Sushil Finance
Intelligent Research. Insightful Solutions.

Initiating Coverage

Hindustan Zinc Ltd.

March 08, 2010 | **ACCUMULATE** | **MEDIUM RISK** | **PRICE Rs.1226** | **TARGET Rs.1410**

Metal - Zinc

SHARE HOLDING (%)

Promoters	64.9
FII	2.1
FI / MF / Govt	31.1
Body Corporates	0.8
Public & Others	1.1

STOCK DATA

Reuters Code	**HZNC.BO**
Bloomberg Code	**HZ.IN**
BSE Code	**500188**
NSE Symbol	**HINDZINC**
Market Capitalization*	**Rs.518.0 bn US$ 11.4 bn**
Shares Outstanding*	**422.53 mn**
52 Weeks (H/L)	**Rs.1325 /332**
Avg. Daily Volume (6m)	**68,515 Shares**

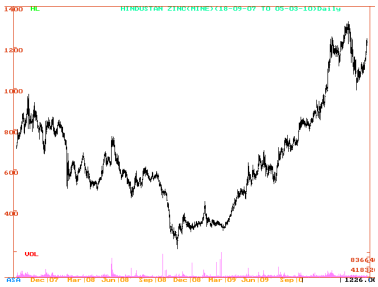
Price Performance (%)

1M	3M	6M
14	0	52

200 Days EMA: Rs.921

***On fully diluted equity shares**

Part of Sushil **Classic**



ANALYST
Ishpreet Batra | +91 22 4093 5091
ishpreet.batra@sushilfinance.com

SALES:
Devang Shah | +91 22 4093 6060/61
devang.shah@sushilfinance.com

Nishit Shah | +91 22 4093 6074
nishit.shah@sushilfinance.com

Hindustan Zinc Ltd. (HZL) - part of the Vedanta Group company – is a subsidiary of Sterlite Industries. It is India's largest and world's second largest integrated producer of zinc and lead, with a global market share of approximately 6% in zinc. Its current metal production capacity stands at 7.54 lakh tonne per annum (TPA).

INVESTMENT RATIONALE

Capacity Expansion to Boost Revenue

HZL has put in place massive expansion plans to increase its zinc and lead production capacity. The Company is planning to scale up its capacity from the current 7.54 lakh TPA, to 10.64 lakh TPA, making it the "largest producer of zinc and lead in the world" by FY11E. The Company plans to spend Rs. 36 bn for the planned capacity expansion. . As a result, we expect its volumes & Revenues to grow at 16.1% & 22% CAGR over FY09 to FY12.

Huge Reserve Base with High Quality Ore & Low Strip Ratio

Hindustan Zinc – the only integrated zinc and lead producer in India – has a huge reserve base of 272 MT containing 31.5 MT of zinc-lead metal. While this results into a minimum mine life of 25 years, the company has been able to increase its Reserve base every year by continually exploring its mining area & has managed a gross addition of 158.3MT of reserves and resources (before depletion of 30MT), in the period from April 2003 to March 2009.The Company has huge mining reserves with very high quality grade ore. Such high quality grade ore has substantially lower strip ratio, resulting into higher recovery rate, lower cost of production and premium pricing.

Lowest Cost of Production provides a protective sheath to margins

HZL has the lowest cost of production, which is as low as ~$750 per tonne, as against the global average cost of production of $1,200 per tonne. Thus the low cost of production provided a cushion to the margins of the Company during the recent economic turmoil. When the realizations had dropped to a low of $1,046/tonne of zinc, 60% of the zinc smelters were incurring losses where as HZL was having a margin of 28.5%. With the improvement in the global situation, the Zinc prices have revived, thereby leading to margins of 58% during 9MFY10.

Robust Fundamentals backed by Strong Balance-sheet & Huge Cash Reserves

The Company has huge cash reserves of Rs. 107 bn i.e. ~21% of its market capitalization (mkt-cap) as on 9MFY10. Apart from being rich in cash, the Company also enjoys the benefits of having a debt-free status. The Company is thus significantly well-poised to reap the benefits of future up tick in zinc and lead prices.

