Mining

# Gujarat NRE Coke

## *BUY*

MF Global
Private Client Group

***CMP : Rs.124***
***Target : Rs.228***

**Gujarat NRE Coke (GNCL) with group's coke manufacturing facility of over 1 mn ton and captive coking coalmines in Australia with reserves of approximately 560 mn ton, would soon emerge as an integrated coke manufacturer. It is expanding its coke manufacturing capacity by 25% and aggressively ramping up its mining capacity in Australia to 7 mn ton by FY13. We see immense potential of good returns in the stock on account of the coal reserves it is expected to exploit in future. We initiate coverage on the company, with BUY rating and price target of Rs.228 based on SOTP within a year.**

## Investment rational

**Coke price to remain firm in near term –** Coke prices are very volatile as China dominates the global trade and prices. Being the largest producer and consumer of steel, it is also the largest producer, consumer and exporter of coke. Due to strong internal demand, Chinese Government has increased export tax on coke from 15% to 25% from Jan'08 and the export licenses released this year were only 10 mn ton as compared to 14 mn ton last year. As a result we expect prices of coke to remain firm at $380-400 per ton in FY09.

**Company to increase its coal sourcing from captive mines –** Presently company purchases 50% of its coal requirements. For FY09 the company would source approximately 75-80% of its coal requirement from captive mines. As a result we expect company's blended cost of coal to be $120 per ton, 40% lower than its peers. We expect the company to reap benefits of higher coke prices and report operating margins of 36.5% in FY09E.

**Aggressive mining plan –** The company is planning to ramp up its coking coal production to 7 mn ton from Australia by FY13 from 1 mn ton at present. Looking at robust expansion plans of steel companies, we expect the prices of coal to remain firm. On long-term contract price of $110 per ton for coal, the company can sustain gross margin of more than 50%. On the basis of DCF we have arrived at per share value of Rs.169 per share from coal mining alone.

**Margins to stabilized in long run –** As the company is sifting its focus from coke manufacturing to mining, revenues from coal business would contribute 63% to top line by FY13E as against 20% in FY07. On consolidation the performance would be evened out, reducing the wide fluctuation in margins.

## Valuations

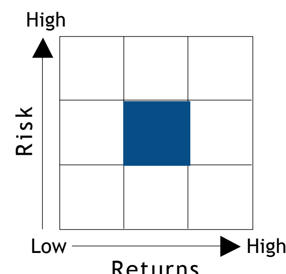
We expect its net sales and net profit to grow at CAGR of 42.0% and 81.9% to Rs.14.7 bn and Rs.3.3 bn over FY08-10E. The stock is trading at 11.8x FY09E EPS of Rs.10.4 and 11.2x FY10E EPS of Rs.11.1. The current valuation doesn't factor in the 560 mn ton coking coal reserve the company owns. DCF valuation of the coal mining business comes to Rs.169 per share, even after 15% discount the value comes to Rs.144 per share. On the back of assured raw material linkages, captive power plant and bouyant coke demand, we expect the stock to be re-rated. Based on 8x FY09E EPS of Rs.10.4 valuation of its coke business comes to Rs.84 per share. We initiate coverage on the company, with price target of Rs.228 on SOTP valuations. The stock offers more than 84% returns from current price, we recommend **BUY** with long term perspective.

### Valuation summary

| Y/E, 31st March | FY07 | FY08E | FY09E | FY10E |
|---|---|---|---|---|
| **Net sales (Rs mn)** | **5,133** | **9,345** | **13,764** | **14,705** |
| Adj PAT (Rs mn) | 557 | 1,442 | 3,164 | 3,347 |
| **Adj EPS (Rs)** | **2.3** | **4.8** | **10.4** | **11.1** |
| EPS growth(%) | (55.0) | 108.7 | 119.4 | 5.8 |
| **P/E (x)** | **54.1** | **25.9** | **11.8** | **11.2** |
| Dividend yield (%) | 1.3 | 1.2 | 1.2 | 1.2 |
| **RoCE (%)** | **7.0** | **12.4** | **22.9** | **21.3** |
| RoNW (%) | 10.5 | 17.6 | 26.0 | 22.5 |
| **P/BV (X)** | **5.5** | **3.4** | **2.8** | **2.3** |
| EV/EBIDTA (x) | 30.3 | 15.3 | 6.8 | 6.0 |
| **EV/Sales (x)** | **6.0** | **3.6** | **2.4** | **2.2** |

