

Ashok Leyland

BUY

Poised for growth

Rs52

Reason for report: Reinitiating coverage

Ashok Leyland (ALL) is primed to benefit from the upturn in the commercial vehicle (CV) segment. Overall conducive environment for the goods segment and strong order book for the passenger segment would help ALL post 14.9% volume CAGR over FY09-11E; also, growth in Spares and Engines would diversify revenue base. We expect 360bps EBITDA margin expansion over FY09-11E on the back of lower raw material prices and fiscal incentives. We reinitiate coverage with BUY and target price of Rs58/share, based on FY11E EV/EBITDA of 10x.

- **CVs in revival mode.** We expect uptick in Domestic CVs to continue on: i) improved industrial activity ii) government focus on infrastructure spending iii) benign credit environment iv) robust profitability of truck operators. We estimate sharp volume growth in M/HCV Goods in H2FY10E on base effect; strong order book would drive volumes for passenger segment. ALL would benefit from pickup in the South and see 12.4% & 17% volume growth in FY10E & FY11E respectively.
- **Diversifying revenue stream.** ALL continues to diversify into non-cyclical revenue stream, which contributed 50% in FY09 (from 32.9% in FY08). We expect rise in demand for Buses, pick-up in Exports to Asia (Bangladesh, Sri Lanka) & Latin-America and improved demand for Spares, which would reduce earnings risk. ALL is expanding into LCVs (with Nissan) & Construction Equipment (with John Deere).
- **Investment, product launches to continue.** ALL maintains focus on technology upgrade and product launches, which include: i) tipper & haulage vehicles ii) *Neptune* engine iii) modular platform for cabs iv) global *Unitruck* platform. ALL plans capex/investment of Rs28bn over FY09-12E to be funded via debt and internal accruals.
- **Positive outlook; reinitiate with BUY.** We expect ALL to post sharp margin improvement (360bps over FY09-11E) on pricing action, low raw material prices and fiscal incentives. ALL has freed-up ~Rs7bn from working capital (WC), reducing interest cost. We believe it is prudent to value the company on EV/EBITDA basis as: ALL's PAT is highly sensitive to depreciation and interest cost (together account for 44% of FY11E EBITDA). Based on expectation of upturn in CV cycle and ongoing high liquidity phase, we reinitiate coverage with BUY and target price of Rs58/share based on 10x FY11E EV/EBITDA.

Automobiles

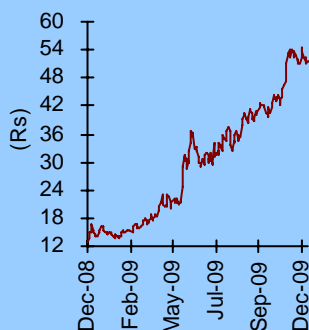
Target price Rs58

Shareholding pattern

	Mar '09	Jun '09	Sep '09
Promoters	38.6	38.6	38.6
Institutional investors	28.9	29.9	31.9
MFs and UTI	2.9	3.8	5.4
Insurance Cos.	15.9	15.7	15.3
FIs	9.8	10.2	11.0
Others	32.5	31.5	29.5

Source: BSE

Price chart


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Market Cap	Rs69bn/US\$1.5bn
Reuters/Bloomberg	ASOK.BO/AL IN
Shares Outstanding (mn)	1,330
52-week Range (Rs)	54/13
Free Float (%)	61.4
FII (%)	11.0
Daily Volume (US\$'000)	5,146
Absolute Return 3m (%)	31.0
Absolute Return 12m (%)	296.2
Sensex Return 3m (%)	5.3
Sensex Return 12m (%)	76.7

Year to March	FY08	FY09	FY10E	FY11E
Revenue (Rs mn)	77,426	59,811	69,326	84,368
Net Income (Rs mn)	4,510	1,612	3,820	5,083
EPS (Rs)	3.4	1.2	2.9	3.8
% Chg YoY	9.0	(64.3)	137.1	33.1
P/E (x)	15.4	43.1	18.2	13.7
CEPS (Rs)	4.8	2.8	4.5	6.0
EV/E (x)	8.8	19.2	11.8	9.5
Dividend Yield	2.9	1.9	2.9	3.1
RoCE (%)	17.0	8.1	11.6	13.3
RoE (%)	22.7	7.7	17.5	21.3

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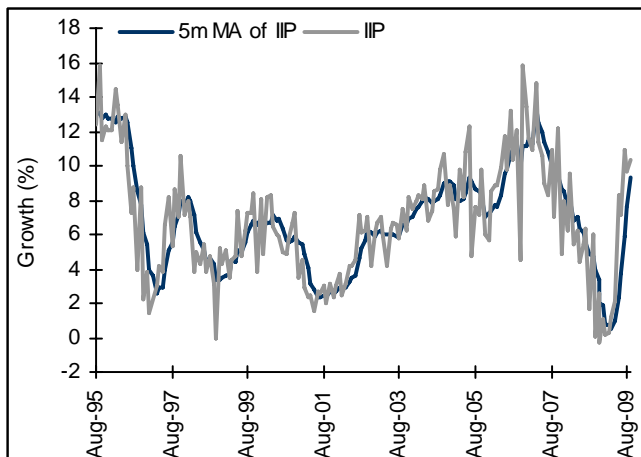
CV industry outlook to remain buoyant

Pick up in industrial activity to be positive for CVs

We expect the domestic goods CV segment growth to revive, post a sharp 21.5% YoY decline in FY09, which was owing to impact of global meltdown on Indian trade & domestic business and sharp decline in retail credit. LCV goods segment has already grown 28.8% YTD FY10; M/HCV goods segment is still at a low of -3.1%. We believe the growth drivers for MHCVs are in place, based on:

- Improvement in industrial activity – Index of Industrial Production (IIP) increased 9% in October '09. Growth in freight generating sectors such as Coal, Cement, Iron Ore and Steel have remained strong, which has led to increase in freight activity. Total tonnage addition has also picked up.
- Increased government spending for infrastructure development (NHAI has awarded Rs66bn contracts for execution). Further, NHAI expects to bid for projects worth ~Rs300bn over the next few months, thereby providing additional boost in demand.
- Easier credit availability and benign interest rate environment continues to be positive for the sector.
- Change in emission norms, effective April '10, is likely to make vehicles costlier by ~Rs50,000 each, leading to some pre-buying effect. Further, potential for replacement demand is high, with over 35% of existing fleet >10 years old and stricter emission norms in the offing.
- Freight rates remain firm; this coupled with stable fuel prices and increasing transport demand would boost profitability of truck operators as well as CV demand.

Chart 1: IIP has bottomed out



Source: Industry, I-Sec Research

Chart 2: Total tonnage addition picking up

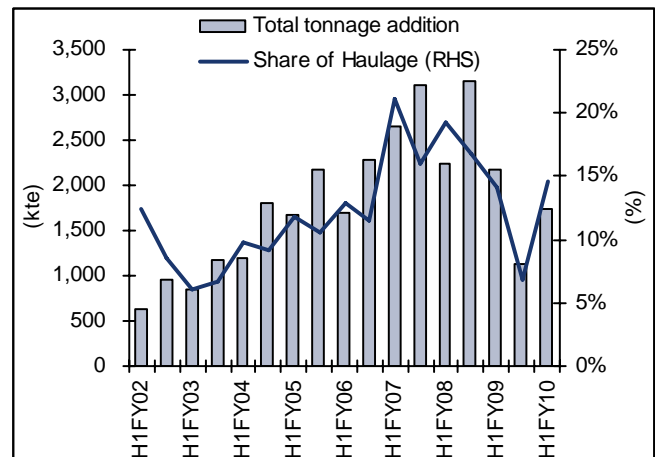
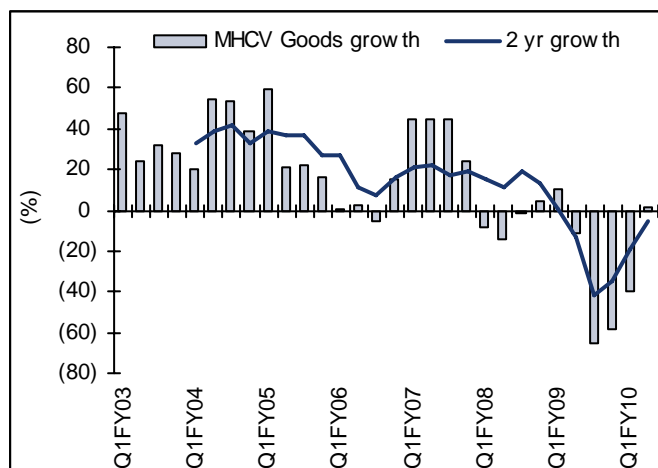
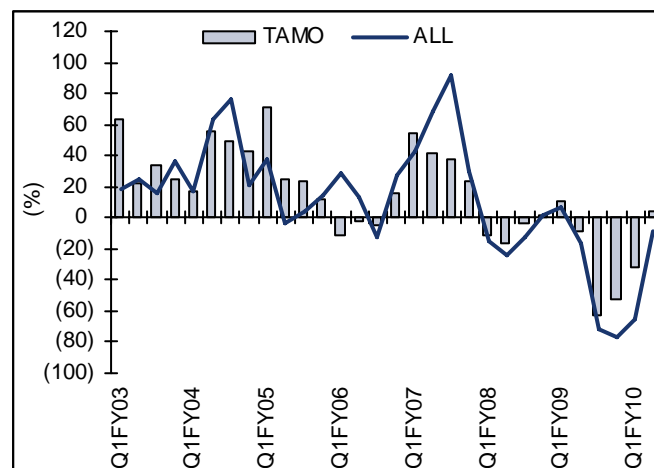


Chart 3: M/HCV Goods sales picking up**Quarter-wise growth (including 2-year CAGR) – Industry****ALL – Market share yet to rise**

Source: Society of Indian Automotive Manufacturers (SIAM), I-Sec Research

Table 1: M/HCV goods volume break up – Shifting back to higher-tonnage vehicles

(Nos)							
Segment	FY06	FY07	FY08	FY09	% CAGR	YTDFY10	% chg
7.5-12te	32,200	36,186	40,849	27,716	(4.9)	24,025	22.7
12-16.2te	60,948	64,251	60,445	42,657	(11.2)	26,502	(16.4)
16.2-25te	39,514	87,153	106,964	62,287	16.4	41,734	(12.7)
25-35.2te	42,579	42,746	11,569	10,670	(37.0)	11,206	36.9
> 35.2te	4,104	16,526	16,108	5,296	8.9	5,161	8.0
Total	179,345	246,862	235,935	148,626	(6.1)	108,628	(3.1)

Source: Company data, I-Sec Research

Passenger segment set to grow further

The passenger CV segment has seen a relatively stable performance, with 10.7% CAGR over FY02-09. We believe the M/HCV passenger segment, which is primarily driven by STUs and private transport players, would continue registering moderate growth. Improvement in road connectivity & infrastructure and increase in personal growth would continue driving travel industry and demand for busses.