OUTLOOK & VALUATION

HZL is India's largest and world's second largest integrated producer of zinc and lead. Timely expansion being incurred by the Company – on the onset of the metal cycle – is likely to boost the earnings of the Company in a big way. While HZL is likely to be the biggest beneficiary of the current high Zinc prices (~ USD 2550), our estimates are based on relatively lower Zinc price assumptions (~ USD 2200). Strong balance-sheet, being cash-rich and debt-free status, provides significant cushion to the Company in undertaking initiatives for organic/inorganic growth. Moreover, its vertically integrated operations coupled with strong recovery in base metal prices are also likely to propel the EBITDA margins of the Company. HZL is currently trading at an EV/EBITDA of 4.7x and P/BV of 1.9x its FY12E estimates. **At the current market price of Rs.1226, HZL's FY12 EV/PAT works out to 5.6x i.e. a payback period of just 5.6 years. Considering its mining life of over 25yrs, and a very low payback period, we recommend ACCUMULATE for the stock with the target price of Rs.1410 (Target FY12E EV/PAT of 7x).**

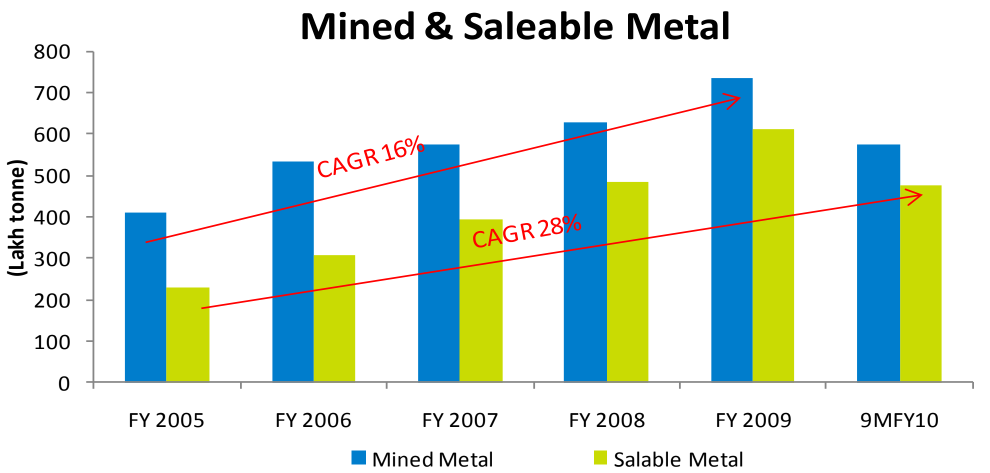
KEY FINANCIALS

Y/E Mar.	Revenue (Rs mn)	APAT (Rs mn)	AEPS (Rs)	AEPS (% Ch.)	P/E (x)	ROCE (%)	ROE (%)	P/BV (x)
FY09	58220.6	27276.1	64.6	(38)	19.1	19.0	20.8	3.6
FY10E	**77995.1**	**40142.2**	**95.0**	**47**	**12.9**	**26.0**	**24.7**	**2.9**
FY11E	**93774.5**	**48699.2**	**115.3**	**21**	**10.7**	**25.7**	**23.8**	**2.3**
FY12E	**105786.4**	**54403.4**	**128.8**	**12**	**9.6**	**23.8**	**21.4**	**1.9**

COMPANY OVERVIEW

Hindustan Zinc Ltd. (HZL) – part of the Vedanta Group company – is a subsidiary of Sterlite Industries. It is India's largest and world's second largest integrated producer of zinc and lead, with a global market share of approximately 6% in zinc. Its current metal production capacity stands at 7.54 lakh tonne per annum (TPA), which is likely to be scaled up to 10.64 lakh TPA by mid-2010.

Its saleable metal production has increased at a CAGR 28% per annum in the last 4 years, while its mined metal production increased 16% per annum.