Source: Company, MF Global PCG Research

### Risk Return Matrix




### Indices

| | |
|---|---|
| Sensex | 16,217 |
| Nifty | 4,878 |

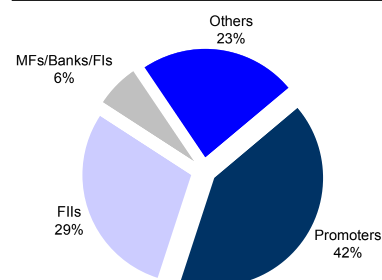
### Stock Data

| | |
|---|---|
| BSE Code | 512579 |
| NSE Code | GUJNRECOKE |
| Bloomberg | GNC@IN |
| Reuters | GJNC.BO |
| Shares Issued (mn) | 324 |
| Market Cap (Rs mn) | 40,014 |
| 52 Wk H/L (Rs) | 181/32 |
| Face Value (Rs) | 10 |
| Avg. daily vol. (12-mths) | 1,377,454 |

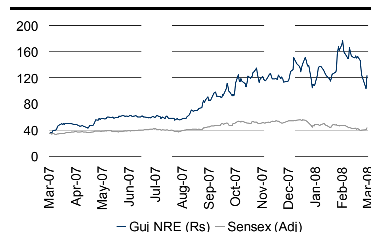
### Absolute Returns (%)

| | 1 m | 3 m | 12 m |
|---|---|---|---|
| Absolute | (30.7) | 7.0 | 252.9 |
| Rel. to Sensex | (21.3) | 26.7 | 229.3 |