JNNURM scheme to provide additional boost

Under the JNNURM scheme, the government is planning to upgrade the city public transport system, to be funded through central assistance; government has already ordered funding of 12,105 units, of which ALL's share stands at ~5,100 units. At present, a large share of purchases is from bigger cities, which would be further expanded to smaller cities, providing additional volume growth. This coupled with improved outlook on STU orders provides positive outlook for the segment.

Table 2: Top-5 cities under JNNURM scheme

State	Cities	No of vehicles ordered
Maharashtra	BEST - Mumbai	1,000
	Pune	500
	Nagpur	300
Karnataka	Bangalore	1,000
Andhra Pradesh	Hyderabad	1,000
Tamil Nadu	Chennai	1,000
	Madurai	300
	Coimbatore	300
Gujarat	Ajmer	580
West Bengal	Kolkata	1,200
Rajasthan	Jaipur	400

Note: As of Oct-09

Source: jnnurm.nic.in

Expect 14.9% volume CAGR over FY09-11E

We expect ALL's volume growth (which has lagged behind industry growth YTD and lost market share in the M/HCV segment) to pick up to 14.9% over FY09-11E, led by 16% growth in the goods segment and 12.5% growth in the passenger segment.

Table 3: ALL – Volume growth assumptions

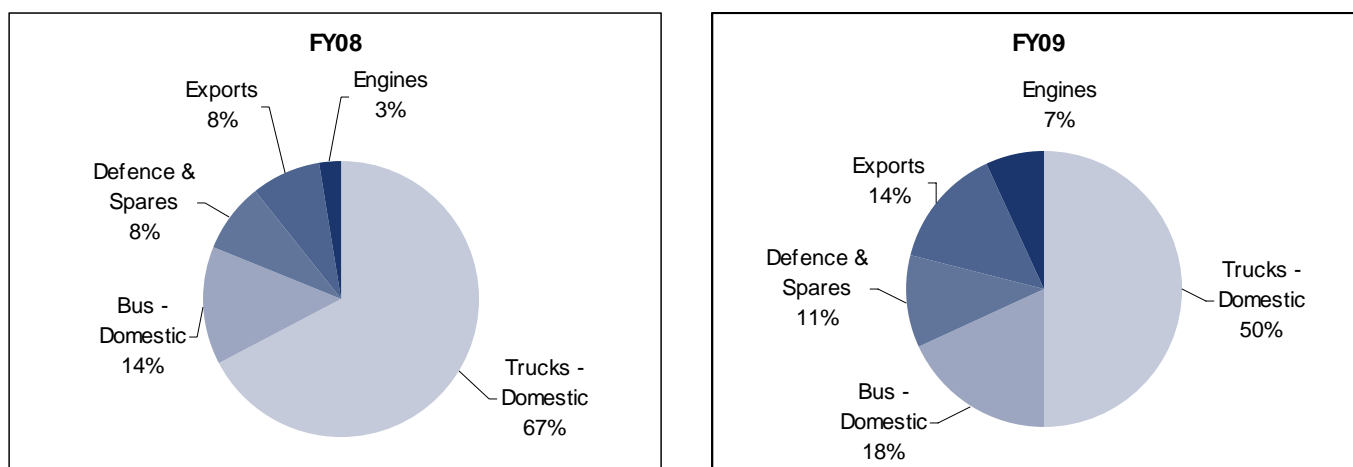
	FY07	FY08	FY09	FY10E	FY11E
Sales volumes (nos)					
M/HCVs – Goods	67,301	60,216	33,352	37,978	44,871
M/HCVs – Passenger	15,497	22,262	19,745	21,720	24,977
M/HCVs – Total	82,798	82,478	53,097	59,698	69,848
LCVs	302	824	1,362	1,580	2,054
Total volumes	83,100	83,302	54,459	61,278	71,902
% growth					
M/HCV – Goods	49	(10.5)	(44.6)	13.9	18.1
M/HCVs – Passenger	(1.1)	43.7	(11.3)	10.0	15.0
M/HCV –Total	36.1	(0.4)	(35.6)	12.4	17.0
LCVs	172.8	65.3	16.0	30.0	172.8
Total volumes	34.8	0.2	(34.6)	12.5	17.3

Source: Company data, I-Sec Research

Diversifying revenue stream

ALL plans to significantly ramp up its non-cyclical business, comprising Buses, Defence/Spares, Exports and Industrial/Marine engines, over the next few years. ALL was able to grow non-cyclical revenues in absolute terms, on the back of increases in exports, engines segment as well as share of total revenues. These non-cyclical businesses contributed 50% to revenues in FY09, up from 32.9% in FY08. The company expects significant growth in buses and exports (excluding the Gulf). Spares and Engines would continue to post strong revenue growth.

