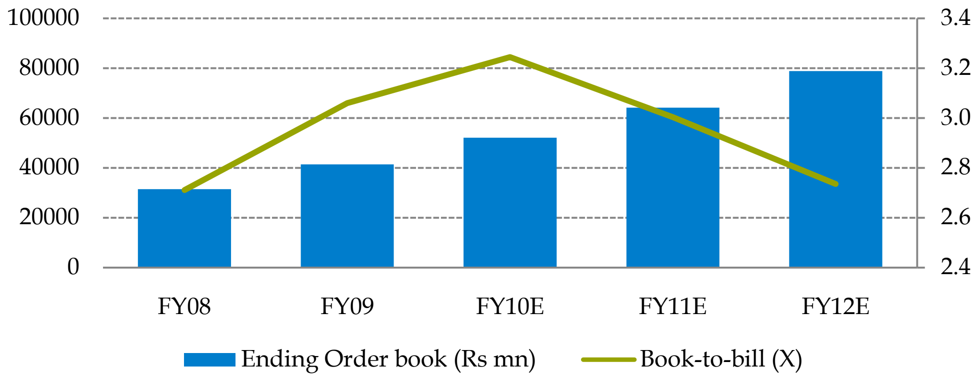
ACIL has a very strong order book of Rs. 50.7 bn as of October 31st 2009 which is to be executed in about 28 months. The order book of the Company has grown at a CAGR of 55% from FY04-FY09 and is further expected to grow at a CAGR of 23% for the next 4 years. The order book stands at 4.2x FY09 revenues giving a strong visibility for the next two to three years. The order book stands~ 53 bn as of Dec 2009. The current order book consists 31% of the residential projects, 21% commercial projects and 17% infrastructure projects. Of the current order book 33% of the orders are Government orders and 67% are from Private players.

Order book break-up



Source: Company

Average book-to-bill ratio likely to improve



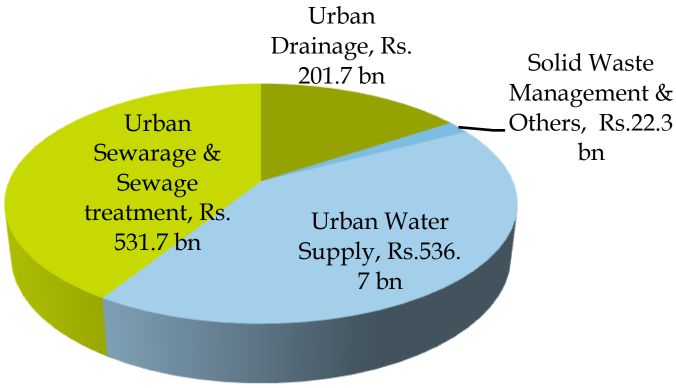
Source: Company & Sushil Finance Estimates

ACIL has increased its presence in the infrastructure projects from merely 6% in FY07 to 17% as of October 31st 2009, due to a slowdown in the residential and commercial contracts. The average book-to-bill ratio of the Company stood at 3.1x in FY09 and is expected to improve further to 2.8x by FY12E with larger pie of infrastructure projects, where average execution is about 20-21 months. The average ticket size of the Company has scaled up to Rs. 500 mn in FY09 from Rs. 300 mn in FY08. ACIL has received its long pending payment from Emmar MGF for Common Wealth Games Village project which would help it to address short term concerns. We expect the order book in the infrastructure segment to grow at a CAGR of 20% over next two years.

Venturing into Urban Infrastructure Projects to reduce dependence private sector

The JNNURM Programme is one of the flagship programmes of the current Government and was launched on 3rd Dec 2005 by the Central Government aimed at improving and augmenting the economic and social infrastructure of 63 cities. The total investment required for the proposed Urban Infrastructure Development is estimated to be Rs.1292.4 bn out of which contribution by the Central & State Government is expected to be about Rs. 1050 bn.

Investment required for Urban Infrastructure



Source: Ministry of Urban Development, GOI

Urban infrastructure has received a lot of attention due to Government's increased thrust in this space with an allocation of Rs. 520.5 bn under JNNURM. As a result of this allocation, significant order inflows are expected in the next three years in areas like Water supply, Sewage treatment, Drainage & Solid waste management.