### Shareholding Pattern




### Guj NRE Coke Vs Sensex (Adj)





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Initiating Coverage

March 26, 2008

Please read the disclosures and disclaimers given on the last page

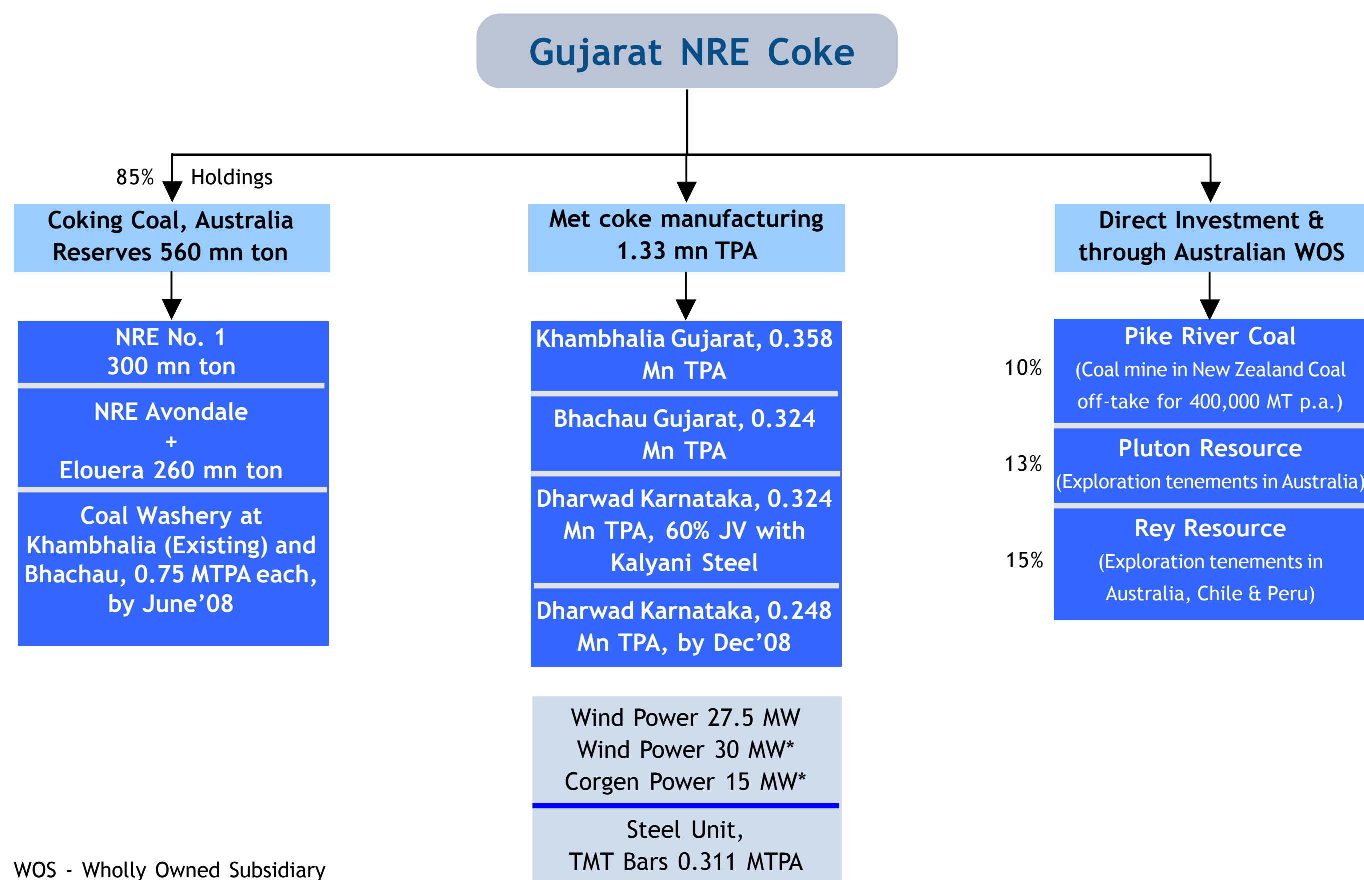
## Company background

Gujarat NRE Coke (GNCL) is engaged in the business of coal processing. It manufactures low-ash metallurgical coke, which is used in soda-ash plants, cast iron & brass foundries and the blast furnaces of steel plants. It came out with a public issue in May'94 to part-finance its coke manufacturing capacity of 130,000 TPA. The company has gradually expanded the installed capacity of metallurgical coke to 1,006,000 TPA. In addition it is the only company in India to have captive coking coal mines in Australia with reserve in excess of 560 mn ton. The company operates in two segments coke, which contributed 72.2% of the revenue, while steel contributed 23.3% in FY07. It is also involved in the generation of wind-power. The company has set up and operated 22 wind turbine generators, with capacities to generate 27.5 MW, to supplement its power requirements at its coke and steel plant. Further, the company is also setting-up another 20 wind turbine generators having total installed capacity of 30 MW.

*Strategically, the company is shifting its focus from only coke manufacturing to mining, where it enjoys 50% plus gross margins*

The company has two units in Gujarat to manufacture coke with capacity of 682,000 TPA. It has also set up a JV along with Kalyani steel to set up capacity of 324,000 TPA in Karnataka. The company holds 60% stake in this JV. To serve the southern market the company is setting up another 248,000 TPA coke plant at Karnataka, with capex of Rs.800 mn by Dec'08. As part of its ongoing process of investment in infrastructure, the company is setting up, a railway siding in Dharwad apart from constructing its own jetty in Belekeri, Karnataka for captive use. The efforts would result in better logistical efficiencies and further reduction of operating costs. The company's clientele comprises of Hindustan Zinc, Nirma, Tata Chemicals, Tata Metaliks, Jindal Saw, Gujarat Heavy Chemicals, Kalyani Steels, Manganese Ore, Birla Copper etc.

## Business structure




WOS - Wholly Owned Subsidiary
* Under construction

## Venturing into lucrative coal mining business

GNCL has traditionally sourced its raw material requirements solely from BHP Billiton, Australia, the single largest exporter of metallurgical coal in the world. As a step towards backward integration, in Dec'04, it acquired a coking coal mine in Australia, NRE No. 1 Colliery, located near Wollongong in New South Wales, through its subsidiary, Gujarat NRE Australia Pty. Ltd. The mine is spread over 6,421 hectares and has reserves of about 300 mn ton of coking coal. The mine contains high quality coking coal with ash content of 9.5%. The specifications compare very well with prime hard Queensland coals like Goonyela for benchmarking purposes. These acquisitions have made GNCL, the only coke company in India, to have a backward integration for captive coking coal mine overseas. It will ensure a steady supply of high quality raw material for its coke operations in India, in addition secure it against highly volatile price environment. Production from this mine re-started in late 2005 using Bord & pillar mining. Since commencement, the company has mined over 1 mn ton of coking coal. The company is planning to ramp up production upto 4.5 mn ton per annum by 2012. This mine is around 14 kms away from Port Kembla these give an added advantage in terms of lower inland freight costs.

*Since 2005 it has mined 1 mn ton of coal and is planning to ramp-up production to 4 mn ton p.a. by 2012*

It also acquired NRE Avondale Colliery mine in 2005 at cost of $3 mn. The mine is spread over 5,500 hectares and has reserves of about 200 mn ton of coking coal. The company acquired third asset Elouera coal mines from BHP Billiton, at $50 mn. It includes mines and landholdings, infrastructure and other rights. This mine had been closed by BHP as it did not have long mine reserve left. The company acquired this mine for strategic reason. The current mine is near to NRE Avondale Colliery mine. Because of infrastructure and logistic bottlenecks the company could not commence the production in Avondale mine. GNCL would have taken another two years to get clearance and build a railway line for transportations of coal to the nearest port costing $300 mn. On account of proximity to Avondale Colliery, the company can use the existing infrastructure of Elouera mines and ensure immediate production that could begin by this financial year itself. This would also resultantly bring down the cost of developing the requisite infrastructure to $100 mn and ramp up of its capacity at faster pace. The company is in process of consolidating these two coking coal mines. Over five years the volumes from Avondale mine could go upto 2.5 mn ton. Thus the company would be potentially exploiting approximately 7 mn ton of coal every year from FY13.