Source: Company

The Company has massive high grade ore reserves to the tune of 272 MT from six of its mines as shown in the table below:

Mines	Reserves & Resources (MTPA)	Ore production capacity (MTPA)	Ore Production Capacity after expansion (MTPA)	Reserve Grade	
				Zinc	Lead
Rampura Agucha	118.8	5	6	14%	1.9%
Rajpura Dariba	26.8	0.6	0.6	6.8%	1.8%
Sindesar Khurd	56.6	0.3	1.5	5.4%	3.1%
Zawar	55.8	1.2	1.2	4.2%	2.1%
Kayar	9	-	0.3	9.6%	2.3%
Bamnia Kalan	5.1			5.3%	1.8%
Total	**272.0**	7.1	9.6		

Source: Company

HZL operates three underground mines (Sindesar Khurd, Rajpura Dariba, and Zawar mines) and one open-cast mine Rampura Agucha being one of the most cost-efficient zinc mines in the world. The Rampura Agucha mine is the third largest mine in the world having reserves of 118.8 MT. It contains very high grade zinc of ~14%, as against the global average grade of ~6-7%. Since majority of the ore production is contributed by this mine, Hindustan Zinc thus – on an average – produces zinc of 11.36% grade, and Lead of 1.92% grade.

Hindustan Zinc is now on an expansion spree with a planned capex of Rs. 36 bn. The Company plans to expand its capacity from current 0.754 MTPA as shown in the table below to 1 MTPA by FY11E. Post-expansion, HZL will be the largest integrated zinc producer in the world.

Smelters	Capacity (tonnes)		Capacity after expansion (tonnes)	
	Zinc	Lead	Zinc	Lead
Chanderiya Smelter Complex	525,000	85,000	735,000	185,000
Debari Zinc	88,000		88,000	
Vizag	56,000		56,000	
Total	**669,000**	**85,000**	**879,000**	**185,000**

Source: Company

The Company currently sells 70% of its production domestically, selling 100% of its production in the spot market with realizations linked to the LME prices. It is currently selling its products at a premium of ~$200-250 per tonne over the LME prices; this premium on an average has not gone below $60-70 per tonne in the last couple of years.

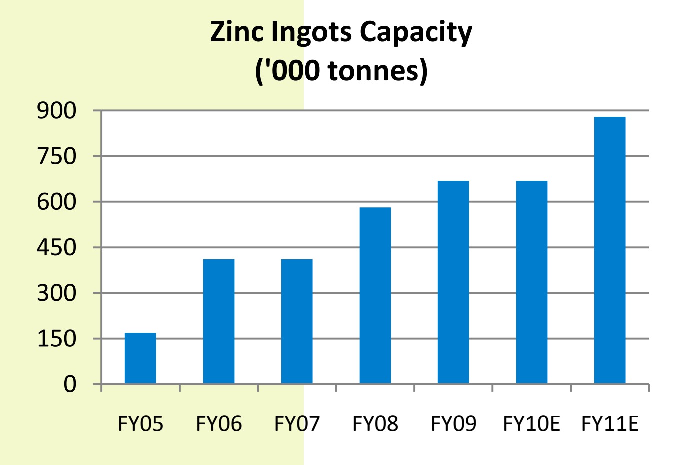
Silver:

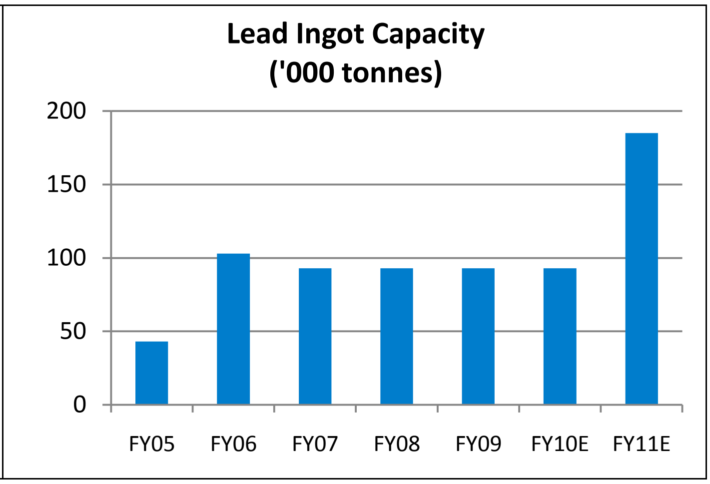
Apart from producing zinc and lead, HZL has also forayed into the production of precious metal i.e. Silver. The Company currently has a capacity of 150,000 kg per annum, but it is now planning to expand its capacity to 500,000 kg per annum by 2013E. Silver is a by-product of HZL and comes out with Lead. Its zinc-lead mines are present only in the state of Rajasthan. Its 'Sindesar Khurd' mine is known for its rich silver content and this mine is already under expansion. Once the ongoing expansion is completed, the silver production would increase substantially.