(Rs. mn)

Sector	Projects sanctioned	% of projects sanctioned	Cost of projects sanctioned	% of Cost of projects sanctioned	Funds released	% of Funds released
Drainage/Storm Water Drainage	62	13.0	78616.6	15.1	12119.3	12.5
Roads/Flyovers	76	15.9	35107.6	6.7	8031.6	8.3
Water Supply	143	29.9	190368.2	36.6	38502.2	39.7
Sewerage	105	22.0	131429.6	25.3	21323.1	22.0
Urban Renewal	10	2.1	4658.0	0.9	630.9	0.7
Mass Rapid Transport System	20	4.2	47709.7	9.2	10682.3	11.0
Other Urban Transport	14	2.9	8058.8	1.6	1327.8	1.4
Solid Waste Management	40	8.4	21861.4	4.2	3747.7	3.9
Development of Heritage Areas	22	0.4	492.3	0.1	350.4	0.4
Preservation of Water Bodies	4	0.8	1167.1	0.2	181.4	0.2
Parking	2	0.4	1064.2	0.2	183.5	0.2
Total	**478**	**100.0**	**520533.5**	**100**	**97080.2**	**100**

Source: JNNURM

In order to address the short term issue on slowdown from private and institutional clients, providing greater earnings visibility and to perk up its order book quality, ACIL has made a foray into the Urban infrastructure segment. It is currently associated and is engaged in bidding for projects like Metro Rail, Airports, sewage, water treatment, multilevel car parking etc. ACIL has made its entry into Urban infrastructure projects by winning the Sonia Vihar Water Treatment Project and completion of multilevel car parking for about 3000 cars in Nehru Place, New Delhi. It has also constructed the IFCI tower in Delhi using the Steel and Concrete Composite Technology thereby highlighting its technical aptitude. The company is looking for technology collaboration and acquisitions in areas of detailed engineering and specific technology requirements in areas of Sewage Water Treatment, Urban Drainage, Water Sanitation, Power Plant and Airports. The Company is planning to bid for urban infrastructure projects worth Rs. 20 bn, for which it needs to first pre-qualify.

Venturing into BOT Projects to de-risk its business portfolio

ACIL has ventured into BOT space with the DBOT project that it bagged from Rajasthan State Road Transport Corporation (RSRTC), to build a bus terminal along with commercial complex, at Kota, Rajasthan. After the completion of the project the bus terminal will be rendered to "Rajasthan State Road Transport Corporation" while the commercial complex will remain in the possession of ACIL for next 40 years, thereby accruing higher revenues for the Company. The Company would be allowed to collect revenues from collection of rent from commercial properties, revenue accruing from underground parking space and 50% of the advertisement revenue share.

Project Details	
Cost of Project (Rs. mn)	720
Funding of Project	
Debt (Rs. mn)	420
Equity (Rs. mn)	300
IRR	24%
Concession Period (years)	40
Total Area of Project (Sq mtrs)	26350
Size of Commercial Property (Sq mtrs)	23000
Lease rates (Rs. per sq mtrs)	450
Underground Parking (cars)	3000-5000
Advertisement revenue sharing (%)	50%

Source: Company

Strong and timely execution track record with high profile list of clientele

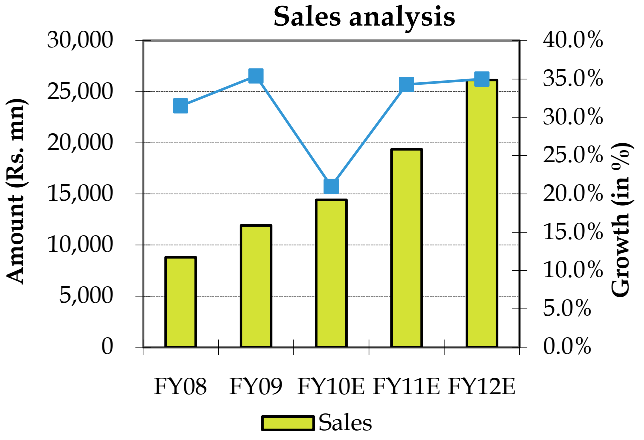
ACIL has a strong track record of executing highly skilled and time-bound services to clients across bandwidth of the public and private sectors. It has worked with best of the channel partners such as Kerry Hill, Singapore, SCDA Architects, Singapore, JV Consults, Germany, Charles Corrhea, Hafeez Contractor, Tata Projects Ltd. and Tata Consulting Engineers. Some of the key projects include:

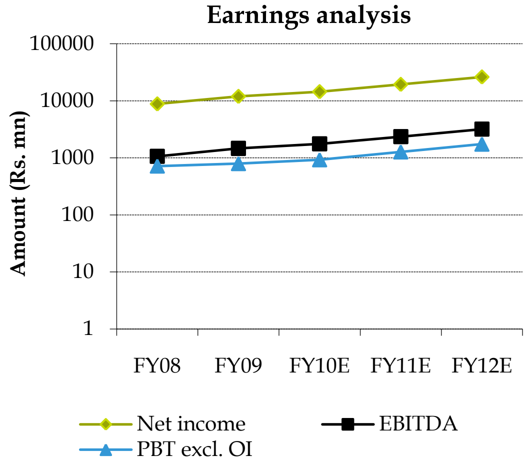
Key Projects	
Common Wealth Games Project	Escorts Hospital & Research Centre, Jaipur
Greenfield Hypermarkets for Reliance Retail	Max Healthcare, New Delhi
Hotel Gardenia, ITC Hotels, Bangalore	DLF Cyber Green, Gurgaon
Corporate Office for Maruti Udyog	ITC Corporate Office, New Delhi
Infinity IT Park, Kolkatta	Coca Cola Corporate Office, New Delhi
Renaissance Hotels, Mumbai	SBI Head Office, Mumbai
Four Seasons Hotels, Mumbai	SEBI Office Building, Mumbai
Shangri-La Hotel, New Delhi	Indian Embassy Building, Dubai
Fortis Super Specialty Hospital, Noida	Goa Legislative Assembly, Goa
Apollo Gleneagles Hospital, Kolkatta	NMDC City Centre, New Delhi

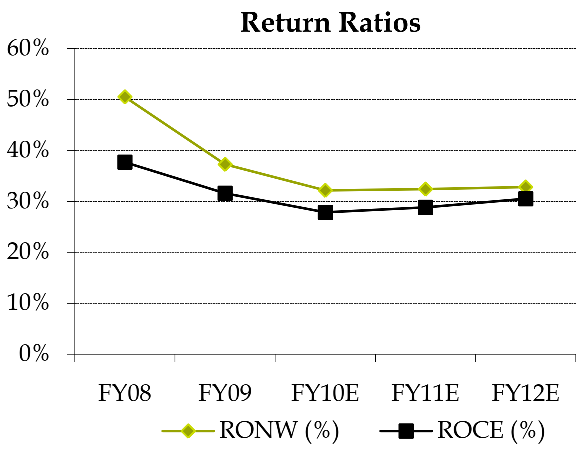
Source: Company

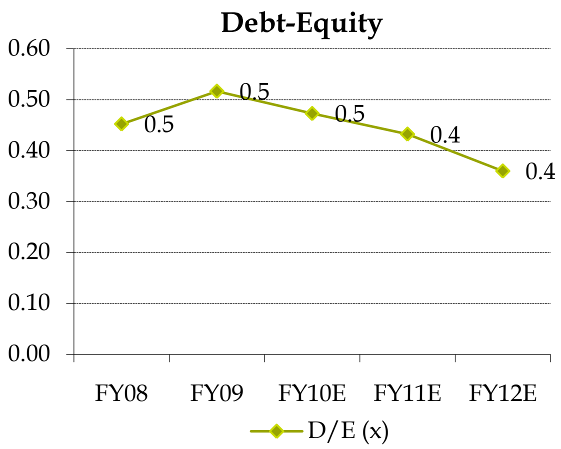
Strong Financials & Low Debt-Equity

ACIL has grown at a CAGR of 42% in last 3 years owing to its strong execution track record and bulging order book from real estate and infrastructure sectors. We expect sales of the company to grow at CAGR of 30% YoY from FY09 to FY12E on back of robust order book and likely decline in average book-to-bill ratio as the execution time for its infrastructure projects is less than its retail and residential projects. We expect the book-to-bill ratio to improve from 3.1x in FY09 to 2.8x in FY12E. However, with the increase in the infrastructure projects we expect the EBITDA margins of the company to remain at 12.2% in FY11E & FY12E respectively. We expect it to register an EPS of Rs. 10.6, Rs.14.1 and Rs.19.0 in FY10E, FY11E & FY12E respectively.