Chart 4: Increasing revenue share from non-cyclical business



Source: Company data

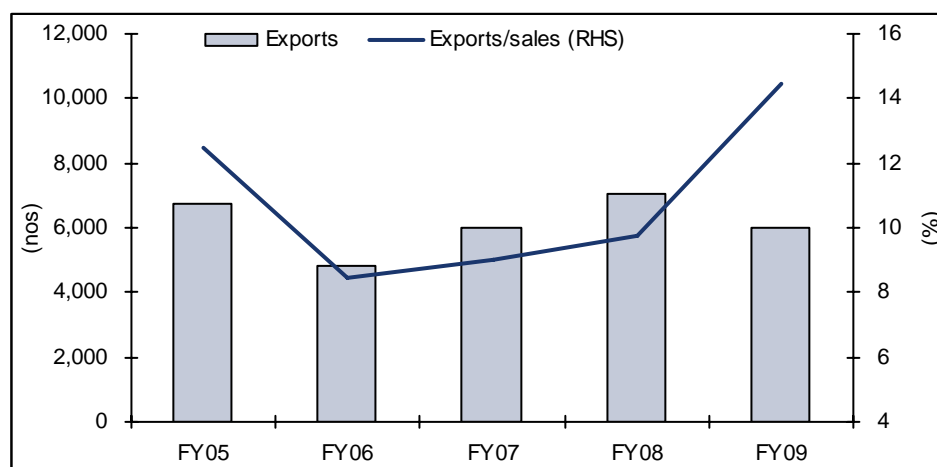
Increasing share of passenger buses

The passenger bus segment contributes ~18% to ALL's revenues. The company has proven leadership in the M/HCV passenger segment, claiming 54.6% market share in the +12te segment. We expect significant traction in the passenger bus segment, which will be led by: i) improvement in the travel industry with improving personal income and GDP growth, ii) improvement in road infrastructure leading to better-quality road transport, iii) initiative from government to improve public transport system and providing assistance through schemes such as JNNURM.

Under the JNNURM scheme, the Centre has issued orders for ~12,000 buses, with ALL's share of ~5,100 vehicles. This coupled with orders from STUs (mainly inter-city transport) and private transporters would contribute significantly to growth of the segment.

Exports in revival mode

Exports segment, post declining 15.5% in FY09, is on the revival path with increase in global recovery. Amongst ALL's key markets, while Asia (countries such as Bangladesh and Sri Lanka) and Latin America are seeing pick up; the Middle East, which has been contributing to ~37% of total exports, is yet to recover.

Chart 5: Exports to revive from current levels

Source: Company data, I-Sec Research

Entry into LCV and construction equipment segments via JVs

ALL has entered into agreements with Nissan to set up three separate JVs for production of LCVs, power trains and research & development activities. The company has already invested Rs110mn in the JVs from total investment plans of ~Rs4bn over the next few years. We believe this would mark ALL's entry into the fast-growing LCV market. Further, the company can use spare capacity at existing facilities for manufacture of LCVs, thereby reducing need for large capital investments.

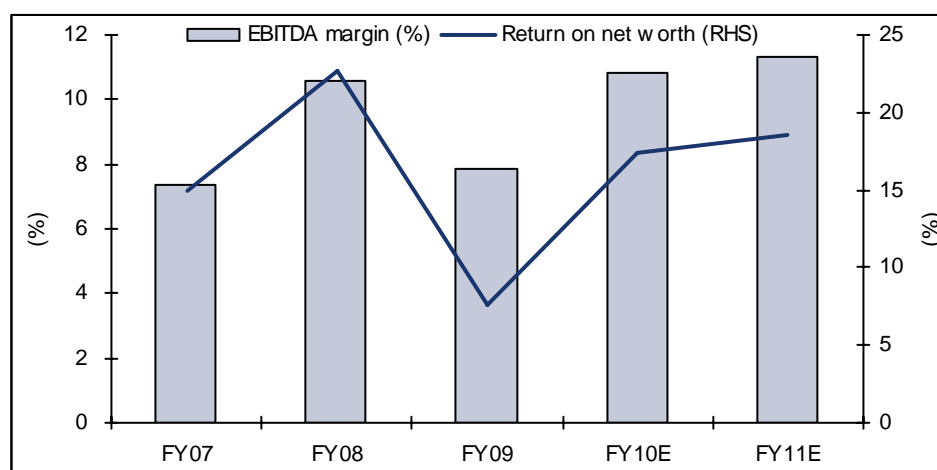
Through another 50:50 JV with John Deere, ALL plans to enter the high-growth construction equipment segment. The company has already identified land for the project and product plan, and is likely to roll-out vehicles by October '10. The two JVs, although not significant as of now, would help ALL expand into new segments, thereby diversifying its revenue base.

Margin outlook improves

Cost management initiatives boost margin expansion

ALL saw improvement in profitability owing to: i) lower raw material prices and ii) pricing action over the past few quarters. ALL is better-placed to pass-on any sharp increase in raw material prices; it has already taken 1.5% pricing action in October '09. We expect EBITDA margin expansion of 300bps in FY10E and further 50bps in FY11E, reaching 11.4%. The company would benefit from fiscal incentives at its Uttaranchal plant (nil excise duty within the state; nil income tax on profits from the plant), with estimated savings of ~Rs60,000 per vehicle. Also, setting up base in the northern region would reduce logistics costs for the company and increase penetration in the region.