*Strategic acquisition of other two assets would enable faster exploitation and lower expenditure on infrastructure development*

The company has invested about (NZ)$20 mn in Pike River Coal, with an off-take right for 400,000 ton of ultra-low ash coal (coking coal with ash content of 1% per annum. The company would produce coke with 12.5% ash content by blending this coal with Australian hard-coking coal. The Company's through its 19.97% stake in Rey Resources has other interests in Australia include petroleum prospecting in the Canning basin and prospecting for gold, iron ore, coal, magnetite and other base metals in Tasmania. The company has acquired two virgin blocks in the Canning Basin in Western Australia for petroleum prospecting. The value of these investment works to approximately Rs.10 per share, which we have not factored in our valuation.

## Strategic location to support logistics

Mining companies in Australia are facing logistic problem, since majority of Australian port are congested. As a result mining companies are not able to increase their production to capitalize on strong demand. However, GNCL would not witness the same problem, since its mines are very near to one of the most un-congested Port Kembla. Port Kembla is underutilized and has a throughput capacity of 16-18 mn TPA, it exported 10.7 mn ton in 2006, approximately 60% of total capacity. Therefore, Port Kembla has more than 7 mt of spare capacity. This should enable GNCL to cash in on the high coking coal prices without worrying about logistical constraints. Further, close proximity to the port gives the company a freight-cost

**Key Australian ports used for coal exports**

| | Annual Capacity-Coal (mt) | Planned Expansion (mt) |
|---|---|---|
| **Queensland** | | |
| Abbot Point | 15 | 25 |
| Brisbane | 5 | 5 |
| Giadstone | 45 | 72 |
| Hay Point | 99 | 198 |
| **New South Wales** | | |
| Newcastle | 102 | 25 |
| Port Kembla | 16 | 16 |
| **Australia** | **282** | **341** |

Source: World Steel Organization

advantage. All the major ports in Australia that export coal have planned for capacity expansion, but the logistical constraints are likely to remain as the demand is far exceeding the forecasted capacity additions.

## Met coke – sector overview

Australia dominates seaborne export trade of coking coal, while Canada and the US are distant second. Australian exports are constrained by the port and rail bottlenecks, which will take some more times to be sorted out. While metal companies have indicated massive expansion, keeping demand very strong for coal. Thus we expect coking coal price to remain firm. While China because of its sheer size, controls dynamics of coke industry. Each year Chinese government allocates license to export coke, which has remained more or less stable at 14 mn ton over past few years. But according to demand supply these quantity has been exported in particular quarters. As a result prices of coke have been very volatile it has gone up as high as $450-480 per ton in May 04 and bottomed out to $120 in Dec'05. After a roller coaster ride in 2005 and 2006 currently the prices have firmed up again at $490-510 per ton.

*China's transformation from an exporter to an importer has been a key factor for firm prices of international coke markets*

China's transformation from an exporter to an importer has bean a key factor for tightening of international coke markets. The demand-supply balance of metallurgical coal in China will be determined by, domestic demand, international trade and local met coke production.

**China to turn net importer of coal**

| | 2006 | 2007 | 2008E | 2009E | 2010E |
|---|---|---|---|---|---|
| Crude Steel Production (mt) | 419 | 487 | 574 | 658 | 752 |
| Coal Demand | 447 | 507 | 595 | 690 | 788 |
| Met Coal Import | 4.7 | 6.2 | 10 | 15 | 16 |
| Met Coal Exports | 4.4 | 5 | 5 | 5 | 6 |
| Net Exports | (0.3) | (1.2) | (5) | (10) | (10) |

Source: World Steel Organization

Indian crude steel production is scheduled to increase by 100 mn ton by 2012 if all the announced projects were to be commissioned as scheduled. Even if such enormous capacity built up does not happen demand for coking coal will be tremendous. Conservatively even an addition of 50 mn ton of steel capacity, would require 84 mn ton of coking coal by 2012 as compared to 35 mn in 2007 in India.

