Tata Power Co. Ltd.

Full Steam Ahead

Analyst: Dhawal Doshi / Deepali Gautam

September 14, 2009

Analyst: Dhawal Doshi / Deepali Gautam
ddoshi@mfglobal.com (+9122 6667 9769) / dgautam@mfglobal.com (+9122 6667 9974)

INITIATING COVERAGE

Tata Power Co. Ltd. (TPWR IN / TTPW.BO)

Neutral

Full Steam Ahead

CMP Rs 1274
Target Rs 1181 (-7%)

This note should be read for :
- *Our investment argument.*
- *Business Modelling and valuation.*

Investment Rationale

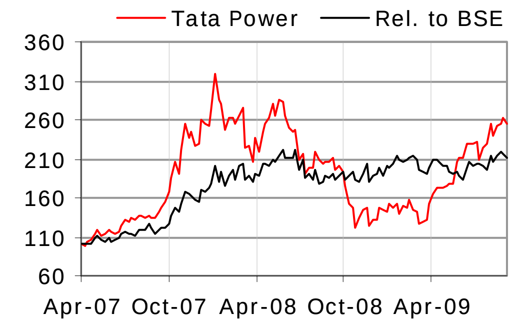
- Rich experience in the power sector is reflected in the business model that Tata Power has developed. The model ensures stable profits, coupled with growth on account of capacity expansion and merchant upsides.
  - Adopts a healthy mix of asset types evolving in the sector (regulated, IPP, CPP, and Merchant).
  - Integrated vertically and into related business like T&D, coal mining, etc.
- Robust project pipeline, with a track record of timely project execution, ensures visibility to future earnings.
- The company is not likely to face any near-term funding issues with the timely conclusion of its GDR issue (US$ 335mn). However, the company is evaluating various options for raising funds for its long-term equity requirements.
- Debt repayment for the Bumi mines no longer continues to be an overhang on the company's balance sheet at the current coal prices. The cash flow from the mines would be sufficient to meet the debt servicing obligations.

Risks

- Project execution delays.
- Fuel shortages.
- Change in the regulatory environment.

Valuation

- At the CMP of Rs 1274, the stock is valued at 21.2x FY2010 consolidated EPS of Rs 60.1 and 16.0x FY2011 EPS of Rs 79.5. We value Tata Power on a SOTP basis and arrive at a price target of Rs 1181. We initiate coverage on the stock with a Neutral rating.



Company data	
O/S shares :	237mn
Market cap (Rs) :	302bn
Market cap (USD) :	6.2bn
52 - wk Hi/Lo (Rs) :	1457 / 532
Avg. daily vol. (3mth) :	0.6mn
Face Value (Rs) :	10

Share holding pattern, %	
Promoters :	33.2
FII / NRI :	19.2
FI / MF :	29.3
Non Pro. Corp. Holdings :	0.8
Public & Others :	17.5

Y/E Mar, Rs bn	FY09	FY10E	FY11E
Net Sales	171.3	185.0	210.2
PAT	15.7	14.3	18.9
EBIDTA mrg, %	20.7	22.1	23.6
PAT mrg, %	9.1	7.7	9.0
ROE, %	17.4	12.7	13.8
EPS, Rs	70.8	60.1	79.5
PER, x	18.0	21.2	16.0

Investment Overview

Sustainable competitive advantage	TPC's business model, which spans through the entire power value chain (from coal mining to power distribution), enables the company to earn sustainable earnings. The company is assured a large part of its profits as 72% of its capacity falls under the regulatory regime.
Financial structure	As the company is in a heavy capex phase and given the high leverage that power projects have, we expect the leverage to stay in the range of 1.5x -1.6x.
Shareholder value creation	A presence across the entire value chain creates value for the shareholder. Further liquidation of its telecom investments will unlock value.
Earnings visibility	The business mix and expansion plan ensure 25% CAGR in the profits of the company from FY2009 to FY2011.
Valuation	At the CMP of Rs 1274, the stock is valued at 21.2x FY2010 consolidated EPS of Rs 60.1 and 16.0x FY2011 EPS of Rs 79.5.
Future event triggers	Any movement in the spot coal prices could lead to a significant change in the profitability. Liquidation of its telecom investments to fund the future growth. Change in tariff norms by MERC.

Valuation Summary

Y/E Mar, Rs mn	FY2007	FY2008	FY2009	FY2010E	FY2011E
Net Sales	61,272	104,850	171,280	185,008	210,166
Growth, %	15.6	71.1	63.4	8.0	13.6
EBIDTA	9,850	19,679	35,961	40,936	49,595
EBIDTA margins, %	16.4	19.3	20.7	22.1	23.6
Core EBIDTA	10,078	20,265	35,508	40,936	49,595
Net Profit	7,663	10,418	12,861	16,583	18,872
Adjusted Net profit	7,727	10,418	15,665	14,263	18,872
Net profit margin, %	12.6	9.9	9.1	7.7	9.0
EPS, Rs	39.0	47.2	70.8	60.1	79.5
EPS Growth, %	17.1	20.9	49.9	(15.0)	32.3
PER, x	32.6	27.0	18.0	21.2	16.0
EV/EBIDTA, x	34.0	19.6	12.4	11.7	11.1
EV/Net Sales, x	5.6	3.8	2.6	2.6	2.6
Price/Book Value, x	4.5	3.3	2.9	2.4	2.1
ROIC, %	10.4	10.0	7.7	8.2	7.9
ROE, %	14.4	14.8	17.4	12.7	13.8
Dividend Yield, %	0.9	1.0	1.1	0.9	0.9

Report prices as of September 14, 2009. Source: Company, MF Global India Research Estimates

Key Risks

Our Comments

Project execution delays

- TPC has a host of projects under construction and development. Any project execution delay could hamper the profitability of the company, going forward.

Though there is a risk of projects getting delayed, the management is confident of executing the projects in time. Considering the past performance of Tata Power, we too believe that the company would broadly stick to its execution schedule.

Fuel shortages

- TPC has a total requirement of ~20 MTPA of imported coal for its Mundra and Dehrand project. The company currently has a tie-up for 12mn tonnes. Any delay in sourcing the balance fuel could lead to under-utilisation of the plants.

A shortage would occur for imported coal only when the Dehrand plant comes up, which is still in its preliminary stages. We believe that by the time, the Dehrand plant comes up, the company should be able to arrange for the remaining coal. TPC is scouting for more coal assets in countries like Indonesia, Australia, Mozambique and South Africa.

Change in the regulatory environment

- The company has 72% of the existing capacity under the regulatory regime. Any negative change in the regulations could impact the company's existing profitability.

The regulator is striving to make the sector more consumer oriented and has thus been working on rationalising the tariffs. However, this has made the situation tricky for the generator as while the regulated return is increased, operational norms are tightened. Going forward, the norms might further be tightened. This would bear a negative impact on the regulated returns.