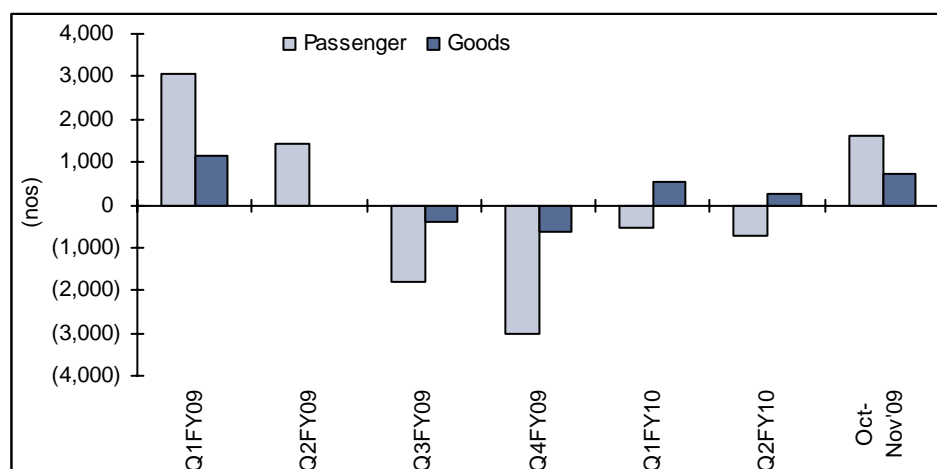
Chart 6: EBITDA margin trend



Source: I-Sec Research

Improved working capital situation; overall concerns remain

ALL was severely hit by higher pipeline inventory in FY09, which resulted in high working capital requirements. The company has aggressively reduced inventory through: i) rationalisation of production to match the demand and ii) implementation of cash-&-carry system for dealers post Q1FY10. This has helped release ~Rs7bn working capital for the company. Although in the short-term the company has been able to maintain low inventory levels till Q2FY10, the latest release for November '09 suggests addition of 1,653 units to finished goods inventory (Passenger: 458 units; Goods: 1,195 units). We believe working capital levels are unlikely to decline from current levels, and expect further increase in FY11E.

Chart 7: Inventory correction seems to be over

Source: Company data, I-Sec Research

Stable dividend rate maintained

ALL has maintained high payout ratio of >45%. During FY09, despite sharp downturn and hit on profitability, the company announced dividend of Re1 (payout ratio of 82%). We believe ALL's high payout policy would prove beneficial with improvement in overall profitability, and expect dividend of Rs1.5 in FY10E.

Table 4: Stable dividend rate

	FY04	FY05	FY06	FY07	FY08	FY09	FY10E	FY11E
Dividend per share (Rs)	0.75	1.01	1.20	1.50	1.50	1.00	1.49	1.63
Dividend payout ratio (%)	49.1	51.7	56.0	51.3	49.8	81.9	61.1	50.0

Source: Company data, I-Sec Research

Investment, product launches to continue

Technology upgrade on the cards

ALL is working aggressively on upgrading technology and adding platforms, which include: i) new engine platform offering 110-280KW engines complying to Euro IV/V norms ii) *Neptune* engine series, a new family of engines offering higher power and better mileage. This would be provided in addition to existing *Hino* engines iii) introduction of *Nextgen* modular cabs iv) new platform *Unitruck* (launch in mid '10) to meet diverse requirements of both domestic and global markets and offering vehicle range of 16-49te.

Capacity expansion at Uttaranchal to continue

ALL continues its investment plan for its plant at Uttaranchal, with annual production capacity of 50,000 vehicles and total investment of Rs11bn (already completed investment of Rs8bn). With supply sources identified within tax-exempt areas, ALL would benefit from excise duty exemption. This would improve profitability up to ~Rs60,000 per vehicle. ALL is likely to benefit from logistics for supply to the North, East and West from this facility, with targeted production of 2,000 units in Q4FY10E. The company plans to maximise production at the plant, to significantly improve profitability.

Captive financing arm

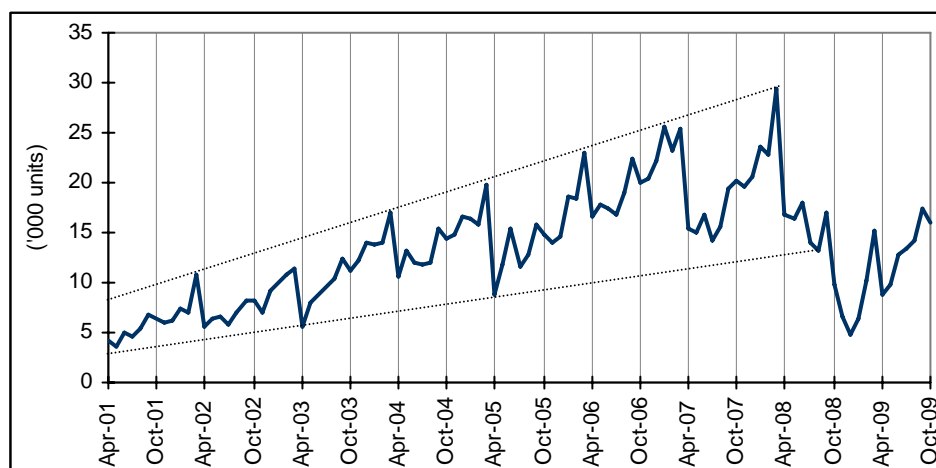
ALL has setup a captive financing subsidiary – Hinduja Leyland Finance – that would provide retail/dealer financing support for its vehicles. Since the CV industry has 90% financing penetration, captive financing arm would significantly benefit the company in terms of increase in market share. Even 15% of sales financed via the captive financing arm would provide significant support to ALL's CV sales.

Risks and concerns

Higher working capital

The domestic CV industry has been experiencing large variation in MoM volumes. Monthly dispatches for the industry are displaying high divergence (Chart 8). Seasonal variation is on account of: i) lower activity due to monsoon during the July-September period, ii) resale prices being dependent on the year of registration (hence, financing cost); thus, a major part of the Q3 demand is transferred to the January-March quarter, iii) fiscal (cut in excise duty) or regulatory changes (change in emission norms) leading to higher variation in overall demand.

Chart 8: M/HCV goods segment – Increasing volatility in dispatches



Source: SIAM, I-Sec Research

Margin pressured by intensifying competition

The M/HCV industry has, historically, been dominated by Tata Motors and ALL, with both together comprising 87.6% market share in FY09. Share of other players has increased to 13% in the goods segment (from 8.2% in FY02) and 9.8% in the passenger segment (from nil in FY02). With aggressive entry from players such as Mercedes, Volvo-Eicher, M&M-Navistar, the industry is set to experience higher competition, which would pressure margins. Further, technological expertise and global standards that these companies bring would increase product development and R&D expenditure for ALL.