*Even if 50% of planned capacity addition in steel industry takes place demand for coking coal will increase to 84 mn ton in 2012 from 35 mn ton in 2007*

**Expected indian coke consumption and coking coal demand projections**

| | 2004-05 | 2006-07 | 2011-12 |
|---|---|---|---|
| Coke Consumption | 21 | 25 | 60 |
| Coking Coal Required | 28 | 35 | 84 |
| Indian Coal | 8 | 8 | 9 |
| Net Import Demand | 21 | 27 | 75 |

Source: Company, MF Global PCG Research

## Robust mine development to capitalise on opportunity

The company is planning to spend $425 mn over next three years to develop its mines. The company is planning to increase production from NRE no 1 to 4.5 mn ton by FY12E. While, it is planning to increase production from Avondale and Elouera mine to 2.5 mn ton by FY13E. However, we expect total production of 6 mn ton from FY13E onwards. On expanded capacity the company would need 1.7 mn ton of coal for its Indian operation, while the balance quantity of 4.3 mn ton will be sold in the open market. Including mining cost, royalty and other costs,

the company would be able to produce coal at $52 per ton. While currently the prices are ruling at $150-200 per ton. Considering strong demand, we expect long term price to be stabilized at $110 per ton. Even in that scenario, the company can sustain gross margin of 50%.

In order to value these mines, we have done DCF valuation of the potential earnings from these assets. We have assumed Australian risk free rate as benchmark to calculate WACC, since majority of its expenses and income are booked in Australia. For our calculation we have assumed WACC of 12.7%. Conservatively we have also assumed the average coaking coal price at $110 per ton for long-term contract, as against current ruling price of $150-200 per ton. Based on WACC of 12.7% net present value of these cash flows comes to Rs.51 bn and Rs.169 per share.

*The per share value of the free cash flow derived from coal mining operations comes to Rs169 per share, which we have discounted further by 15%*

| | FY12E | FY13E | FY14E | FY35E |
|---|---|---|---|---|
| **Production details:** | | | | |
| NRE no 1 (mn ton) | 4 | 4 | 4 | 4 |
| Elouera mine + Avondale (mn ton) | – | 2 | 2 | 2 |
| Free cash flow (Rs mn) | 9,200 | 13,800 | 13,800 | 13,800 |

Source: MF Global PCG Research

**WACC (%)**

| | |
|---|---|
| Rf | 6.4 |
| Rm-Rf | 8.5 |
| Beta (x) | 1.05 |
| Rd | 6.5 |
| Debt | 30.0 |
| WACC | 12.69 |

Source: MF Global PCG Research

## Sensitivity analysis

Coking coal being a commodity product, valuation of mines is considerably impacted by the fluctuating coal prices. We expect demand for coking coal to remain robust, while Australia is facing infrastructure bottleneck on account congestion at its port, affecting supply of coal. These should result in sustaining the firm price trend for coal in near future. Since majority of costs for minning are fixed in nature, any increase in price can directly add to bottom line of the company. For every $10 increase in price of coal valuation of mine increases by 21.1%. Similarly for every 0.2% increase in WACC mine valuation goes down by 2.5%.

**Sensitivity of mine value against gross margin and WACC**

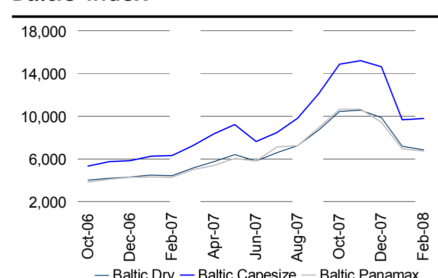
| Selling price ($ / ton) | | 80 | 90 | 100 | 110 | 120 | 130 | 140 |
|---|---|---|---|---|---|---|---|---|
| WACC (%) | 12.1 | 68 | 106 | 145 | 183 | 221 | 259 | 297 |
| | 12.3 | 66 | 104 | 141 | 178 | 215 | 252 | 290 |
| | 12.5 | 64 | 101 | 137 | 173 | 210 | 246 | 283 |
| | 12.7 | 62 | 98 | 134 | **169** | 205 | 240 | 276 |
| | 12.9 | 60 | 95 | 130 | 165 | 200 | 235 | 270 |
| | 13.1 | 58 | 93 | 127 | 161 | 195 | 229 | 263 |
| | 13.3 | 57 | 90 | 124 | 157 | 190 | 224 | 257 |

Source: MF Global PCG Research

## Long-term shipping contract to reduce cost

Due to crude prices at record high and shortage of assets in the shipping industry, fright rates have increase from $30-50 to $60-80 per ton of coke at present. This would increase landed price of coal for majority of manufacturers. Gujarat NRE would be secured from the hardening of freight rates in the spot market, as it has long-term contracts in place. The company made an agreement in 2006 for fright rate at $20-22 per ton, which will be effective till 2010. While the company entered into another agreement in 2007 for freight rate average at $35 per ton, which will be effective till 2011. On account of these long-term fright contracts, the company would also save in freight cost by $20-30 per ton. The company is acquiring four new bulk carriers on long-term time charters with an option to buy them at later date. They would be put in service progressively from 2010 onwards to ferry coal from Australia to India.