Valuation

- We value Tata Power on a SOTP basis to arrive at a price target of Rs 1181 per share.

Business Unit Name	Value (Rs/share)	Valuation methodology
Tata Power Company Core Business	**696**	**Average of the DCF and P/Bv**
Other generation projects under subsidiaries	**72**	
Maithon Power Ltd.	26	valued at 20% discount to FCFE value
Industrial Energy Ltd.	18	valued at 20% discount to FY10E 2.0x book value
Mundra UMPP	28	valued at 20% discount to FCFE value
Other non-generation projects under subsidiaries	**58**	
NDPL	35	valued at 20% discount to FY10E 2.2x book value
Powerlinks Transmission Ltd.	18	valued at 20% discount to FY10E 2.0x book value
Tata Power Trading Company	5	valued at 20% discount to FY10E 15x earnings multiple
Strategic investments	**215**	
Indonesian Coal Mines	206	valued at 20% discount FCFE value
Tata BP Solar	9	valued at 20% discount to 2.5x amount invested
Investments	**140**	
Total	**1181**	

Source: MF Global India Research Estimates

Steady Business Model – Sustainable earnings

- Tata Power Company's (TPC) vast experience in the power business is reflected in its unique business model. The company has been adapting itself to the various changes in the power sector. TPC has a presence across the value chain of power from natural resources (coal mining) to power generation, transmission and distribution.

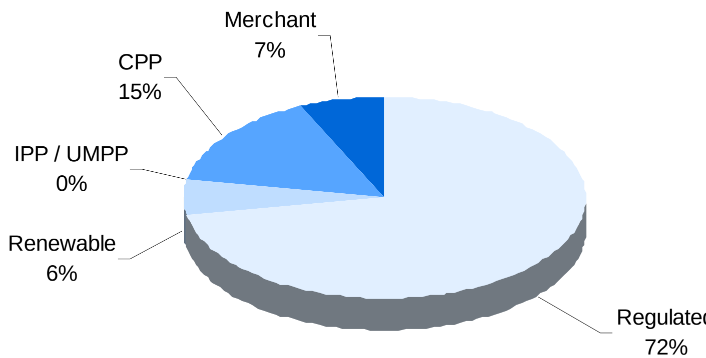
- The management's acumen is reflected in its timely decisions to venture into related businesses and its execution track record. The company has been one of the early movers amongst its peers into various businesses, be it the transmission business with Tala Transmission, distribution business with NDPL and Mumbai License Area or coal mining with Bumi Resources. The company has also acquired a 5% stake in India Energy Exchange, the country's first power exchange.

- TPC's focus on the renewable space is reflected in its wind capex and its solar energy presence through Tata BP Solar. In the hydro power segment, the company has acquired a 26% stake in the 114MW Dagacchu Hydro power plant in Bhutan, apart from its existing operations in the Mumbai License Area. TPC has also ventured into geo-thermal power through a 10% stake in Geodynamics of Australia.

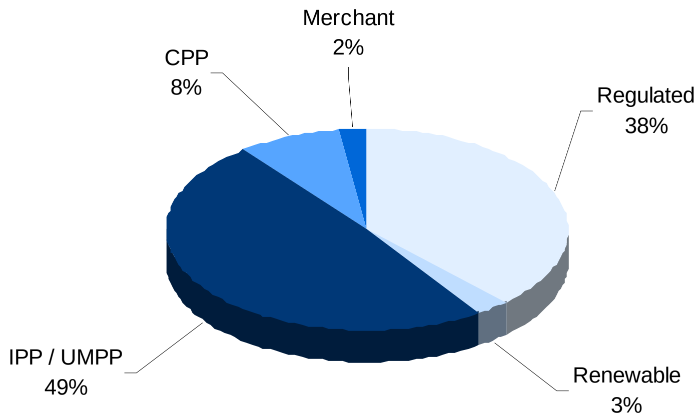
Steady Business Model – Sustainable earnings

- TPC has been predominantly operating with assets that have regulated returns. However, the company has been changing its mix from regulated assets to high-return yielding non-regulated assets like IPPs, CPPs, UMPPs and merchant power.

Capacity Mix–FY2009 (2785MW)



Capacity Mix–FY2013 (8152.5MW)



Regular investments in the various aspects of the power business has led to around 26% CAGR in the consolidated profits from FY2003 to FY2009. The earnings are further expected to improve with various projects becoming operational. We expect the consolidated profits to grow at a CAGR of 25% from FY2009 to FY2011.

Source: Company

MF Global

Robust project pipeline – Growth visibility intact

- TPC has a project pipeline which will see its capacity increasing from 2.8GW in FY2009 to 8.2GW by 2013.

(MW)	FY2009	FY2010	FY2011	FY2012	FY2013
Existing Capacity	2784.6				
Haldia		30			
IEL		240			
Wind		47.5			
Maithon			1050		
Mundra				1600	2400
Cumulative Capacity	2784.6	3102.1	4152.1	5752.1	8152.1

- TPC, further, has projects at the development stage of 5.2GW to be commissioned over a period of time from FY2013 onwards, which will take the generation capacity to 13.3GW. The company is at various stages of development for these plants. As the plants are at a nascent stage of development, the same are not considered for valuation purposes.

Projects	Capacity (MW)	Loaction	Fuel Type	Fuel Source
Corus	525	Netherlands	Flue Gas	Corus - Production Gases
Tubed IPP	500	Jharkhand	Coal	Captive Coal Mine - Tubed
Naraj Marthapur IPP	1000	Orissa	Coal	Captive Coal Mine - Mandakini
Naraj Marthapur CPP	270	Orissa	Coal	Supply by Procurer
Dehrand	2400	Maharashtra	Coal	Imported Coal
Jharkhand CPP	500	Jahrkhand	Coal	Supply by Tata Steel
	5195			

Note: We have not considered the 1000MW coal based plant in JV with IOC, due to IOC's reluctance to go ahead with the project as per the latest media reports.

The projects under construction and in the pipeline will see a sustained growth in revenues and hence, the earnings for the company over the long term.

Source: Company, MF Global India Research Estimates

Mumbai License Area – Gaining momentum

- TPC is likely to witness good momentum in the distribution business of its Mumbai License Area. TPC's plans in the distribution segment have got a leg-up after MERC's order allowing it open access to Reliance Infrastructure's (REL) network.

- The company had planned a capex of Rs 39billion for the transmission and distribution segment, however, after the MERC order, TPC will roll back some of its planned capex. We have assumed Rs 30billion as the capex for TPC over the next three years.

- The MERC order clearly states TPC's competitive advantage over REL, despite the wheeling charges payable by TPC to REL.