Source: Sushil Finance Estimates

We expect that the working capital cycle and capex requirements would put pressure on its bottom-line. Despite the higher working capital cycle and capex requirements, we expect it to deliver a ROCE of 28.8% and ROE of 32.4 % in FY11E & ROCE of 30.5% and ROE of 32.8% in FY12E. ACIL has been able to maintain a low-debt-equity ratio in the past and is debt free on net debt basis. It's prudent management of working capital cycle and free operating cash flows have enabled it to maintain its debt-equity ratio very efficiently. Going forward we expect the debt-equity ratio to remain at 0.4x both in FY11E & FY12E due to high operational cash flows. We believe that its ability to maintain its EBITDA margins would in turn maintain its interest coverage ratio in next two years.

Indian Construction Industry

Construction industry is the second largest industry in the country after agriculture. Investment in this sector contributes significantly to the GDP of the country. As per the 11th five year plan the investment in the infrastructure sector would reach more than $350bn as against estimate of $492 bn. The economic momentum is likely to sustain in the second half of the fiscal year though the growth rate may moderate slightly. Indeed, even with a somewhat slower rate of growth, the Indian economy is still expanding significantly, and substantial investment in infrastructure continues to be required in order to sustain India's economic progress. The country's capacity to absorb and benefit from new technology and industries depends on the availability, quality and efficiency of more basic forms of infrastructure including energy, water and land transportation. The Planning Commission may be looking to upgrade its GDP target for FY10 from its current estimate of 6.5%. GDP growth could be 7.5% for FY11 and 9% for FY12.

Projected spending from FY07-FY12 in selected infrastructure segments:
Electricity: US$167 bn
Railways: US$65 bn
Road and highways: US$92 bn
Ports: US$22 bn
Airports: US$8 bn

Attracting private investment on the scale envisaged presents formidable challenges. The Planning Commission expects private players to account for about 30% of the total infrastructure projects. Private sector companies have responded well in some sectors like airways, telecommunication and power. They are also keen to invest in areas like ports, airport development and road building. However, to attract increased private investment it is necessary to create an environment that is both attractive to investors and is seen to be fair by the users.

(% of GDP)

	2006–07	2011–12
Public Sector		
(Centre + States)	4.23	6.45
Private Sector	1.20	2.89
Total	5.43	9.34

Source: Central Statistical Organization for 2006–07 and computations by the Planning Commission for 2011–12.

Opportunities Infrastructure

Roads

India's roads are already congested, and getting more so. Annual growth is projected at over 12% for passenger traffic and over 15% for cargo traffic. The Indian Government estimates around US$90 bn plus investment is required over FY07-FY12 to improve the country's road infrastructure. Plans announced by the Government to increase investments in road infrastructure would increase funds from around US$15 bn per year to over US$23 bn in 2011-12. The quantum of funds invested as part of these programmes will significantly exceed that invested in recent history. Such programmes would be funded via a mix of public and private initiatives.

The Indian Government, via the National Highway Development Program (NHDP), is planning projects in NHDP Phase III and VII to be bid out, representing around

	National Highways				State Roads (Highways, Major District Roads, Other Roads)			Rural Roads	North East	Total
Year	NHDP1 Public	NHDP Private	Non-NHDP (Public)	Total	Public	Private	Total			
2007-08	3,173	3,702	463	7,338	4,347	1,333	5,680	1,875	212	15,104
2008-09	3,305	3,966	486	7,757	4,528	1,428	5,956	2,025	238	15,976
2009-10	3,464	4,495	510	8,469	4,745	1,618	6,364	2,150	291	17,273
2010-11	3,834	5,685	536	10,055	5,253	2,047	7,299	2,300	317	19,971
2011-12	4,707	6,478	563	11,747	6,488	2,345	8,834	2,463	344	23,387
Total	18,483	24,326	2,557	45,365	25,361	8,771	34,132	10,813	1,401	91,711

Source: PWC

40,309 km of roads. The average project size is expected to US$150 mn-US$200 mn. Larger projects are likely to reach the US$700 mn- US$800 mn range. The procurement process favours players with good experience and sound financial strength. The government has already identified projects to be awarded during FY10 (11,947km) and FY11 (11,109km).

Railways

The Indian Government has also recognized existing infrastructure gaps and capacity constraints in the rail system, and as a consequence plans large scale investment over the five years from FY07-FY12. Projected investments total US$65 bn, of which 40% is expected to be contributed by the private sector. One major PPP programme is already in its initial phases. The Dedicated Freight Corridor project is designed to alleviate congestion on the rail routes between Delhi and Mumbai and Delhi and Kolkata by building long-distance, cargo-only rail lines, at an estimated cost of US$6 bn-7 bn.