INVESTMENT RATIONALE

Capacity Expansion to Boost Revenue

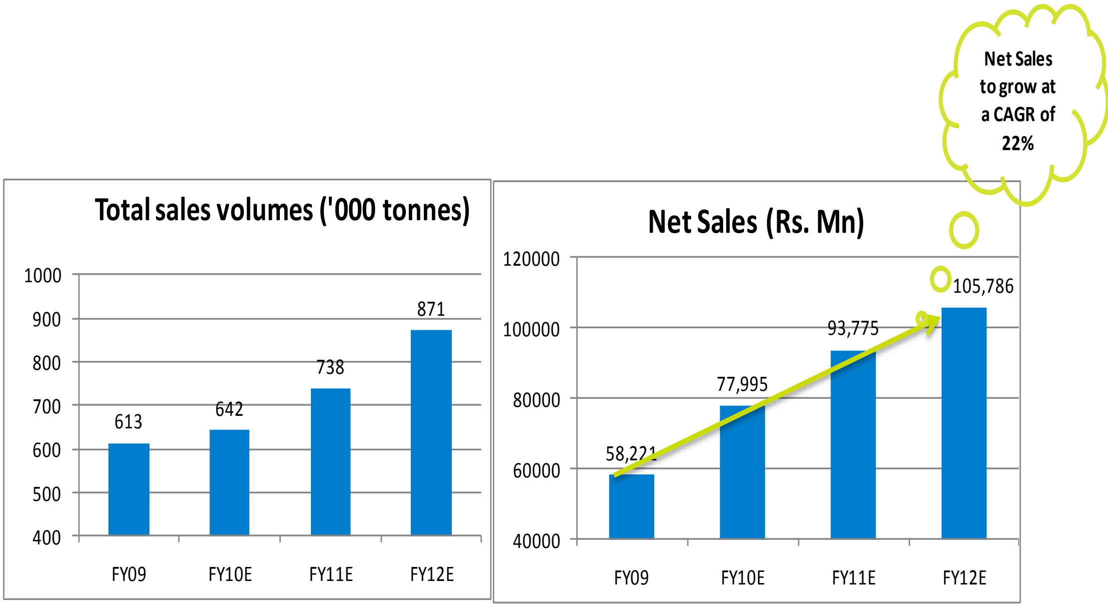
Hindustan Zinc has laid massive expansion plans to increase its zinc and lead producing capacity. The company is planning to scale its capacity from the current 7.54 lakh TPA to 10.64 lakh TPA metal production by mid-2010. Post-expansion, HZL will be the largest producer of zinc and lead in the world. The Company plans to spend Rs. 36 bn for the planned capacity expansion.





Source: Company

The Company's zinc capacity will increase from the current 6.69 lakh TPA to 8.79 lakh TPA, while the Lead capacity will increase from 85,000 TPA to 1.85 lakh TPA by mid 2010 as shown in the diagram above. This timely expansion being done by the Company, at the time of the onset of the metal cycle, is likely to boost its top-line in terms of volume growth.