Category	Tariff (Rs / unit)		% gain
	TPC	REL	
Residential	2.83 - 5.15	3.26 - 7.80	13% - 34%
Commercial	5.63 - 6.91	8.52 - 11.74	34% - 41%
Industrial	5.66 - 6.69	8.01 - 8.08	17% - 29%

- TPC has already received applications from 50,000 retail customers and various commercial and industrial establishments to switch over from REL's network to TPC's network. Although the quantum of applications received is small in load terms, it is has started gaining momentum.

Source: MERC

Mumbai License Area – Gaining momentum (contd.)

- To meet the growing need of power for its distribution segment, the company plans to discontinue its 500MW power supply to REL from April 2010 onwards. TPC has not yet firmed up the exact quantum of power to be supplied to its distribution arm. Any surplus power after meeting the needs of the distribution arm will be sold as merchant power. This could significantly boost the profits for the company from FY2011 onwards. We have not assumed any merchant sale for the 500MW power supply to be discontinued to REL, but have continued with regulated returns for the same.

Increasing investments in the distribution segment, coupled with increasing capacity (Trombay–150MW) in the Mumbai License Area, is expected to lead to an increasing profitability for the company.

Merchant Power – Icing on the cake

- TPC has commissioned a part of the Trombay expansion (100MW) and the Haldia facility (100MW) as merchant capacity. This has led to a jump in the profitability of the company during Q1FY2010. The company has sold around 240million units during Q1FY2010 as merchant sales. This is expected to go up as its newly commissioned plants achieve stabilisation.

- Further, the company could also sell part of the 500MW capacity discontinued with REL from April 2010 onwards as merchant sales, till the company does not get enough customers for its Mumbai distribution business. This could significantly boost the profits for the company from FY2011 onwards. **However, we have not assumed the same in our numbers.**

- We have assumed an average realisation of Rs 5.75 and Rs 5.50 per unit for merchant power during FY2010 and FY2011, respectively. Any jump in the merchant power rates could have an upside risk to our estimates.

The merchant power sales will enhance the profitability and in turn, the return ratios for the company.

Funding gap – Not in the near term

- TPC has a total fund requirement of Rs 63billion for its capex needs (inclusive of the Mumbai License Area capex) as well as its equity contribution into various subsidiaries. We have not assumed any outlay for the shipping venture in our numbers.

Total fund requirement

(Rs million)	FY2010E	FY2011E	FY2012E
Capex	2879	10000	9500
Investments in subsidiaries	13357	13888	13033
Total	**16236**	**23888**	**22533**

- TPC is evaluating various options like divesting its stake at the various subsidiary levels, liquidating some of its telecom investments, dilution at the parent level, etc. to meet its equity commitments for the various projects.

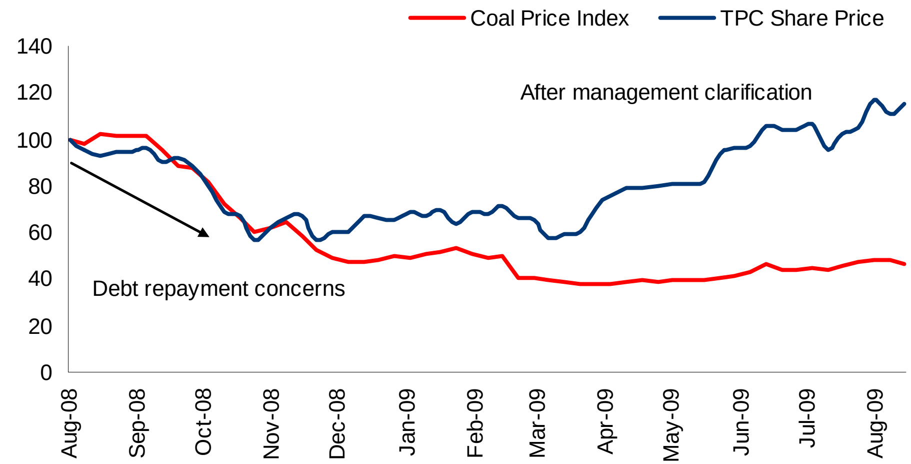
- TPC has recently concluded a GDR issue and raised US$ 335million as a part of the various fund-raising options. This, along with its internal cash generation, largely takes into account its near-term funding requirements for its investments into various subsidiaries.

The GDR issue and internal cash generation will see the company through with the funding requirements in the near term.

Source: MF Global India Research Estimates

Coal Mine – Debt servicing hangover behind us

- TPC saw its share price taking a toll with the benchmark coal prices falling down on the concerns that the company will not be able to meet its debt repayment obligations from the mine cash flows.



- However, the share price stabilised after the management's clarification with regards to the debt repayment obligations.The current debt stands at US$ 744million whereas the coal mine holding companies are holding cash worth US$ 102million.

Debt Repayment Schedule – March 2009

	O/S Loan (mn US$)	Maturity	Repayment Terms
Recourse Loan	454	May-14	Bullet payment of US$ 175 mn
Non Recourse Loan	270	May-15	Two equal installments in May 2014 and May 2015
Short Term Loan	40		Loan refinanced in June 2009
	764		

The company will be comfortable with the debt servicing even in the event of coal prices stabilising at around US$ 55/ton with the existing debt repayment schedule.

Source: Company data and Bloomberg

Going Green

- TPC, apart from expanding into its core portfolio, is also focusing on the green power segment through its various initiatives in wind, solar, hydro and geo-thermal power.

- The company has an existing capacity of 159.25MW in **wind power** across Maharashtra, Gujarat and Karnataka as on FY2009. Further, the company is implementing projects of up to 47.5MW in the above states during FY2010. The company further plans to add 100MW to its total wind capacity, however, we have not assumed the same in our numbers.

- TPC has a presence in the **solar power** segment through its joint venture - Tata BP Solar (49% stake). Further, the company has also signed a MOU with the Gujarat Government for setting up a 5MW solar power plant in Gujarat.

- TPC has recently acquired a 10% stake in **Geodynamics,** Australia, a company in the **geo-thermal power space.** TPC's intention to invest in Geodynamics is to access the technology for geo-thermal power and explore its potential in the Indian market. In sync with its objective, the company has signed a MOU with the Gujarat Government to explore the possibility of setting up a 5MW geo-thermal plant.

- TPC has a 26% stake in the 114MW Dagacchu **Hydro Power** plant in Bhutan, apart from its hydro power capacity in the Mumbai License Area.

Going Green (contd.)

- TPC has acquired a 5% stake in **Exergen,** an Australia-based company. Exergen has developed a technology known as Continuous Hydrothermal De-watering (CHTD) of brown coal (lignite), which if teamed up with modern coal fired station technology, could **reduce the emission levels by around 40%**. Research is underway to further refine the CHTD technology and to develop other applications of the technology. TPC plans to get the technology in India after its commercialisation.