Other proposed initiatives include the development of manufacturing plants for rolling stock with long-term committed procurement for several years, and the setting up of logistics parks. City metro systems are also in the pipeline. Indian Railways is also looking for private partners to help modernize railway stations to world-class levels, and for projects focused on increasing connectivity with ports.

Ports

Increasing connectivity with inland transport networks is just one of many challenges currently facing India's ports, which have seen massive swells in the amount of goods transported. Traffic is estimated to reach 877 mn tonnes by 2011-12, and containerized cargo is expected to grow at 15.5% (CAGR) over the next 7 years. India's existing ports infrastructure is not sufficient to handle the increased loads – cargo unloading at many ports is currently inadequate, even where ports have already been modernized.

An estimated investment of around US$22 bn is targeted for port projects in the five year period from FY07- FY12. The National Maritime Development Programme includes 276 projects, with a required investment of about US$15 bn over the next ten years, with private investment targeted at around US$8 bn. In addition to improving road and rail connections, projects related to port development (construction of jetties, berths, container terminals, deepening of channels to improve draft, etc.), will provide major opportunities for construction companies. Recent deregulation of the sector now permits 100% FDI, and an independent tariff regulatory authority has been set up to facilitate projects at major ports.

Airports
Estimates made in 2007 by the Indian Government's Committee on Infrastructure suggest that passenger traffic will grow at a CAGR of over 15% in the next 5 years. Indian manufacturers are also looking to the skies – the same source anticipates that cargo traffic will grow at over 20% p.a. over the next five years. Even if these estimates prove somewhat optimistic, the growth already achieved has put tremendous pressure on airport infrastructure.

The Indian Government has projected that an investment of around US$8 bn in the five year period from FY07-12 will be needed to help cope with additional demand, and private sector participation is expected to play a key role. The private sector has already stepped up to the challenge of airport infrastructure development in several cases, with private participation in recent years at Delhi, Mumbai, Hyderabad, Cochin and Bangalore supplementing the efforts of the Airports Authority of India. The total investment on new airports has been proposed at about US$10 bn by 2012.

Greenfield airport projects are planned in resort destinations and emerging metros such as Goa, Pune, Navi Mumbai, Greater Noida and Kannur. Further, 35 non-metro airports are proposed for development.

Real Estate
Recovery in Real estate sector is expected to commence gradually and companies which are into providing affordable housing would be benefitted. Even the Housing Shortage of 24.71 million units as worked out in the 11th National Plan constitutes the Economically Weaker Sections (EWS) and Lower Income Group (LIG) which highlights the fact that demand lies but in the Lower Income Group. The volume of sales in the middle-income and affordable housing sub-segments by developers has been commendable, reflecting the positive outlook regarding such projects.

Funding Update
The World Bank's Rs 93.5 bn loan that the central government is seeking for road development will reduce the total borrowing needs of the National Highways Authority of India (NHAI) by 20% to Rs.1534.21 bn over the next 21 years. The ministry is seeking the loan at a lower interest rate of 6.5% with longer repayment tenure of 25 years. The longer tenure would prevent the government from borrowing every few years to repay this loan and the lower interest rate will also result in lesser fund outgo towards repayment, cutting down the overall borrowing needs of the authority. The World Bank loan to the government at prevailing market rates, which currently stands at 9 to 9.5%, is with a usual repayment tenure of around 10-12 years. The B K Chaturvedi Committee report, to address issues plaguing road development, has nailed the total borrowing requirement of the NHAI at a cumulative Rs 1919.5 bn till 2030-31.The loan would be in addition to Rs 138.4 bn that the World Bank has approved in principle to the Indian government for road development.

Central government's flagship programme Jawaharlal Nehru National Urban Renewal Mission (JNNURM) is likely to depend on private funds as the government may find it difficult to spare more resources. There is a risk that the scheme may lose its momentum for want of adequate funds, as there is need for cash from private companies to come into city development. Launched in December 2005, the scheme has generated a lot of interest from state governments, leading to the utilisation of the Rs 1000 bn earmarked for seven years in the first four years of its implementation. The scheme was received by most state governments as it also meant some additional Central funds coming their way.

