

Urmil Negandhi

urmil.negandhi@emkayshare.com

+91 22 66121280

Nelcast Ltd.**(Rs. 111.00, FY09E - P/E 4.3x, BUY with a Target Price of Rs. 230)**

Particulars (Rs. Mn)	Q4FY08	Q4FY07	%YoY	FY08	FY07	%YoY
Net sales	1139.2	830.1	37.2	3564.5	3057.6	16.6
Other Income	16.9	1.2	1355.2	34.5	12.7	172.1
Total Income	1156.1	831.3	39.1	3599.0	3070.3	17.2
Total Expenditure	1029.0	715.8	43.8	3101.6	2648.6	17.1
EBDITA	127.1	115.5	10.1	497.4	421.7	18.0
EBDITA (%)	9.7	13.8	-29.7	13.0	13.4	-2.9
Interest	20.9	19.5	6.9	47.9	74.5	-35.8
Depreciation	15.8	9.1	73.6	55.7	46.0	21.1
PBT	90.5	86.9	4.2	393.8	301.2	30.8
Provision for tax	30.4	30.2	0.8	133.5	103.4	29.1
PAT	60.1	56.7	6.0	260.3	197.7	31.6
Equity Capital	174.0	130.5	33.3	174.0	130.5	33.3
EPS (Rs)	3.5	4.3	-20.3	15.0	15.2	-1.3

Source: Company

Nelcast registers 37% YoY topline growth for quarter ended March, 2008

Nelcast registers 37% YoY top line growth for quarter ended March 2008

Nelcast reported 37.2% YoY top line growth to Rs 1139.2 mn for quarter ended March 2008 compared to corresponding quarter last year. For FY08, Net sales reported growth of 16.6% YoY to Rs. 3564.5 mn as compared to Rs 3057.6 mn in corresponding period last year. The company reported 10.1% YoY growth in EBDITA in Q4FY08 to Rs 127.1 mn compared to corresponding quarter last year. For FY08, EBITDA witnessed growth of 18% YoY. Total expenditure witnessed increase of 43.8% YoY during the fourth quarter mainly due to increase in raw material costs and other expenses. The company reported decline in its EBDITA margins by 410 basis points to 9.7% in Q4FY08 compared to 13.8% in Q4FY07. However for full year FY08, It maintained its EBDITA margins at around 13%. Out of total Rs 952.7 mn raised through IPO, It has utilized Rs 532.9 mn for expansion and modernisation. It is due to higher interest earned on these investments during the quarter, Other Income increased from Rs 1.2 mn in Q4FY07 to Rs 16.9 mn in Q4FY08. Net Interest witnessed declined of 35.8% YoY to Rs 47.9 mn during FY08 due to partly repayment of long term debt and working capital loans. It reported 6% YoY increase in net profit to Rs 60.1 mn in Q4FY08 compared to Rs 56.7 mn in corresponding quarter last year. For FY08, Net profit increased by 31.6% YoY to Rs 260.3 mn.

Business Outlook and Valuation

Nelcast is set to be major beneficiary of accelerating trend of sourcing of auto components due to its high skilled labors, lower wage costs and proven track record

India has a scarcity of castings capacity currently as both local and global demand is on the rise. Most of the local foundries are in expansion mode to meet the increased global demand due to the closure of foundries in UK and US. We believe with sound track record, latest technology, diversified customer base and capacity expansion, Nelcast to be a major beneficiary of this upcoming opportunity. Nelcast has been able to capture the robust domestic growth in CVs and tractors in the recent past and grown over the years. Nelcast is expected to report strong growth in revenues of 25% CAGR FY07 – 10E on account of growing demand for multi axle vehicles, increasing

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proportion of exports and machining activities. The company is shifting its focus towards high margin machined products and exports which shall help in achieving higher profitability in the coming years. Increased share of Machined products will help to improve its operating margins by 80 basis points from 13.4% in FY07 to 14.2% in FY10E. The Company received Letter of Indent worth Rs 40 crore from European manufacturer for supply of components for Heavy Commercial Vehicles during the last quarter. This order is on long term basis and the company needs to supply for next four years. This is in addition to the already existing export orders.