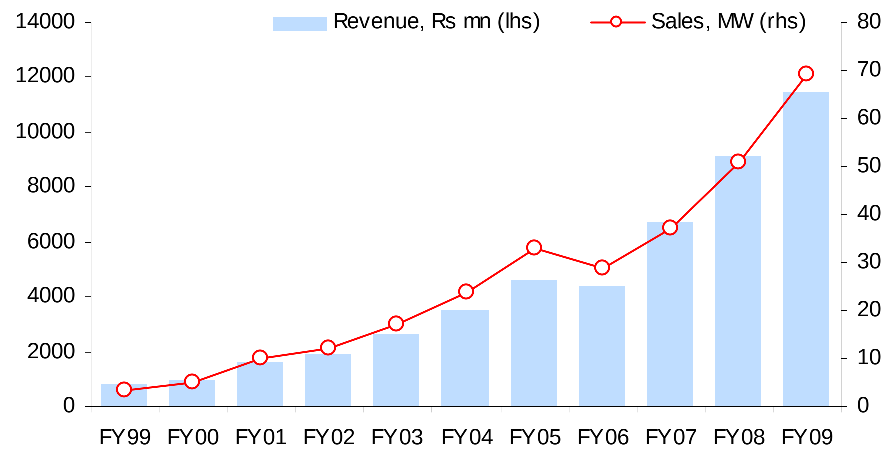
The above initiatives, although small in the current scheme of affairs, is a step forward in terms of achieving the company's vision of having a renewable portfolio of 25% by 2017 and 35% by 2030.

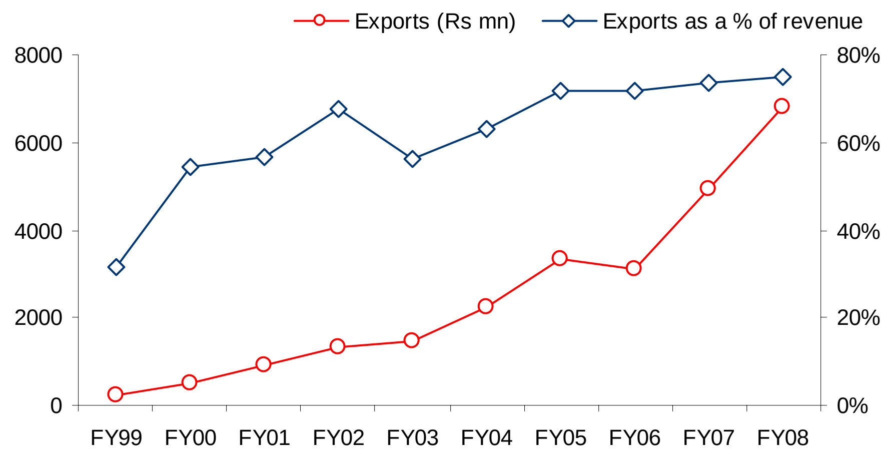
Going Green – Tata BP Solar

- TPC has a presence in solar power through Tata BP Solar, a 49% stake in its joint venture with BP Solar. The company currently has a fully integrated solar cell manufacturing capacity of 52MW, which is being scaled up to 300MW by FY2012. The company offers solar solutions for sectors like banks, telecom, roads and highways, education and rural development.

- The company has seen a 31% CAGR in its revenues from Rs 787million in FY1999 to Rs 11470million in FY2009, led by a 35% CAGR in volumes. Tata BP Solar has been the first company in India to cross the Rs 10billion mark in revenues.

- Exports have been a major contributor for the company's growth. Exports as a percentage of revenue has increased from 32% in FY1999 to around 75% currently. Going forward, the domestic market is likely to catch up with the growth of the export market on the back of various policy initiatives taken by the central and the state governments.





Source: Company

Going Green – Tata BP Solar (contd.)

- The Ministry of New and Renewable Energy has introduced a special incentive package for investments in the manufacture of semi-conductors and eco-system units in March 2007. The government will provide an incentive of 20% of the capital expenditure for SEZ units and 25% of the capital expenditure for the non-SEZ units during the first ten years of manufacturing. The non-SEZ units shall also be exempted from countervailing duty (CVD). Further, the Government of Gujarat has come up with a Solar Power Policy 2009 for players that do not avail of the benefit of the above scheme. The policy offers certain duty waivers and higher tariffs for the first 12 years of operation.

- To capitalise on the incentives offered by the central government and various state governments, the company plans to expand the same to 180MW by FY2010 and 300MW by FY2012. The ramp-up in capacity will cause growth momentum for the company.

TPC is likely to witness significant growth in the solar power segment, through its investment in Tata BP Solar, led by the inherent growth in the segment and the capacity expansion by the company.

Project updates

Projects	Capacity	Unit Specification	Ownership	Capital Cost (Rs mn)	Debt Equity	CoD	Fuel Source	BTG Supplier	Remarks
Maithon	1050	2x 525MW	74:26::TPC:DVC	44500	70:30	Dec-10 Jun-11	Coal from Coal India & its subsidiaries.	BHEL	Overall, 48% work completed as on June 2009. The plant is delayed by 3 months as per the CEA report, however, the management is confident of commissioning according to the original schedule of August 2010.
Mundra	4000	5x 800MW	100% TPC	170000	75:25	Aug-11 Dec-12 Apr-12 Aug-12 Dec-12	Imported Coal - Offtake agreement for 10.5 MTPA (+-20%) from Bumi Mines.	Toshiba and Doosan	Overall, 23% of project completed as on June 2009. While the company has signed coal off-take agreement with its coal mine associates in Indonesia, close to 3 MTPA of requirement is yet to be tied up. (assuming a part of the coal from Bumi mines is used for the Dehrand project)
Haldia	120	2x 45MW + 30MW	100% TPC	5500	70:30	Aug-08 Dec-08 Q2FY2010	Coke Oven Gas		90MW is operational, while the remaining 30 MW is expected to be commissioned during the current fiscal. 100MW of the capacity is merchant while there is a PPA with WBSEB for remaining 20MW.
IEL- Jojobera	240	2 x 120 MW	74:26 JV with Tata Steel	11100	70:30	May-09 Q3FY2010	Coke Oven Gas Coal from procurer		The plant would serve as a captive unit for Tata Steel.

Source: Company

Valuations

- TPC's business model, which spans through the entire power value chain, enables the company to earn sustainable earnings and hedges it from any uncertainties in the external environment. The diversified nature of its business allows the company to capture value for its shareholders at each vertical of the power business.

- The company's execution track record gives us confidence about the timely execution of its future projects (pipeline of 10.5GW under construction and under development projects), thereby giving strong growth visibility.

- At the CMP of Rs 1274, the stock is valued at 21.2x FY2010 consolidated EPS of Rs 60.1 and 16.0x FY2011 EPS of Rs 79.5. We value TPC on the SOTP methodology to arrive at a value of Rs 1181 per share. We initiate coverage on the stock with a Neutral rating.