With funds running out, the urban development ministry had sought Rs 500 bn more for the scheme from the Planning Commission. While a World Bank loan of Rs 46 bn is likely to be sanctioned for the scheme, the need for funds is several times more. There is a lot of scope for cash inflow from private sector to come into urban infrastructure. The Mumbai metro is an initiative totally funded with private sector involvement.

Relative Valuation

We believe that ACIL deserves a premium valuation based on a relative comparison with its peers given below:

Peers	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
	EBITDA Margins (%)		ROCE (%)		ROE(%)		D/E (x)	
JMC	8.0	8.0	15.8	17.4	18.6	20.5	0.8	0.7
BLK	8.1	8.8	9.6	10.4	11.4	12.0	0.5	0.5
CCCL	8.0	8.7	18.8	18.1	16.2	17.3	0.5	0.5
ACIL	12.2	12.2	27.8	28.8	32.1	32.4	0.5	0.4

Source: Sushil Finance Estimates

Risks & Concerns

- Slowdown in order inflows from private sector will negatively impact the earnings estimates of the company. However, a pick up in the order inflow from the public sector should provide a cushion to our estimates.
- A delay in the revival of the retail and commercial projects could put pressure on its business portfolio.
- Company has been able to manage its working capital cycle efficiently. Deterioration in the working capital cycle with increasing number of infrastructure projects could hamper our estimates of debt-equity and return ratios.

OUTLOOK & VALUATION

ACIL has a strong order book of Rs. 53 bn and its order-book to bill ratio is likely to improve further in near future. This gives a clear visibility to the earnings of the company for more than two years. Its strategy to increase infrastructure order book would ensure growth until a demand revival is seen in the retail and commercial projects. We expect the company to grow at a CAGR of 30% for next two years. At CMP of Rs.194, the stock is trading 14x FY11E EPS of Rs.14 & 10x FY12E EPS of Rs. 19. Given its strong order book, strong balance sheet and proven track record of the management of timely execution of the projects, ACIL is well poised to ride the construction boom in the country and thus we initiate coverage with a Accumulate rating on the Company with a target price of Rs.228 (based on 12x its FY12E EPS of Rs.19).

QUARTERLY RESULTS STATEMENT (Rs.mn)

Y/E March	Q1FY10	Q2FY09	Q2FY10
Net Revenues	**3045.7**	**3017.5**	**3468.4**
% Change YoY	19.9	60.5	14.9
PBIDT	**405.8**	**357.8**	**460.6**
% Change YoY	42.1	44.3	28.7
% Margin	13.3	11.9	13.3
Interest	36.0	26.7	36.7
% of STO	1.2	0.9	1.1
PBDT	**369.8**	**331.1**	**423.9**
% Change YoY	40.0	43.4	28.0
% Margin	12.1	11.0	12.2
Depreciation	101.5	123.0	81.0
PBT excl. OI	**268.3**	**208.1**	**343.0**
% Change YoY	51.1	17.3	64.8
% Margin	8.8	6.9	9.9
Other Income	11.2	17.6	14.8
% Change YoY	(41.2)	52.8	(16.0)
Extraord. items	-	-	-
PBT incl OI	**279.5**	**225.7**	**357.7**
% Change YoY	42.2	19.8	58.5
% Margin	9.2	7.5	10.3
Tax	**95.2**	**80.5**	**120.0**
% Change YoY	40.1	21.4	49.0
% of PBT	34.0	35.7	33.5
RPAT	**184.4**	**145.2**	**237.8**
Change YoY%	43.3	18.9	63.8
% Margin	6.1	4.8	6.9
PAT adj. for extraord. items	**184.3**	**145.2**	**237.8**
Change YoY%	43.3	18.5	63.8
% Margin	6.1	4.8	6.9

Source: Company, Sushil Finance Research Estimates

P&L STATEMENT (Cons.) (Rs.mn)