Source: Sushil Finance Estimates

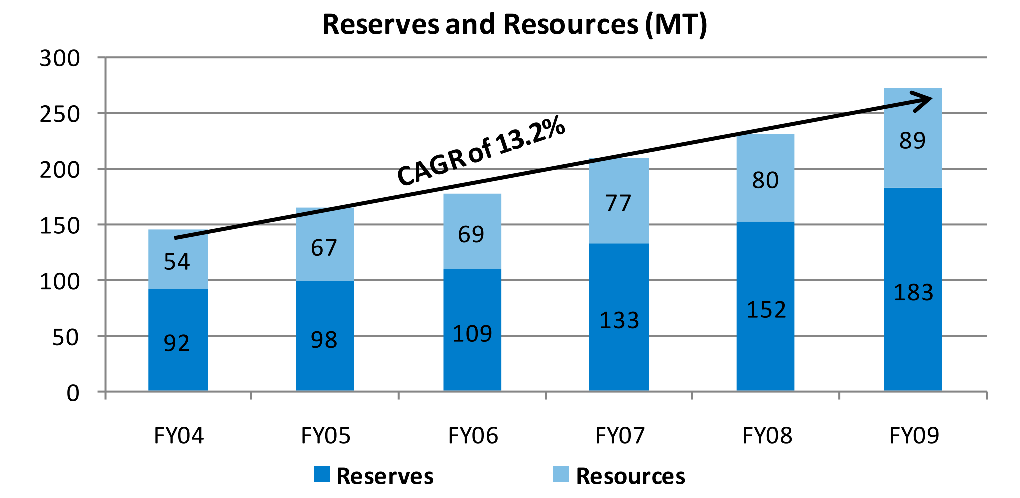
The Company's top-line is likely grow at a CAGR of 22% per annum for the next three years, backed by the growth in the volume space as shown in the diagrams above. In our financial model we have taken relatively flat growth in the realization, thus indicating the Company's capability to deliver growth on the back of growth in its sales volume. For FY11E and FY12E, we have taken the zinc price at $2,250 per tonne and $2,317 per tonne respectively vs. the current selling price of $2,553 per tonne. While we have taken the lead prices at $2,275 per tonne and $2,342 per tonne for FY11E and FY12E vs. the current LME price of $2,531 per tonne.

Thus any increase in the LME prices over and above our estimates is likely to provide an upside to our assumptions.

Apart from increasing the zinc and lead capacity, Hindustan Zinc also plans to increase its silver producing capacity from the current 1.5 lakh kg per annum to 5 lakh kg per annum by FY13E. **Post-expansion, HZL will be Asia's largest primary silver producer, contributing 2.5% to global silver output.** Silver being a by-product of lead is likely to further boost the EBIDTA margins of the Company. Silver demand in India is around 3,200 tonnes, of which a whopping 75% is addressed by imports, thus providing huge opportunity for Hindustan Zinc to capture. Moreover, Indian silver demand is expected to grow further on the back of prospective growth in electrical and other industrial segments. **We therefore believe that going ahead, silver is likely to contribute positively to the core business margins of the Company.**

Huge Reserve Base with High Quality Ore & Low Strip Ratio

Hindustan Zinc has a huge reserve base of 272 MT, containing 31.5MT of zinc-lead metal. While this results into a minimum mine life of 25 years, the company has been able to increase its Reserve base every year by continually exploring its mining area & has managed a gross addition of 158.3MT of reserves and resources (before depletion of 30MT), in the period from April 2003 to March 2009. HZL is backed with such huge reserves because of its Management's philosophy of: ***"Our exploration philosophy has been to replace every tonne of ore mined with at least one tonne of resource, and to ensure resource inventory of 17-20 years of mine life."*** *(Excerpt from Annual Report)*



Source : Company

This is also evident from the above diagram that the Company's reserves have grown at a CAGR of 13.2% in the last 5 years. In FY09, the Company's exploration activities have yielded another 46.3 MT of reserves and resources, containing 4.7MT zinc-lead metal.

The Company has huge mining reserves with very high quality grade ore. Such high quality grade ore has substantially lower strip ratio, resulting into higher recovery rate, lower cost of production and premium pricing.

Mines	Resource						Reserves		
	Measured & Indicated (MT)	Zinc Grade (%)	Lead Grade (%)	Inferred (MT)	Zinc Grade (%)	Lead Grade (%)	Proved reserves (MT)	Zinc Grade (%)	Lead Grade (%)
Rampura Agucha	31.3	16.2	2.3	19.6	14.1	1.4	67.9	13.4	1.9
Sindesar Khurd	18.2	6.1	3.9	32.0	4.6	3.1	6.4	5.3	2.8
Rajpura Dariba	5.7	8.3	2.6	13.7	6.5	1.3	7.4	6.3	1.6
Zawar	23.9	5.0	1.8	24.7	4.3	2.7	7.3	3.8	2.1
Kayar	2.3	12.6	1.9	6.7	10.0	1.7	-	-	-
Bamnia Kalan	1.7	5.3	1.8	3.4	5.0	3.8	-	-	-
Total	**83.1**	**9.9**	**2.5**	**100.0**	**7.0**	**2.3**	**88.9**	**11.4**	**1.9**