**Baltic index**



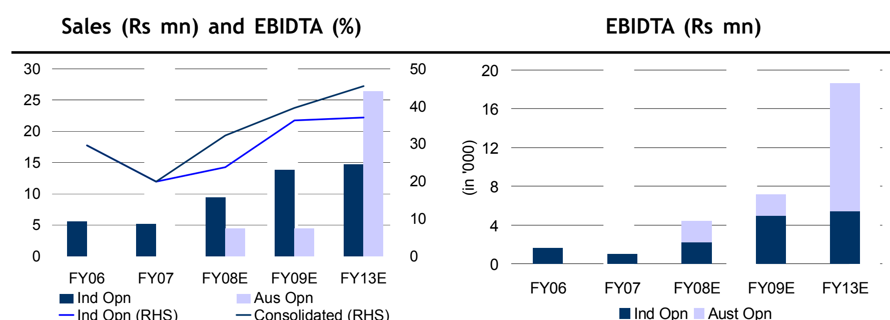

Source: Industry, MF Global PCG Research

## Margins to stabilize in the long run

Earlier the company used to import raw material i.e. coking coal from Australia on long term contract of upto one year, while coke is sold on 1-2 months contracts. As coke prices fluctuate widely and are dependent on China. On account of this mismatch between contract nature for coal and coke, the company's operating margin fluctuated from negative to approximately 40% plus. As company is shifting its focus from coke manufacturing to mining business, which has higher and stable margins. We expect that mining would contribute 63% to the top line by FY13E as against 20% in FY07. We expect the Australian mines to provide annuity income with 50% plus gross margins. On consolidation, this would reduce the volatility in performance of the company as a result of which we may see the company commanding a higher multiple as compared to its past history.

*Coal mining would give annuity income with more than 50% gross margins and contribute 63% of revenues by FY13 as against 20% in FY07*

**Sales (Rs mn) and EBIDTA (%)** | **EBIDTA (Rs mn)**

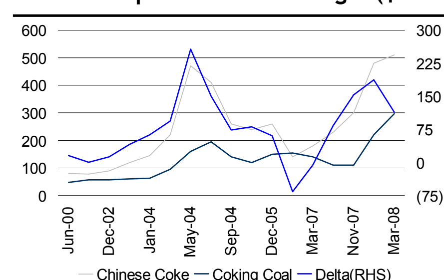



Source: Company, MF Global PCG Research

## Sensitivity Analysis of domestic business

Coke is traded through short term contracts and prices, which are dominated by China, are very Volatile. China dominates the global coke market and prices due to the fact that the country, besides being the largest steel producer and consumer, is also the largest producer, consumer and exporter of coke. Due to strong internal demand, Chinese Government has increased export tax on coke from 15% to 25% from Jan'08 and the export licenses released this year were of only 10 mn ton as compared to 14 mn ton last year. As a result we expect prices of coke to remain firm at $380 per ton for FY09 and $350 per ton for FY10. We expect coal price to remain firm, but because of increasing share from captive mines, blended cost of coal for company would be $120 per ton for FY09E and $117 per ton for FY10E. However, if prices of coke increase by $20 per ton we expect its EBIDTA margin to improve by 2.6% and EPS to improve by 14.8% in FY10E. For every $10 increase in coking coal price we expect EBIDTA margin to decrease by 3.15% and EPS by 10.3% in FY10E.