Positive outlook; reinstate with BUY

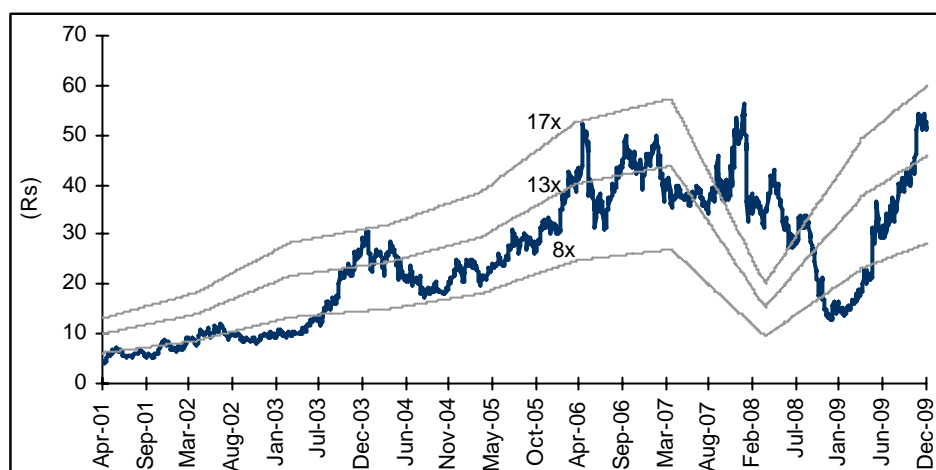
We reinstate coverage with BUY and target price of Rs57/share based on 9.5x FY11E EV/EBITDA. We believe it is prudent to value the company on EV/EBITDA basis as: ALL's PAT is highly sensitive to depreciation and interest cost, which together account for 44% of FY11E EBITDA. Historically, ALL has been trading within the 5-12x EV/EBITDA range; however, owing to expectation of upturn in CV cycle and ongoing high liquidity phase, the company is likely to trade towards the top end of the range.

Table 5: ALL – Valuations

	Value of company (Rs mn)	Value per share (Rs)	Comments
P/E based			
Equity value	71,163	53.3	Based on FY11E P/E of 14x
EV/EBITDA based			
EV	99,327	74.3	Based on FY11E EV/E of 10x
Net debt	22,088	16.5	
Total value	77,239	57.8	

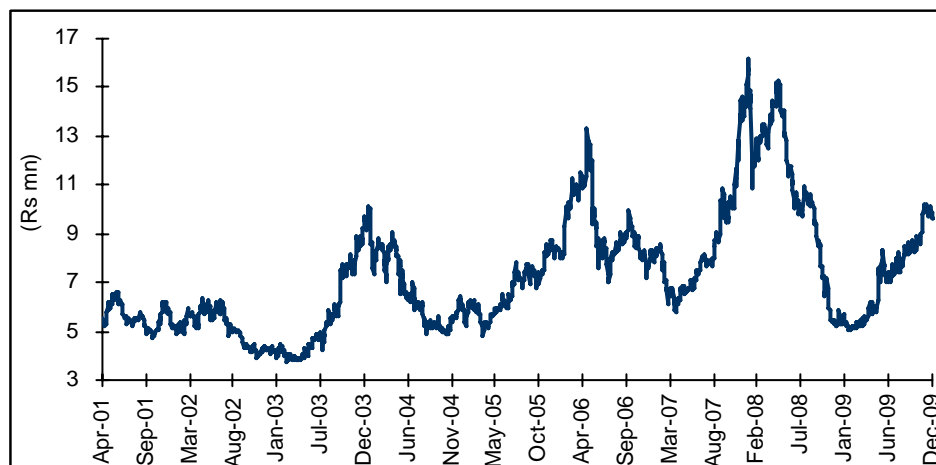
Source: I-Sec Research

Chart 9: P/E bands



Source: Bloomberg, I-Sec Research

Chart 10: EV/EBITDA



Source: Bloomberg, I-Sec Research

Financials

Table 6: Profit and Loss statement

(Rs mn, year ending March 31)

	FY07	FY08	FY09	FY10E	FY11E
CVs	65,565	70,060	48,598	56,992	69,309
Engines	1,353	2,027	3,878	5,042	6,492
Spares	2,802	3,642	6,010	7,212	8,654
CKDs	1,896	1,055	1,111	1,223	1,335
Net Sales	71,682	77,426	59,811	69,326	84,368
Excise duty (% of net sales)	15.9	15.6	11.5	9.4	9.6
Total Operating Income	71,682	77,426	59,811	69,326	84,368
				15.9%	21.7%
Less:					
Raw Material Consumed	55,012	58,066	44,828	50,828	61,736
Other Manufacturing Expenses	893	901	901	624	759
Power and Fuel	454	449	384	381	506
Personnel Expenses	4,807	6,162	5,663	5,946	6,540
Selling and Distribution Expenses	3,250	3,315	3,143	3,397	4,050
Other Expenses	405	30	47	277	337
R&D Expenses		306	233	416	506
Less Amounts Capitalised		7	82		
Total Operating Expenses	64,822	69,222	55,116	61,870	74,435
EBITDA	6,859	8,204	4,694	7,456	9,933
				58.8%	33.2%
Depreciation & Amortisation	1,506	1,774	1,784	2,239	2,910
Other Income	602	466	658	659	659
EBIT	5,956	6,896	3,568	5,877	7,682
Less: Gross Interest	288	763	1,603	1,382	1,406
Recurring Pre-tax Income	5,667	6,133	1,965	4,494	6,275
Add: Extraordinary Income	509	376	254	-	-
Less: Extraordinary Expenses	131	127	135	-	-
Less: Taxation	1,632	1,688	185	674	1,192
Net Income (Reported)	4,414	4,693	1,900	3,820	5,083
Recurring Net Income	4,137	4,510	1,612	3,820	5,083