Financial Estimates

Particulars (Rs Mn)	FY09E	FY10E
Net Sales (Rs Mn)	5360.4	6117.8
EBITDA (Rs Mn)	750.4	868.6
EBITDA (%)	14.0	14.2
PAT (Rs Mn)	445.2	519.5
EPS (Rs)	25.6	29.9
P/E(x) at Rs 111	4.3	3.7

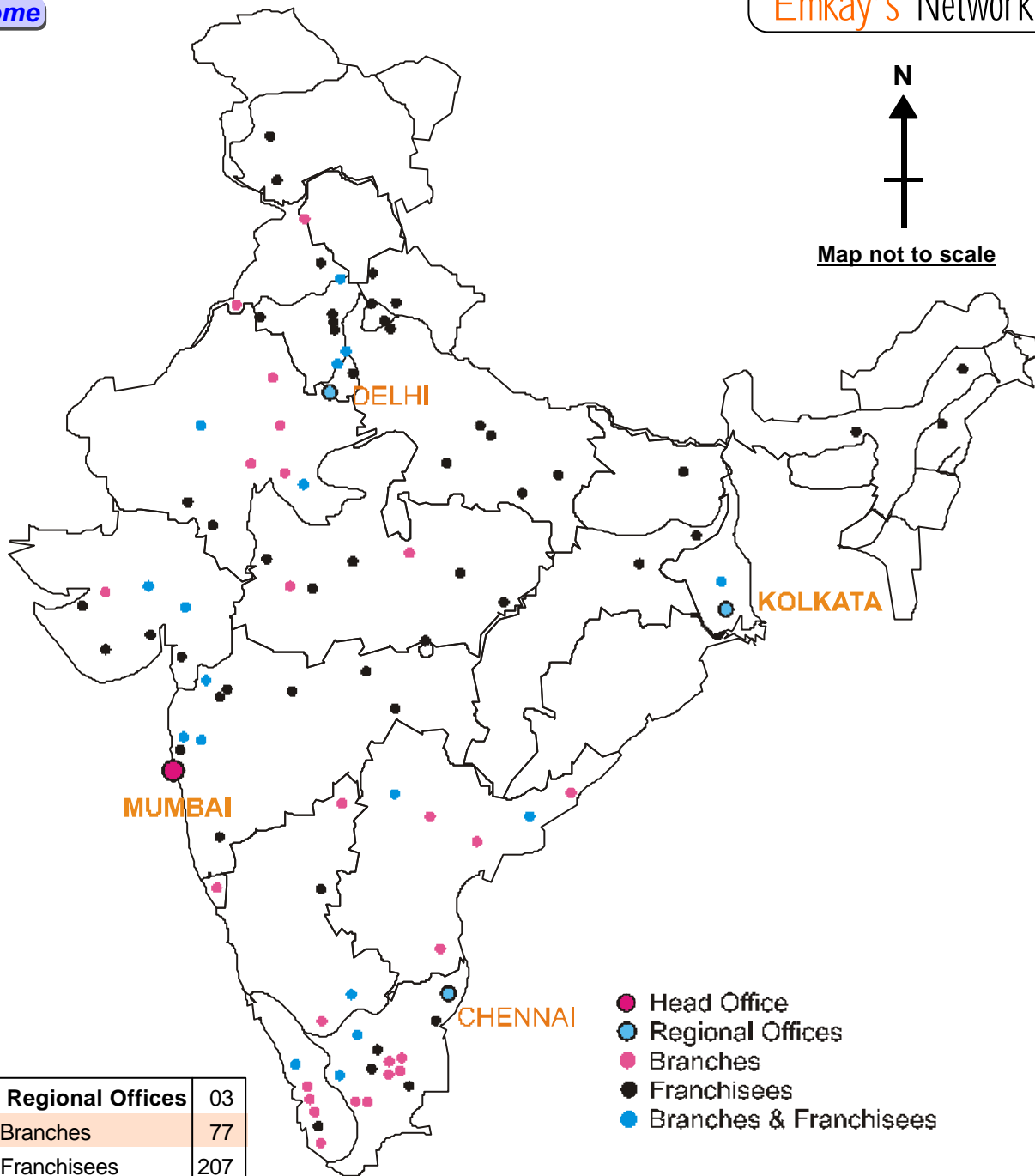
Source: Emkay Private Client Research

We maintain BUY with a target price of Rs 230

The stock is currently trading at 4.3x FY09E EPS of Rs 25.6 and 3.7x FY10E EPS of Rs. 29.9. It is trading at 2.6x FY09E and 1.9x FY10E EV/EBDITA. We believe these valuations are attractive and offer excellent long term investment opportunity considering its size, past track record, customer profile and its potential to improve its revenues and operating margins going forward. We maintain 'BUY' on the stock with target price of Rs. 230.

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Emkay's Network



Total Regional Offices	03
Total Branches	77
Total Franchisees	207

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- Regional Offices
- Branches
- Franchisees
- Branches & Franchisees

Regional Offices

NEW DELHI
MR. ARUN BANSAL
 401, NEW DELHI HOUSE, 27, BARAKHAMBA ROAD, NEW DELHI - 110001
 PH: 9350496088 / 9350192101; Email: newdelhi@emkayshare.com

CHENNAI
MR. RAJESH RENGARAJAN
 1ST FLOOR ROOP EMERALD, NEW NO 45 OLD NO28, NORTH USMAN ROAD, T-NAGAR, CHENNAI 600-017
 TEL NOS: 044-45502496/7, Email: chennai@emkayshare.com

KOLKATA
MR. VIKRAM MEHROTRA / MR. VISHAL PRABHAKAR
 4, R.N.MUKHERJEE ROAD, 1 ST FLOOR, KOLKATA -700001. WEST BANGAL. Mob: 9830999412(Vikram) / 9831554477(Vishal)
 Email: kolkataro@emkayshare.com / vikram.mehrotra@emkayshare.com / vishal.prabhakar@emkayshare.com