**Chinese impact on Delta margin ($/ton)**




Source: Company, MF Global PCG Research

**Sensitivity analysis on varying coal prices**

| | | EBITDA (%) – FY10 | | | | | | | EPS (Rs) – FY10E | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Coal price ($/ton) | | 290 | 310 | 330 | 350 | 370 | 390 | 410 | 290 | 310 | 330 | 350 | 370 | 390 | 410 |
| WACC (%) | 87 | 39 | 41 | 44 | 46 | 49 | 51 | 52 | 9.6 | 11.2 | 12.8 | 14.5 | 16.1 | 17.8 | 19.4 |
| | 97 | 35 | 38 | 41 | 43 | 46 | 48 | 50 | 8.4 | 10.1 | 11.7 | 13.3 | 15.0 | 16.6 | 18.3 |
| | 107 | 31 | 35 | 37 | 40 | 43 | 45 | 47 | 7.3 | 8.9 | 10.6 | 12.2 | 13.8 | 15.5 | 17.1 |
| | 117 | 28 | 31 | 34 | 37 | 40 | 42 | 44 | 6.1 | 7.8 | 9.4 | 11.1 | 12.7 | 14.3 | 16.0 |
| | 127 | 24 | 28 | 31 | 34 | 37 | 39 | 41 | 5.0 | 6.6 | 8.3 | 9.9 | 11.6 | 13.2 | 14.8 |
| | 137 | 20 | 24 | 28 | 31 | 34 | 36 | 39 | 3.9 | 5.5 | 7.1 | 8.8 | 10.4 | 12.1 | 13.7 |
| | 147 | 17 | 21 | 24 | 28 | 31 | 33 | 36 | 2.7 | 4.4 | 6.0 | 7.6 | 9.3 | 10.9 | 12.6 |

Source: Man Financial PCG Research

## Key concerns

- Prices of coke are very volatile and controlled by China, any adverse move by China may depress coke price and hence margin.
- Any delay in implementation of mining plan on account of environmental, logistic, regulatory and other infrastructure bottleneck can severely impact the company's valuation.
- Coal prices are currently ruling at the peak any decline in prices could effect the earnings potential of the company.

## Financials

The company declared very strong 9 months numbers on account of firm coke prices. Its net sales increased by 47.7% to Rs.4.9 bn, while EBIDTA increased by robust 369.9% to Rs.1.5 bn in 9MFY08. The company sold 0.28 mn ton of coke, 18% up compared to last year. Average realization of coke was at Rs.9,949 per ton up by 27%. The cost of coal procured was at an average price of Rs.3,425 per ton 13% down as compared to Rs.3,881 per ton last year. As a result the company reported EBIDTA margin of 30.6%, compared to 9.6% during last nine months. The company was able to check out flow on account of depreciation and interest. As a result net profit grew by more than 10x to Rs.1.05 bn in nine months. We expect coke price to remain firm at $400-450 per ton for the current quarter also. While the company has been procuring coal on long term contract at $98 per ton. Hence the company should also be able to report good performance during the fourth quarter also, with operating margin of more than 30%.

For next year, the company would source around 75-80% of its coal requirement from its captive mines, while it will purchase balance via long-term contract. Hence, its blended cost of coal would be lowest among its peers at $120 per ton. While we expect the coke price to average out at $380 per ton in FY09 and at $350 per ton in FY10. These should result in 35% plus operating margin for coke division in FY09. We expect net sales to report price driven growth of 42.0% CAGR to Rs.14.7 bn over FY07-10E. On account of strong margin from coke business and saving from power business, we expect net profit to grow at higher rate of 81.9% to Rs.3.3 bn over the same period.

## Valuations

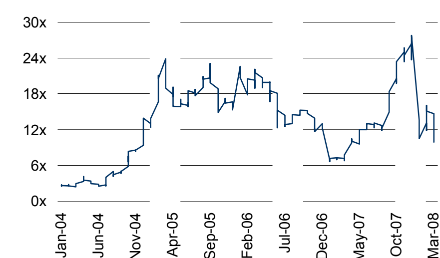
The stock is trading at 11.8x FY09E EPS of Rs.10.4 and 11.2x FY10E EPS of Rs.11.1. On EV/EBIDTA term, it is trading at 6.8x and 6.0x its FY09E and FY10E. On standalone P/E valuation it doesn't look very attractive, but the conventional P/E valuation does not factor the 560 mn ton coke reserve that the company has. DCF valuation of the potential earnings from its coal mining business works to Rs.169 per share. On account of execution risk we have discounted it further by 15%. Historically due to wide fluctuation in performance linked to volatile coke prices the company always received low discounting. Which may seem to change in future on account of, captive coal mining, supported by captive power plant and bouyant coke demand, we expect stock to be re-rated. Based on 8x FY09E EPS of Rs.10.4 valuation of its Indian operation comes to Rs.84 per share. We initiate coverage on the company, with **BUY** rating based on SOTP target price of Rs.228.