Y/E March	FY09	FY10E	FY11E	FY12E
Net Sales	**11,916.3**	**14,418.7**	**19,364.4**	**26,141.5**
% Change YoY	35.4	21.0	34.3	35.0
PBIDT	**1,463.8**	**1,755.1**	**2,357.3**	**3,188.8**
% Change YoY	37.7	19.9	34.3	35.3
% Margin	12.3	12.2	12.2	12.2
Interest	192.1	240.2	307.4	399.6
% of STO	1.6	1.7	1.6	1.5
PBDT	**1,271.7**	**1,514.9**	**2,049.9**	**2,789.2**
% Change YoY	34.6	19.1	35.3	36.1
% Margin	10.7	10.5	10.6	10.7
Depreciation	479.4	590.0	780.0	1,050.0
PBT excl. OI	**792.3**	**924.9**	**1,269.9**	**1,739.2**
% Change YoY	10.5	16.7	37.3	37.0
% Margin	6.6	6.4	6.6	6.7
Other Inc.	75.0	90.0	103.6	119.1
% Change YoY	15.8	20.0	15.0	15.0
% Margin	0.6	0.6	0.5	0.5
Extraord. items	(13.2)	-	-	-
PBT incl OI	**880.5**	**1,015.0**	**1,373.4**	**1,858.3**
% Change YoY	12.7	15.3	35.3	35.3
% Margin	7.4	7.0	7.1	7.1
Tax	**307.7**	**352.2**	**486.8**	**662.8**
% Change YoY	16.1	14.5	38.2	36.1
% of PBT	34.9	34.7	35.4	35.7
RPAT	**572.9**	**662.8**	**886.6**	**1,195.4**
% Change YoY	10.9	15.7	33.8	34.8
% Margin	4.8	4.6	4.6	4.6
Min. Interest	-	-	-	-
RPAT after Minority Int.	**572.9**	**662.8**	**886.6**	**1,195.4**
% Change YoY	10.9	15.7	33.8	34.8
% Margin	4.8	4.6	4.6	4.6
Extraord. items after tax adj.	10.0	-	-	-
APAT after Minority Int.	**562.9**	**662.8**	**886.6**	**1,195.4**
% Change YoY	9.0	17.7	33.8	34.8
% Margin	4.7	4.6	4.6	4.6

BALANCE SHEET STATEMENT (Cons.)

(Rs.mn)

As on 31st Mar.	FY09	FY10E	FY11E	FY12E
SOURCES OF FUNDS				
Share Capital	125.5	125.5	125.5	125.5
Res. & Surplus	1645.8	2226.6	2996.2	4039.6
Net Worth	1771.3	2352.2	3121.8	4165.1
Secured Loans	906.5	1133.1	1359.7	1495.7
Unsec.Loans	8.3	10.0	15.0	20.0
Total Loan funds	914.8	1143.1	1374.7	1515.7
Deferred tax Liab.	(106.5)	(185.7)	(275.7)	(375.7)
Cap. Employed	2579.6	3309.6	4220.8	5305.1
APPLICATION OF FUNDS				
Gross Block	2638.3	3538.3	4438.3	5938.3
Less: Depre.	1134.2	1724.2	2504.2	3554.2
Net Block	1504.1	1814.1	1934.1	2384.1
Cap. WIP	0.8	200.0	200.0	50.0
Fixed Assets	1504.9	2014.1	2134.1	2434.1
Intangible	13.8	13.8	13.8	13.8
Investments	0.6	0.6	0.6	0.6
Sundry Drs	3155.1	3950.3	5305.3	7162.1
Cash & Bank	900.6	890.6	658.3	556.5
Loans & Adv.	376.8	412.5	459.0	519.4
Inventories	1350.5	1985.0	3259.6	4822.9
Other cur. asset	63.4	69.7	76.7	84.3
Curr Assets, Loans & Adv	5846.4	7308.2	9758.9	13145.3
Curr Liabilities	4651.1	5850.5	7469.9	10016.8
Prov.	135.3	176.9	217.0	272.1
Curr Liab & Prov	4786.3	6027.4	7686.9	10288.9
Net Curr. Assets	1060.1	1280.8	2072.0	2856.3
Misc. Exp. (not written off)	0.3	0.3	0.3	0.3
Total Assets	2579.6	3309.6	4220.8	5305.1

Source: Company, Sushil Finance Research Estimates

FINANCIAL RATIOS STATEMENT (Cons.)