Peer Comparison

FY2010E	Price, Rs	EPS, Rs	BV, Rs	P/E, x	P/B, x	EV/EBIDTA, x
Tata Power #	1,274	60.1	540.1	21.2	2.4	11.7
NTPC	205	10.3	75.3	19.9	2.7	14.3
Neyveli Lignite	135	6.6	60.0	20.5	2.3	17.0
Power Grid*	108	5.0	38.1	21.8	2.8	11.6
CESC*	355	25.6	416.5	13.9	0.9	7.6

* - Bloomberg Estimates

- Consolidated

Source: Bloomberg, MF Global India Research Estimates

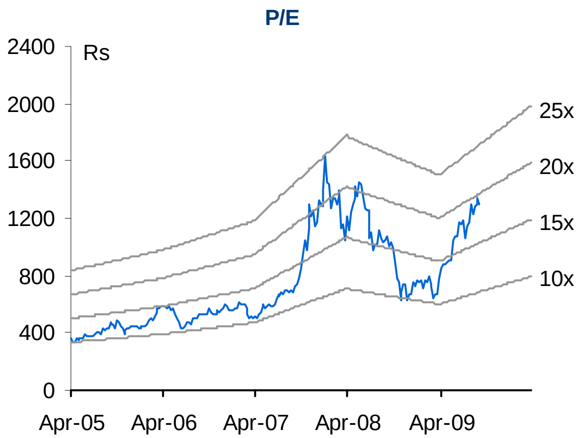
Valuations

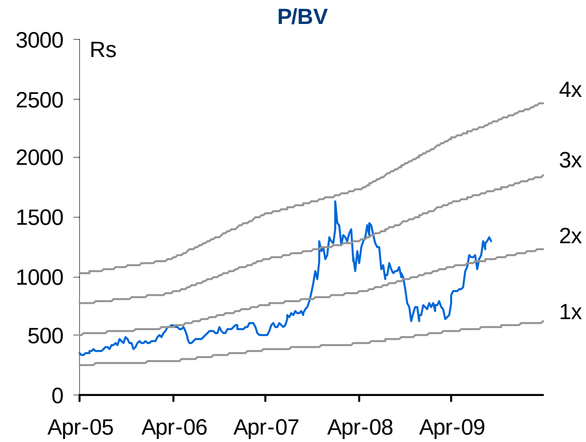
- We value Tata Power on a SOTP basis to arrive at a price target of Rs 1181 per share.

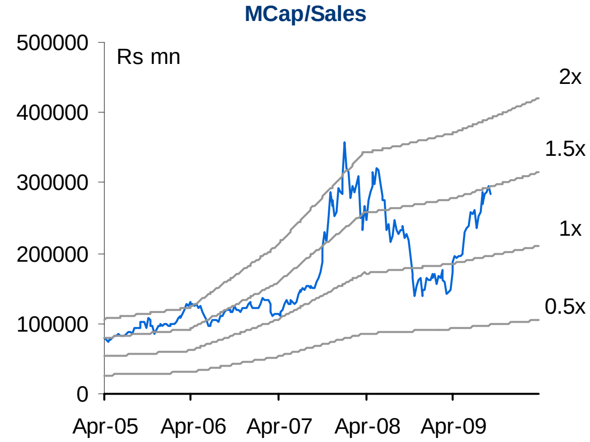
Business Unit Name	Value (Rs/share)	Valuation methodology
Tata Power Company Core Business	**696**	**Average of the DCF and P/Bv**
Other generation projects under subsidiaries	**72**	
Maithon Power Ltd.	26	valued at 20% discount to FCFE value
Industrial Energy Ltd.	18	valued at 20% discount to FY10E 2.0x book value
Mundra UMPP	28	valued at 20% discount to FCFE value
Other non-generation projects under subsidiaries	**58**	
NDPL	35	valued at 20% discount to FY10E 2.2x book value
Powerlinks Transmission Ltd.	18	valued at 20% discount to FY10E 2.0x book value
Tata Power Trading Company	5	valued at 20% discount to FY10E 15x earnings multiple
Strategic Investments	**215**	
Indonesian Coal Mines	206	valued at 20% discount FCFE value
Tata BPSolar	9	valued at 20% discount to 2.5x amount invested
Investments	**140**	
Total	**1181**	

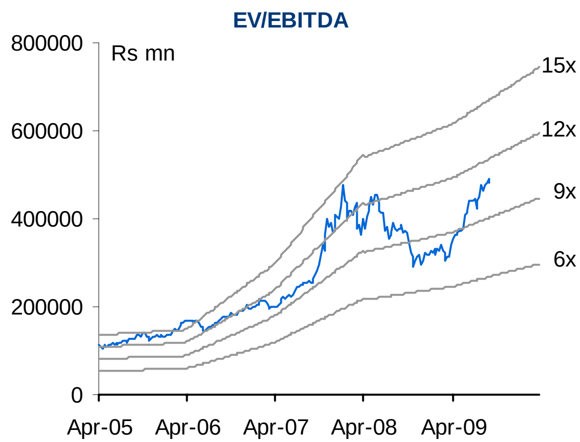
Source: MF Global India Research Estimates