Total 272 MT

Source: Company

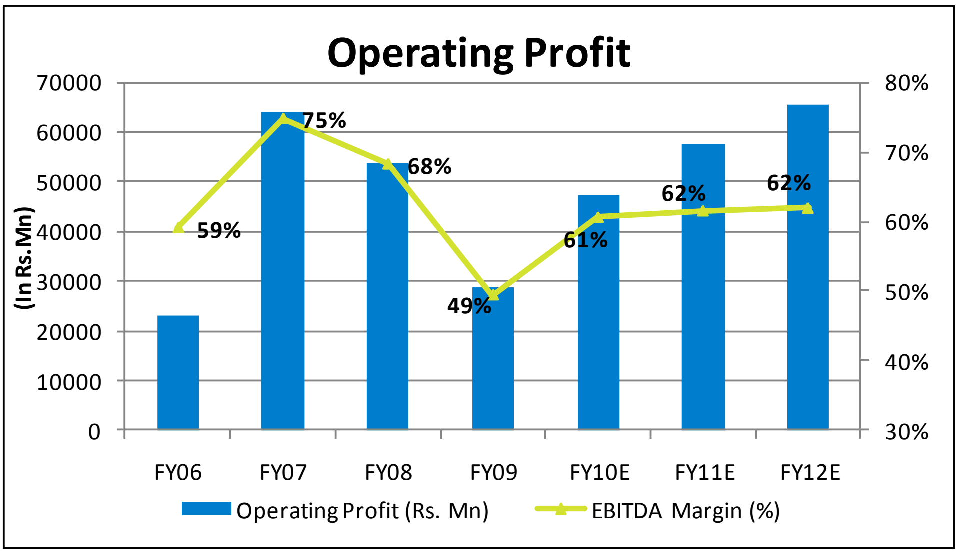
The Company has the highest quality of ore grade available at the Rampura Agucha mine. Its zinc ore grade is 14%, while the lead ore grade is 1.9%. The global average grade of zinc is just 6%, thus enabling the Company to command a premium on its products. The Company is currently selling zinc and lead at a premium of ~$200-250 per tonne over the LME price, and this premium on an average has not fallen below $60-70 per tonne in the last couple of years. **The Company is thus better placed in terms of capacity and quality of its products in comparison to its peers.**

Lowest Cost of Production Protects Margins

Hindustan Zinc has the lowest cost of production of ~$750/tonne vs. global average cost of production of $1,200 per tonne. HZL's lower cost of production can be attributed to its high quality grade ore mine having lower strip ratio. The strip ratio of the Company for the Rampura Agucha mine– its largest zinc producing mine– stands at 1:6, as against global average strip ratio of 1:15. The mining cost at its Rampura Agucha mine is as low as ~$150 per tonne vs. the global average mining cost of $600-700 per tonne. Lower mining cost is one of the major reasons for the Company's lower cost of production.

Apart from having lower mining cost and lower strip ratio, the Company also has captive power plant to contribute to the lower cost of production. The Chanderiya Smelter complex – the largest single location smelting complex – has a coal-based power plant of 234-MW. The Company has also built in wind power stations of 107-MW. Going ahead, with rise in smelting capacity, the Company expects the cost of production would fall further to $600 per tonne including royalty.

Even at the trough of the zinc and lead prices, when 60-65% of the zinc smelters were incurring losses Hindustan Zinc had an EBITDA margin of 28.5%.