Mr. Chirayush Bakshi – Vice President - Marketing and Business Development, Mob.: 9322934529; Email: chirayush.bakshi@emkayshare.com
Mr. V. H. Bhaskaran – Vice President - Business Development (South), Mob.: 9323811847; Email: bhaskaran@emkayshare.com
Mr. Vijay Saraf – Vice President - Private Client Group, Tel.: +91-022-66121265; Email: vijay.saraf@emkayshare.com
Mr. Hemang Mamtara – Vice President - Branch & Franchise Sevcing, Tel.: +91-022-66121245; Email: hemang.mamtora@emkayshare.com

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Name	Sector	Tel No	E-mail id
Daljeet S. Kohli	Head of Research	+91 22 6612 1205	daljeet.kohli@emkayshare.com
Urmil Negandhi	Auto, Auto Ancillary and Pharmaceutical	+91 22 6612 1280	urmil.negandhi@emkayshare.com
Pankaj Kumar	Engineering, Capital Goods & Mid-caps	+91 22 6612 1243	pankaj.kumar@emkayshare.com
Sweta Sinha	Hotels & IT	+91 22 6612 1282	sweta.sinha@emkayshare.com
Manas Jaiswal	Technical analyst	+91 22 6612 1274	manas.jaiswal@emkayshare.com
Suruchi Kapoor	Junior Technical Analyst	+91 22 6612 1275	suruchi.kapoor@emkayshare.com
Sameer Shetye	Associate Derivative Analyst	+91 22 6612 1276	sameer.shetye@emkayshare.com
Siddharth Panvalkar	Research Associate	+91 22 6612 1278	siddharth.panvalkar@emkayshare.com

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Member: Bombay Stock Exchange Limited (BSE) and The National Stock Exchange (NSE).

C-6, Ground Floor, Paragon Center, Pandurang Budhkar Marg, Worli, Mumbai – 400 013.

Tel No. 66121212. Fax: 66121299; e-mail: marketing@emkayshare.com;

Regn.Nos.PMS-INP 000000779; BSE (Cash) INB 010901838; BSE (Derivative) INF 010901838;

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Call (Tollfree) 1-600-223-434 / 1-800-223-434