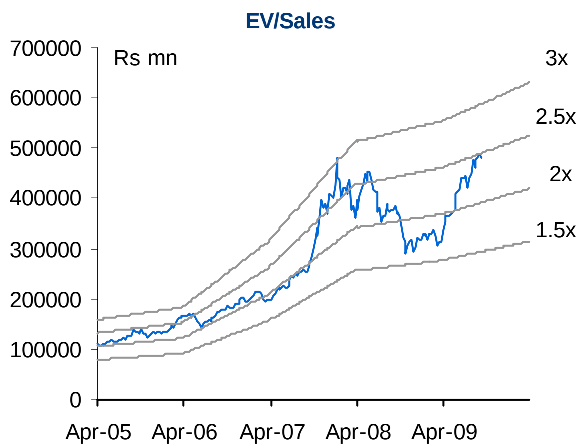
Absolute rolling Valuation band charts





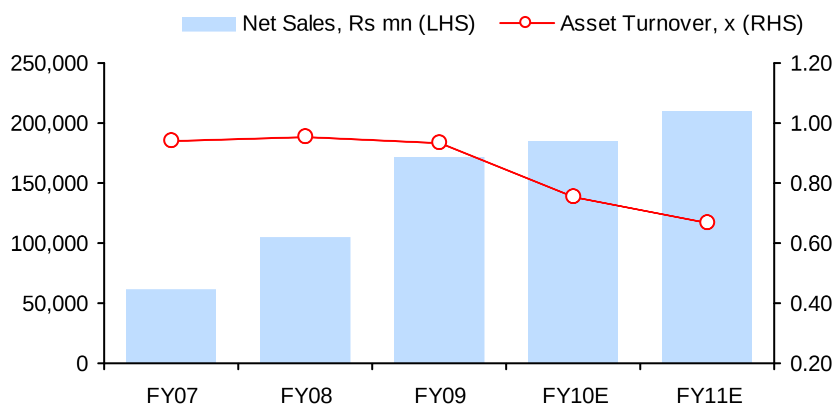


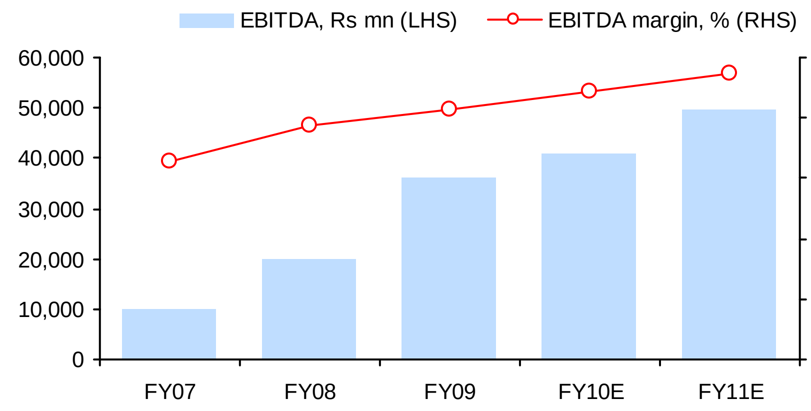


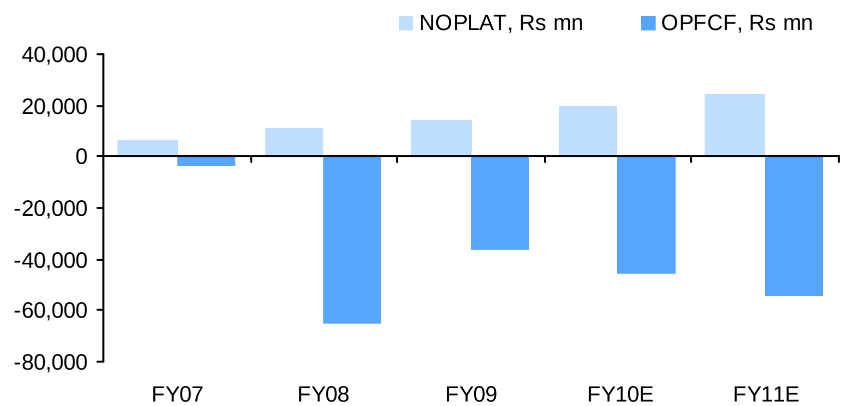


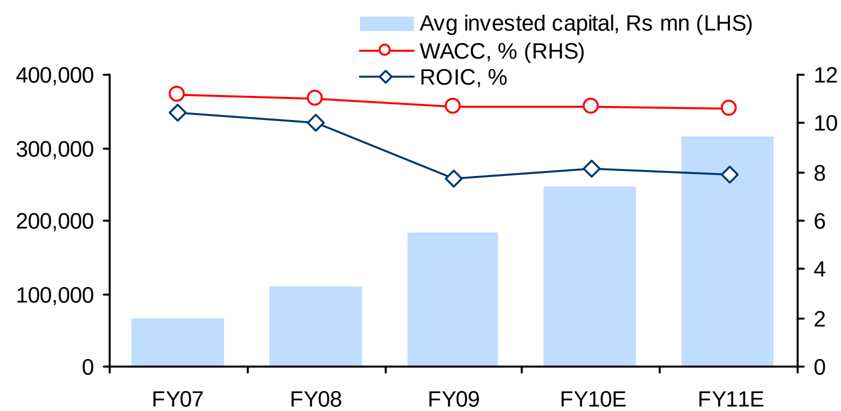
Source: MF Global India Research

Financial performance









Source: Company, MF Global India Research Estimates

Financials

Income Statement

Y/E Mar, Rs mn	FY07	FY08	FY09	FY10E	FY11E
Net sales	**61,272**	**104,850**	**171,280**	**185,008**	**210,166**
Growth, %	*16*	*71*	*63*	*8*	*14*
Other income	2,651	3,102	3,608	2,522	2,185
Total income	63,924	107,953	174,888	187,530	212,351
Operating expenses	-54,074	-88,273	-138,926	-146,594	-162,756
EBITDA (Core)	**9,850**	**19,679**	**35,961**	**40,936**	**49,595**
Growth, %	*7*	*101*	*75*	*15*	*21*
Margin, %	*16*	*19*	*21*	*22*	*24*
Depreciation & Amortisation	-4,148	-5,593	-9,369	-8,164	-9,293
EBIT	**5,702**	**14,087**	**26,593**	**32,772**	**40,302**
Growth, %	*0*	*147*	*78*	*25*	*23*
Margin, %	*10*	*14*	*15*	*18*	*19*
Interest paid	-2,554	-4,870	-7,908	-9,181	-10,969
Other Non-Operating Income	3,584	6,185	6,627	3,343	3,727
Non-recurring Items	-64	0	0	2,320	0
Pre-tax profit	**6,862**	**15,353**	**25,587**	**29,254**	**33,060**
Tax provided	991	-3,765	-11,651	-11,387	-12,783
Profit after tax	**7,852**	**11,588**	**13,936**	**17,867**	**20,277**
Net Profit	**7,663**	**10,418**	**12,861**	**16,583**	**18,872**
MF Net profit	**7,727**	**10,418**	**15,665**	**14,263**	**18,872**
Growth, %	*17.1*	*34.8*	*50.4*	*(8.9)*	*32.3*
EOI: Gains/(Losses)	-64	0	0	2,320	0
Unadj. shares (m)	198	221	221	237	237
Wtd avg shares (m)	198	221	221	237	237

Balance Sheet

Y/E Mar, Rs mn	FY07	FY08	FY09	FY10E	FY11E
Cash & bank	14,024	5,623	11,780	28,783	1,862
Debtors	17,382	25,318	30,235	33,396	34,907
Inventory	4,662	6,529	10,146	9,655	9,613
Loans & advances	6,958	11,975	21,805	25,315	26,267
Other current assets	291	603	499	499	499
Total current assets	43,317	50,049	74,466	97,649	73,149
Investments	30,833	31,253	32,512	35,763	39,340
Gross fixed assets	88,857	165,718	210,399	224,399	272,884
Less: Depreciation	-36,763	-58,378	-68,079	-76,031	-84,748
Add: Capital WIP	10,908	33,562	63,461	103,707	149,044
Net fixed assets	63,001	140,901	205,780	252,075	337,181
Total assets	**137,151**	**224,446**	**318,442**	**392,024**	**457,023**
Current liabilities	15,824	29,815	48,086	46,005	51,757
Provisions	6,415	8,724	19,725	6,992	7,472
Total current liabilities	22,238	38,539	67,812	52,997	59,228
Non-current liabilities	58,376	101,950	155,006	210,859	251,581
Total liabilities	80,615	140,489	222,818	263,855	310,809
Paid-up capital	1,979	2,207	2,214	2,373	2,373
Reserves & surplus	52,124	73,713	83,975	114,608	130,632
Shareholders' equity	56,536	83,957	95,625	128,169	146,214
Total equity & liabilities	**137,151**	**224,446**	**318,442**	**392,024**	**457,023**