Source: Company data, I-Sec Research

Table 7: Balance sheet*(Rs mn, year ending March 31)*

	FY07	FY08	FY09	FY10E	FY11E
ASSETS					
Current Assets, Loans & Advances					
Cash & Bank balance	4,349	4,514	881	642	362
Inventory	10,703	12,239	13,300	11,558	12,685
Sundry Debtors	5,229	3,758	9,580	3,229	4,392
Loans and Advances	-	-	-	-	-
Other Current Assets	6,696	8,241	7,895	7,028	8,321
Total Current Assets	26,977	28,753	31,656	22,457	25,761
Current Liabilities & Provisions					
Current Liabilities	16,516	19,267	18,689	17,290	19,781
Sundry Creditors	14,337	17,351	17,713	16,103	18,354
Other Current Liabilities	2,179	1,916	976	1,187	1,428
Provisions	1,042	3,452	2,681	2,882	3,467
Total Current Liabilities and Provisions	17,559	22,719	21,369	20,171	23,248
Net Current Assets	9,419	6,033	10,287	2,285	2,513
Investments					
Strategic & Group Investments	2,211	1,870	2,246	2,246	4,246
Other Marketable Investments	-	4,229	389	400	400
Total Investments	2,211	6,099	2,636	2,646	4,646
out of this, redeemable	-	1,475	1,442	1,442	1,442
Fixed Assets					
Gross Block	26,202	29,201	35,884	53,657	62,747
Less Accumulated Depreciation	13,132	14,169	15,542	17,780	20,690
Net Block	13,070	15,032	20,343	35,877	42,057
Add: Capital Work in Progress	2,375	5,292	9,983	1,710	1,620
Less: Revaluation Reserve	-	224	13,649	13,649	13,649
Total Fixed Assets	15,445	20,324	30,325	37,587	43,677
Total Assets	27,075	32,456	43,248	42,519	50,836
	119%				
LIABILITIES AND SHAREHOLDERS' EQUITY					
Monetary item translation differences		0	38	38	38
Borrowings					
Short Term Debt	1,433	1,325	1,024	1,200	1,350
Long Term Debt	4,971	7,550	18,557	16,000	21,500
Total Borrowings	6,404	8,875	19,581	17,200	22,850
Deferred Tax Liability	1,969	2,538	2,634	2,724	2,850
Share Capital					
Paid up Equity Share Capital	1,324	1,330	1,330	1,330	1,330
No. of Shares outstanding (mn)	1,324	1,330	1,330	1,330	1,330
Face Value per share (Rs)	1	1	1	1	1
Reserves & Surplus	17,622	19,936	19,760	21,246	23,787
Share Premium	8,716	8,903	8,903	8,903	8,903
General & Other Reserve	8,906	11,032	10,857	12,342	14,884
Less: Misc. Exp. not written off	244	223	97	20	20
Less: Revaluation Reserve	-	-	-	-	-
Net Worth	18,702	21,043	20,993	22,556	25,097
Total Liabilities & Shareholders' Equity	27,075	32,456	43,248	42,519	50,836

Source: Company data, I-Sec Research

Table 8: Cashflow statement*(Rs mn, year ending March 31)*

	FY07	FY08	FY09	FY10E	FY11E
Cash Flow from Operating Activities					
Reported Net Income	4,414	4,693	1,900	3,820	5,083
Add:					
Depreciation & Amortisation	1,008	1,059	1,499	2,315	2,910
Provisions	(1,574)	2,410	(771)	201	585
Deferred Taxes	172	569	96	90	126
Less:					
Other Income	602	466	658	659	659
Net Extra-ordinary income	378	248	119	-	-
Operating Cash Flow before Working Capital change (a)	3,040	8,016	1,946	5,767	8,045
Changes in Working Capital					
(Increase) / Decrease in Inventories	(1,678)	(1,536)	(1,061)	1,742	(1,127)
(Increase) / Decrease in Sundry Debtors	(985)	1,470	(5,821)	6,351	(1,163)
(Increase) / Decrease in Operational Loans & Adv.	-	-	-	-	-
(Increase) / Decrease in Other Current Assets	(3,669)	(1,546)	346	868	(1,294)
Increase / (Decrease) in Sundry Creditors	3,877	3,014	362	(1,610)	2,251
Increase / (Decrease) in Other Current Liabilities	1,170	(263)	(940)	211	241
Working Capital Inflow / (Outflow) (b)	(1,285)	1,140	(7,115)	7,562	(1,092)
Net Cash flow from Operating Activities (a) + (b)	1,755	9,156	(5,169)	13,329	6,953
<i>as a % of Operating Cash Flow</i>	<i>58%</i>	<i>114%</i>	<i>-266%</i>	<i>231%</i>	<i>86%</i>
Cash Flow from Capital commitments					
Purchase of Fixed Assets	(5,778)	(5,692)	2,051	(9,500)	(9,000)
Purchase of Investments	371	341	(377)	-	(2,000)
Cash Inflow/(outflow) from capital commitments (c)	(5,407)	(5,351)	1,674	(9,500)	(11,000)
Free Cash flow after capital commitments (a) + (b) + ©	(3,652)	3,805	(3,495)	3,829	(4,047)
Cash Flow from Investing Activities					
Purchase of Marketable Investments	1,100	(4,229)	3,840	(11)	-
Other Income	602	466	658	659	659
Net Cash flow from Investing Activities (d)	1,702	(3,763)	4,498	648	659
Cash Flow from Financing Activities					
Issue of Share Capital during the year	3,171	194	-	-	-
Proceeds from fresh borrowings	-	2,471	10,706	-	5,650
Repayment of Borrowings	(516)	-	-	(2,381)	-
Buyback of Shares	-	-	-	-	-
Dividend paid including tax	(2,264)	(2,337)	(1,556)	(2,335)	(2,542)
Others	(499)	(230)	(481)	0	0
Net Cash flow from Financing Activities (e)	(108)	98	8,669	(4,716)	3,108
Net Extra-ordinary Income (f)	378	248	119	-	-
Total Increase / (Decrease) in Cash (a) + (b) + (c) + (d) + (e) + (f)	(1,680)	388	9,792	(239)	(280)
Opening Cash and Bank balance	6029	4349	4514	881	642
Closing Cash and Bank balance	4349	4514	881	642	362
Increase/(Decrease) in Cash and Bank balance	(1679)	164	(3633)	(239)	(280)