**Sum of the part valuation (Rs/share )**

| | |
|---|---|
| Coal business (@ 15% discount) | 144 |
| Core business | 84 |
| **Total** | **228** |

Source: MF Global PCG Research

**1-year forward P/E multiple**



# Financials

| Income statement (Rs mn) | FY07 | FY08E | FY09E | FY10E |
|---|---|---|---|---|
| **Net sales** | **5,133** | **9,345** | **13,764** | **14,705** |
| Raw materials | 3,383 | 5,743 | 7,006 | 7,307 |
| Employee expenses | 150 | 377 | 515 | 542 |
| Other exp | 578 | 1,005 | 1,255 | 1,413 |
| **Op profit** | **1,022** | **2,220** | **4,988** | **5,442** |
| *OPM (%)* | *19.9* | *23.8* | *36.2* | *37.0* |
| Other income | 203 | 374 | 206 | 221 |
| Depreciation | 207 | 236 | 324 | 376 |
| Interest | 271 | 423 | 627 | 797 |
| **PBT** | **748** | **1,935** | **4,244** | **4,490** |
| Tax | 190 | 492 | 1,080 | 1,143 |
| PAT | 557 | 1,442 | 3,164 | 3,347 |
| Extraordinary item | 1 | – | – | – |
| **Adj PAT** | **557** | **1,442** | **3,164** | **3,347** |
| *NPM (%)* | *10.8* | *15.4* | *23.0* | *22.8* |

| Balance sheet (Rs mn) | FY07 | FY08E | FY09E | FY10E |
|---|---|---|---|---|
| **Equity capital** | **2,439** | **3,028** | **3,028** | **3,028** |
| Reserves | 3,052 | 7,824 | 10,467 | 13,294 |
| **Networth** | **5,491** | **10,852** | **13,496** | **16,323** |
| Total debt | 7,655 | 8,055 | 8,355 | 9,355 |
| Deferred tax | 688 | 962 | 1,563 | 2,198 |
| **Total liabilities** | **13,834** | **19,869** | **23,413** | **27,876** |
| Gross fixed assets | 4,550 | 5,251 | 7,201 | 8,351 |
| Less: Cum depreciation | 436 | 672 | 996 | 1,372 |
| Net fixed assets | 4,114 | 4,579 | 6,205 | 6,979 |
| Capital WIP | 101 | 450 | 650 | 50 |
| Investments | 6,117 | 6,117 | 6,117 | 6,117 |
| Net current assets | 3,381 | 8,724 | 10,442 | 14,730 |
| **Total assets** | **13,834** | **19,869** | **23,413** | **27,876** |

| Cash flow (Rs mn) | FY07 | FY08E | FY09E | FY10E |
|---|---|---|---|---|
| PBT & extraord. Items | 755 | 1,935 | 4,244 | 4,490 |
| Add: Int, depn. & oth. exp. | 280 | 659 | 951 | 1,173 |
| **Cash flow from op.** | **1,035** | **2,594** | **5,195** | **5,663** |
| Net chg in w/c, tax, int. | (1,440) | (741) | (1,616) | (2,770) |
| **Net cash flow frm op.** | **(404)** | **1,853** | **3,579** | **2,893** |
| Capital expenditure | (712) | (1,050) | (2,150) | (550) |
| Sale/ purchase of inv | (1,195) | – | – | – |
| **Net cash from inv.** | **(1,907)** | **(1,050)** | **(2,150)** | **(550)** |
| Issue of eq/pref sh/warr. | 2,566 | 4,416 | (327) | 203 |
| Dividend paid | (74) | (520) | (520) | (520) |
| **Net cash from financing** | **2,492** | **3,896** | **(847)** | **(317)** |
| Net chg in cash | 181 | 4,699 | 582 | 2,026 |
| Op. cash bal | 482 | 663 | 5,362 | 5,943 |
| Cl. cash bal | 663 | 5,362 | 5,943 | 7,969 |

| Ratios | FY07 | FY08E | FY09E | FY10E |
|---|---|---|---|---|
| **Growth (%)** | | | | |
| Net sales | (7.3) | 82.1 | 47.3 | 6.8 |
| Adj PAT | (55.0) | 159.1 | 119.4 | 5.8 |
| Adj EPS | (55.0) | 108.7 | 119.4 | 5.8 |
| **Per Share Data (Rs)** | | | | |
| Adj EPS | 2.3 | 4.8 | 10.4 | 11.1 |
| Book value | 22.5 | 35.8 | 44.6 | 53.9 |
| DPS | 1.6 | 1.5 | 1.5 | 1.5 |
| **Valuation (x)** | | | | |
| P/E | 54.1 | 25.9 | 11.8 | 11.2 |
| P/BV | 5.5 | 3.4 | 2.8 | 2.3 |
| EV/EBIDTA | 30.3 | 15.3 | 6.8 | 6.0 |
| **Performance (%)** | | | | |
| RoCE | 7.0 | 12.4 | 22.9 | 21.3 |
| RoNW | 10.5 | 17.6 | 26.0 | 22.5 |

**BUY : > 20%** **HOLD : > 5-20%** **SELL : < 5%**

**Note:** Ratings based on expected returns from current market price (on absolute basis).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