Source: Company, MF Global India Research Estimates

Financials

Cash Flow

Y/E Mar, Rs mn	FY07	FY08	FY09	FY10E	FY11E
Pre-tax profit	6,862	15,353	25,587	29,254	33,060
Depreciation	4,148	5,593	9,369	8,164	9,293
Chg in working capital	-2,128	-263	8,015	-21,628	2,719
Total tax paid	1,113	-1,403	-8,960	-10,757	-11,972
Other operating activities	-611	-885	-1,092	-1,337	-1,981
CF from operating activities	**9,383**	**18,395**	**32,919**	**3,696**	**31,119**
Capital expenditure	-12,203	-83,493	-74,580	-54,247	-93,823
Chg in investments	-2,202	-420	-1,259	-3,251	-3,576
CF from investing activities	**-14,211**	**-83,962**	**-75,563**	**-57,498**	**-97,399**
Free cash flow	-4,828	-65,567	-42,644	-53,802	-66,280
Equity raised/(repaid)	227	14,025	506	16,846	0
Debt raised/(repaid)	9,500	39,962	49,688	54,768	40,127
Dividend (incl. tax)	-2,096	-2,387	-2,776	-2,553	-2,788
CF from financing activities	**8,059**	**57,166**	**48,801**	**70,805**	**39,360**
Net chg in cash	3,231	-8,401	6,157	17,004	-26,921

Per-share data

Y/E Mar, Rs mn	FY07	FY08	FY09	FY10E	FY11E
MF EPS (INR)	39.0	47.2	70.8	60.1	79.5
Growth, %	*17.1*	*20.9*	*49.9*	*(15.0)*	*32.3*
Book NAV/share (INR)	285.7	380.4	431.9	540.1	616.2
FDEPS (INR)	39.0	47.2	70.8	60.1	79.5
CEPS (INR)	60.3	72.6	113.1	84.7	118.7
CFPS (INR)	31.4	59.6	122.4	7.1	123.8
DPS (INR)	11.6	12.8	13.6	11.8	12.0

Ratios

Y/E Mar	FY07	FY08	FY09	FY10E	FY11E
Return on assets (%)	8.2	9.1	8.0	7.6	7.4
Return on equity (%)	14.4	14.8	17.4	12.7	13.8
Return on Invested capital (%)	10.4	10.0	7.7	8.2	7.9
RoIC/Cost of capital (x)	0.9	0.9	0.7	0.8	0.7
RoIC - Cost of capital (%)	(0.8)	(1.0)	(3.0)	(2.5)	(2.7)
Return on capital employed (%)	9.3	10.5	9.5	8.8	8.4
Cost of capital (%)	11.2	11.0	10.7	10.7	10.6
RoCE - Cost of capital (%)	(1.9)	(0.5)	(1.2)	(1.8)	(2.2)
Total debt/Equity (%)	91.6	109.3	147.9	153.1	161.6
Net debt/Equity (%)	66.8	102.6	135.6	130.6	160.4
Asset turnover (x)	0.9	1.0	0.9	0.8	0.7
Sales/Total assets (x)	0.5	0.6	0.6	0.5	0.5
Sales/Net FA (x)	1.0	1.0	1.0	0.8	0.7
Working capital/Sales (x)	0.2	0.1	0.1	0.1	0.1
Fixed capital/Sales (x)	0.9	1.0	0.8	0.8	0.9
Receivable days	104	88	64	66	61
Inventory days	28	23	22	19	17
Payable days	70	43	55	54	56
Current ratio (x)	2.4	1.6	1.5	2.0	1.3
Quick ratio (x)	2.2	1.4	1.3	1.8	1.2
Interest cover (x)	2.2	2.9	3.4	3.6	3.7
Dividend cover (x)	3.4	3.7	5.2	5.1	6.6
PER (x)	32.6	27.0	18.0	21.2	16.0
PEG (x) - y-o-y growth	1.9	1.3	0.4	(1.4)	0.5
Price/Book (x)	4.5	3.3	2.9	2.4	2.1
Yield (%)	0.9	1.0	1.1	0.9	0.9
EV/Net sales (x)	5.6	3.8	2.6	2.6	2.6
EV/EBITDA (x)	34.0	19.6	12.4	11.7	11.1
EV/EBIT (x)	57.8	27.0	16.9	14.7	13.6
EV/NOPLAT (x)	30.9	24.0	18.5	16.3	14.9
EV/CE	50.5	35.8	31.0	24.0	22.2
EV/IC (x)	(97.1)	(6.1)	(12.1)	(10.5)	(10.2)