Source: Company data, I-Sec Research

Table 9: Key ratios*(Year ending March 31)*

	FY07	FY08	FY09	FY10E	FY11E
Per Share Data (Rs)					
Basic Recurring Earning per share (EPS)	3.1	3.4	1.2	2.9	3.8
Diluted Recurring Earnings per share	3.1	3.4	1.2	2.9	3.8
Recurring Cash Earnings per share (CEPS)	4.4	4.8	2.8	4.5	6.0
Free Cashflow per share (FCPS-post capex)	(3.0)	2.6	(2.3)	2.9	(1.5)
Reported Book Value (BV)	14.0	15.8	15.7	16.9	18.8
Adjusted Book Value (ABV) **	14.0	15.8	15.7	16.9	18.8
Dividend per share	1.50	1.50	1.00	1.49	1.63
Valuation Ratios (x)					
Diluted Price Earning Ratio	16.8	15.4	43.1	18.2	13.7
Price to Recurring Cash Earnings per share	11.7	10.7	18.9	11.5	8.7
Price to Book Value	3.7	3.3	3.3	3.1	2.8
Price to Adjusted Book Value	3.7	3.3	3.3	3.1	2.8
EV / EBITDA	10.7	8.8	19.2	11.8	9.5
EV / Total Operating Income	1.0	0.9	1.5	1.3	1.1
EV / Operating Free Cash Flow (Pre-Capex)	41.7	7.8	(17.4)	6.6	13.5
EV / Net Operating Free Cash Flow (Post-Capex)	(18.2)	20.7	(28.9)	23.0	(46.0)
Dividend Yield (%)	2.9	2.9	1.9	2.9	3.1
Growth Ratios (% YoY)					
Diluted Recurring EPS Growth	37.6	9.0	(64.3)	137.1	33.1
Diluted Recurring CEPS Growth	31.2	9.2	(43.0)	64.5	31.9
Total Operating Income Growth	33.9	8.0	(22.8)	15.9	21.7
EBITDA Growth	27.5	19.6	(42.8)	58.8	33.2
Recurring Net Income Growth	37.6	9.0	(64.3)	137.1	33.1
Operating Ratios (%)					
EBITDA Margins	9.6	10.6	7.8	10.8	11.8
EBIT Margins	8.3	8.9	6.0	8.5	9.1
Recurring Pre-tax Income Margins	7.9	7.9	3.3	6.5	7.4
Recurring Net Income Margins	5.8	5.8	2.7	5.5	6.0
Raw Material Consumed / Sales	76.7	75.0	74.9	73.3	73.2
SGA Expenses / Sales	4.5	4.3	5.3	4.9	4.8
Other Income / Pre-tax Income	10.6	7.6	33.5	14.7	10.5
Other Operating Income / EBITDA	-	-	-	-	-
Effective Tax Rate	27.0	26.5	8.9	15.0	19.0
Return / Profitability Ratios (%)					
Return on Capital Employed (RoCE)-Overall	17.4	17.0	8.1	11.6	13.3
Return on Invested Capital (RoIC)	35.8	35.3	14.3	17.9	21.7
Return on Net Worth (RoNW)	25.3	22.7	7.7	17.5	21.3
Dividend Payout Ratio	51.3	49.8	81.9	61.1	50.0
Solvency Ratios / Liquidity Ratios (%)					
Debt Equity Ratio (D/E)	44.8	54.2	105.8	88.3	102.4
Long Term Debt / Total Debt	82.9	88.4	95.4	94.0	94.7
Net Working Capital / Total Assets	18.7	(8.3)	20.8	2.9	3.4
Interest Coverage Ratio-based on EBIT	4.8	11.1	44.9	23.5	18.3
Debt Servicing Capacity Ratio (DSCR) (x)	4.3	4.1	2.0	3.1	3.7
Current Ratio	150.3	139.6	160.6	121.5	121.9
Cash and cash equivalents / Total Assets	16.1	26.9	2.9	2.5	1.5
Turnover Ratios					
Inventory Turnover Ratio (x)	5.7	5.2	3.6	4.2	5.2
Assets Turnover Ratio (x)	2.9	2.6	1.6	1.6	1.8
Working Capital Cycle (days)	45.0	36.4	49.8	33.1	10.4
Average Collection Period (days)	20.8	18.3	36.5	30.8	15.0
Average Payment Period (days)	82.3	99.6	142.8	121.4	101.9

Source: Company data, I-Sec Research

I-Sec investment ratings (all ratings relative to Sensex over next 12 months)

BUY: +10% outperformance; **HOLD:** -10% to +10% relative performance; **SELL:** +10% underperformance

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