Y/E March	FY09	FY10E	FY11E	FY12E
GROWTH (%)				
Net Sales	35.4	21.0	34.3	35.0
Net Profit	9.0	17.7	33.8	34.8
EBITDA	37.7	19.9	34.3	35.3
EPS	9.0	17.7	33.8	34.8
CEPS	37.0	19.3	34.3	36.1
Gr.Fix.Assets	45.6	34.1	25.4	33.8
Capital Emp.	45.1	28.3	27.5	25.7
VALUATION				
EPS (Rs.)	9.0	10.6	14.1	19.0
CEPS (Rs.)	78.3	93.5	125.6	170.9
BVPS (Rs)	28.2	37.5	49.7	66.4
PER (x)	21.6	18.4	13.7	10.2
PEG (x)	2.4	1.0	0.4	0.3
P/CEPS (x)	2.5	2.1	1.5	1.1
P/BVPS (x)	6.9	5.2	3.9	2.9
EV/EBITDA (x)	9.6	8.2	6.3	4.7
EV/Net Sales (x)	1.0	0.9	0.7	0.5
PROFITABILITY (%)				
ROCE	31.6	27.8	28.8	30.5
RONW	37.3	32.1	32.4	32.8
EBITDA Margin	12.3	12.2	12.2	12.2
EBDTA Margin	10.7	10.5	10.6	10.7
NP Margin	4.7	4.6	4.6	4.6
Tax/PBT	34.9	34.7	35.4	35.7
TURNOVER				
Avg. Drs.Days	97	100	100	100
Avg. Crs.Days	282	280	275	270
Fixed Assets (x)	7.9	7.2	9.1	10.7
Total Assets (x)	4.6	4.4	4.6	4.9
CMP (Rs.)	194.0	194.0	194.0	194.0
Mkt.Cap. (Rs.mn)	12,175.9	12,175.9	12,175.9	12,175.9
EV (Rs.mn)	12,189.5	12,636.7	12,344.2	12,401.8

CASH FLOW STATEMENT

(Rs.mn)

Y/E March	FY09	FY10E	FY11E	FY12E
Cash Flow from Operating Activity				
Profit before tax & Extraordinary Items	867.3	1015.0	1373.4	1858.3
Depreciation & Amortization	426.7	590.0	780.0	1050.0
Extraordinary items	13.2	0.0	0.0	0.0
Provision for Taxes	(307.7)	(352.2)	(486.8)	(662.8)
Incr/(Decr) in Deferred Tax Liability	(68.9)	(79.2)	(90.0)	(100.0)
(Incr)/Decr in Working Capital	(797.8)	(230.7)	(1023.5)	(886.1)
(Incr)/Decr in Mis. Expense not written off	0.1	0.0	0.0	0.0
Cash Flow from Operating	**133.0**	**942.9**	**553.1**	**1259.4**
Cash Flow from Investing Activity				
(Incr)/ Decr in Gross PP&E	(826.7)	(900.0)	(900.0)	(1500.0)
(Incr)/Decr In Work in Progress	103.5	(199.2)	0.0	150.0
(Incr)/Decr In Investments	41.8	0.0	0.0	0.0
(Incr)/Decr in Other Non-Current Assets	(13.8)	0.0	0.0	0.0
Cash Flow from Investing	**(695.2)**	**(1099.2)**	**(900.0)**	**(1350.0)**
Cash Flow from Financing Activity				
(Decr)/Incr in Debt	349.6	228.3	231.6	141.0
(Decr)/Incr in Share Capital	0.0	0.0	0.0	0.0
(Decr)/Incr in Securities Premium	(0.2)	0.0	(0.0)	0.0
Dividend	(51.4)	(81.9)	(117.0)	(152.1)
Cash Flow from Financing	**298.0**	**146.4**	**114.6**	**(11.1)**
Incr/(Decr) in Balance Sheet Cash	**(264.3)**	**(9.9)**	**(232.3)**	**(101.8)**
Cash at the Start of the Year	1164.8	900.6	890.6	658.3
Cash at the End of the Year	**900.6**	**890.7**	**658.3**	**556.5**

Source : Company, Sushil Finance Research Estimates

Rating Scale

This is a guide to the rating system used by our Equity Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	**High predictability / Low volatility**
Medium Risk	**Moderate predictability / volatility**
High Risk	**Low predictability / High volatility**

Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	**Over 15 %**	**Over 20%**	**Over 25%**
Accumulate	**10 % to 15 %**	**15% to 20%**	**20% to 25%**
Hold	**0% to 10 %**	**0% to 15%**	**0% to 20%**
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

Please Note

- Recommendations with "Neutral" Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).
- ** Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.

"Desk Research Call" is based on the publicly available information on the companies we find interesting and are quoting at attractive valuations. While we do not claim that we have compiled information based on our meeting with the management, we have taken enough care to ensure that the content of the report is reliable. Although we have christened the report as "Desk Research Calls" (DRC), we intend to release regular updates on the company as is done in our other rated calls.