Source: Company, MF Global India Research Estimates

MF GLOBAL INDIA INSTITUTIONAL EQUITIES TEAM

Vineet Bhatnagar	Managing Director		vbhatnagar@mfglobal.com
James Rowsell	Global Head – Institutional Equities & Derivatives		jrowsell@@mfglobal.com
Sajid Khalid	Head – Institutional Equities	91-22-6667 9972	sakhalid@mfglobal.com
Jignesh Shah	Head – Equity Derivatives	91-22-6667 9735	jshah@mfglobal.com
Equity Research			
Alok Dalal	Pharmaceuticals	91-22-6667 9950	aldalal@mfglobal.com
Ambrish Mishra	Automobiles, Auto Component	91-22-6667 9758	amishra@mfglobal.com
Amit Mahawar	Engineering, Capital Goods	91-22-6667 9759	amahawar@mfglobal.com
Anjali Verma	Economist	91-22-6667 9969	anverma@mfglobal.com
Avishek Agarwal	Logistics, Shipping	91-22-6667 9986	aagarwal@mfglobal.com
Deepali Gautam	Power	91-22-6667 9974	dgautam@mfglobal.com
Dhawal Doshi	Metals, Power	91-22-6667 9769	ddoshi@mfglobal.com
Dipesh Sohani	Real Estate	91-22-6667 9965	dsohani@mfglobal.com
Gauri Anand	Oil & Gas, Fertiliser	91-22-6667 9943	ganand@mfglobal.com
Kapil Bagaria	Midcap, Sugar	91-22-6667 9965	kbagaria@mfglobal.com
Kunal Motishaw	Metals	91-22-6667 9766	kmotishaw@mfglobal.com
Manish Agarwalla	Banking	91-22-6667 9962	magarwalla@mfglobal.com
Naveen Kulkarni, FRM	Telecom, FMCG	91-22-6667 9947	nkulkarni@mfglobal.com
Nimesh Mistry	IT Services	91-22-6667 9768	nmistry@mfglobal.com
Ritwik Rai	Media, FMCG	91-22-6667 9987	rrai@mfglobal.com
Vaibhav Agarwal	Cement	91-22-6667 9967	vagarwal@mfglobal.com
Ennette Fernandes	Research Associate	91-22-6667 9764	efernandes@mfglobal.com
Sapna Shah	Research Associate	91-22-6667 9996	srathi@mfglobal.com
Saurabh Rathi	Research Associate	91-22-6667 9951	sapshah@mfglobal.com
Shubhangi Agrawal	Research Associate	91-22-6667 9964	sagrawal@mfglobal.com
Shikha Khurana	Quant Analyst	91-22-6667 9948	skhurana@mfglobal.com
Ganesh Deorukhkar	Production	91-22-6667 9966	gdeorukhkar@mfglobal.com
Roshni Kalloor	Editor	91-22-6667 9762	rkalloor@mfglobal.com
Institutional Cash Equity Sales			
Kartik Broker	Equity Sales	91-22-6667 9934	kbroker@mfglobal.com
Kinshuk Tiwari	Equity Sales	91-22-6667 9946	ktiwari@mfglobal.com
Nasir Mohamed	Equity Sales - UAE	91-22-6667 9973	nmohamed@mfglobal.com
Sudhir Paidyar	Equity Sales - AsiaPac	91-22-6667 9991	spadiyar@mfglobal.com
Sheetal Gandhi	Equity Sales - US	91-22-6667 9944	sgandhi@mfglobal.com
Institutional Cash Equity Sales Trading			
Chetan Savla	Sales Trader	91-22-6667 9749	csavla@mfglobal.com
Rajesh Ashar	Sales Trader	91-22-6667 9746	rashar@mfglobal.com
Sunil Kamath	Sales Trader	91-22-6667 9747	skamath@mfglobal.com
Institutional Cash Equity Dealing			
Chetan Babaria	Dealer	91-22-6667 9945	cbabaria@mfglobal.com
Mayur Shah	Dealer	91-22-6677 9945	mshah@mfglobal.com

Thank You

Rating Rationale

BUY and SELL recommendations are used to draw attention to stocks, which we believe are under-priced or over-priced by circa 15%, that is, price differential of +/- 15% between our price target and the market price. Stocks which do not achieve this price differential are NEUTRAL. Price targets are established in the context of a flat market.

Disclosures and Disclaimers

MF Global Sify Securities India Pvt. Ltd. has three independent equity research groups: Institutional Equities, Institutional Equities Derivatives and Private Client Group. This report has been prepared by Institutional Equities Research. The views and opinions expressed in this document may or may not match or may be contrary at times with the views, estimates, rating, target price of the other equity research groups of MF Global Sify Securities India Pvt. Ltd.

This report is issued by MF Global Sify Securities India Pvt. Limited which is regulated by SEBI. MF Global Sify Securities India Pvt. Ltd. is a subsidiary of MF Global Overseas Ltd. References to "MFGSSIPL" or “Firm” in this report shall mean MF Global Sify Securities India Pvt. Limited unless otherwise stated. This report is prepared and distributed by MFGSSIPL for information purposes only and neither the information contained herein nor any opinion expressed should be construed or deemed to be construed as solicitation or as offering advice for the purposes of the purchase or sale of any security, investment or derivatives. The information and opinions contained in the Report were considered by MFGSSIPL to be valid when published. The report also contains information provided to MFGSSIPL by third parties. The source of such information will usually be disclosed in the report. Whilst MFGSSIPL has taken all reasonable steps to ensure that this information is correct, MFGSSIPL does not offer any warranty as to the accuracy or completeness of such information. Any person placing reliance on the report to undertake trading does so entirely at his or her own risk and MFGSSIPL does not accept any liability as a result. Securities and Derivatives markets may be subject to rapid and unexpected price movements and past performance is not necessarily a guide to future performance.

This report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors must undertake independent analysis with their own legal, tax and financial advisors and reach their own regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. In no circumstances it be used or considered as an offer to sell or a solicitation of any offer to buy or sell the Securities mentioned in it. The information contained in the research reports may have been taken from trade and statistical services and other sources, which we believe are reliable. MF Global Sify Securities India Pvt. Ltd. or any of its group companies do not guarantee that such information is accurate or complete and it should not be relied upon as such. Any opinions expressed reflect judgments at this date and are subject to change without notice

Important: These disclosures and disclaimers must be read in conjunction with the research report of which it forms part. Receipt and use of the research report is subject to all aspects of these disclosures and disclaimers. Additional information about the issuers and securities discussed in this research report is available on request.

Certifications: The research analyst(s) who prepared this research report hereby certifies that the views expressed in this research report accurately reflect the research analyst’s personal views about all of the subject issuers and/or securities, that the analyst have no known conflict of interest and no part of the research analyst’s compensation was, is or will be, directly or indirectly, related to the specific views or recommendations contained in this research report. The Research Analyst certifies that he /she or his / her family members does not own the stock(s) covered in this research report.

Independence: MF Global Sify Securities India P. Ltd. has not had an investment banking relationship with, and has not received any compensation for investment banking services from, the subject issuers in the past twelve (12) months, and the Firm does not anticipate receiving or intend to seek compensation for investment banking services from the subject issuers in the next three (3) months. The Firm is not a market maker in the securities mentioned in this research report, although it or its affiliates may hold either long or short positions in such securities. The Firm does not hold more than 1% of the shares of the company(ies) covered in this report.

Suitability and Risks: This research report is for informational purposes only and is not tailored to the specific investment objectives, financial situation or particular requirements of any individual recipient hereof. Certain securities may give rise to substantial risks and may not be suitable for certain investors. Each investor must make its own determination as to the appropriateness of any securities referred to in this research report based upon the legal, tax and accounting considerations applicable to such investor and its own investment objectives or strategy, its financial situation and its investing experience. The value of any security may be positively or adversely affected by changes in foreign exchange or interest rates, as well as by other financial, economic or political factors. Past performance is not necessarily indicative of future performance or results.

Sources, Completeness and Accuracy: The material herein is based upon information obtained from sources that the Firm and the research analyst believe to be reliable, but neither the Firm nor the research analyst represents or guarantees that the information contained herein is accurate or complete and it should not be relied upon as such. Opinions expressed herein are current opinions as of the date appearing on this material and are subject to change without notice.

Furthermore, the Firm is under no obligation to update or keep the information current.

Caution: Risk of loss in trading in can be substantial. You should carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances.

MF Global Sify Securities India Pvt. Limited.
2nd Floor, C-Block, Modern Centre, Mahalaxmi, Mumbai-400 011