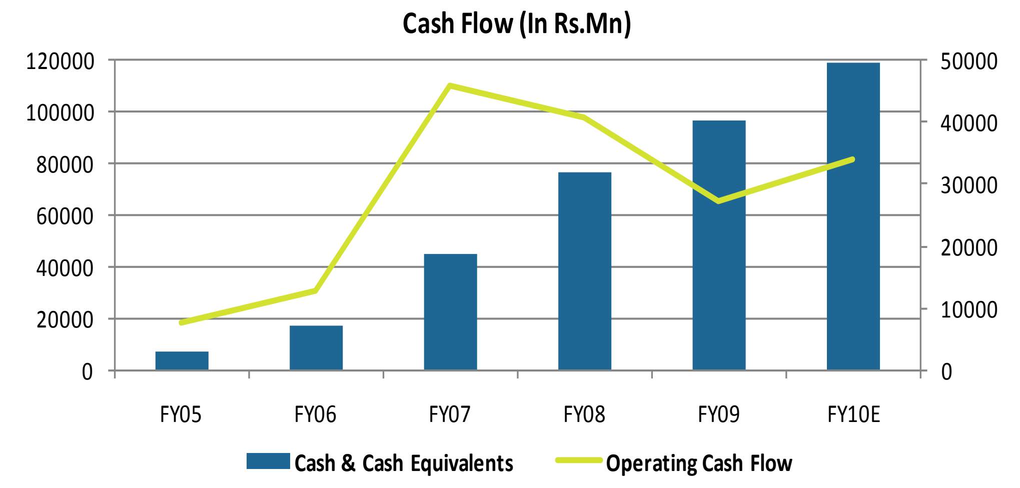


Source: Sushil Finance Estimates

We therefore believe that the Company is likely to witness higher EBITDA margins on the back of lower cost of production, stabilizing LME prices and higher contribution from the sale of silver. For FY11E we have taken the realization of zinc at $2,250 per tonne and lead at $2,275 per tonne compared to the current selling price of $2,553 per tonne and $2,531 per tonne respectively. Thus, any positive movement in the LME prices over and above our estimates is likely to boost the margins of the Company further.

Robust Fundamentals backed by Huge Cash Reserves & Debt-free Status

Hindustan Zinc has huge cash reserves of Rs. 107 bn as of 9MFY10, i.e. ~21% of the market-cap. Such huge cash reserves are mainly backed by the increasing cash flows at the operating level. As seen from the figure in the next page, the Company has witnessed a spike in operating cash flow in FY07 mainly because of the higher metal prices resulting into higher cash and cash equivalents in FY08. Such huge cash reserves can help the Company to go in for further expansions and mine acquisitions.

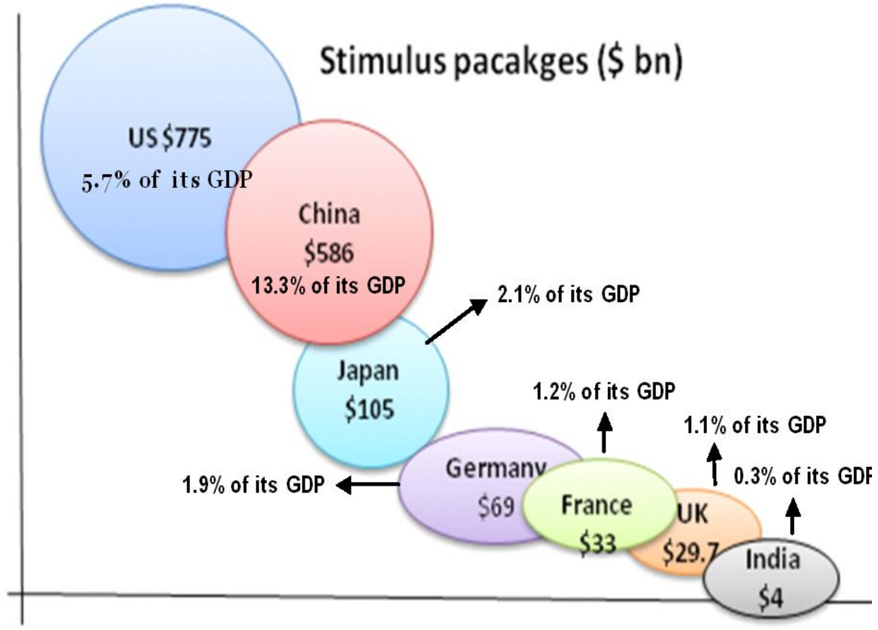


Source: Company

Apart from being rich in cash, the Company also enjoys the benefits of being debt-free. The Company is thus significantly de-leveraged leading to a very strong balance-sheet and providing significant cushion for the Company to go in for organic/inorganic growth.

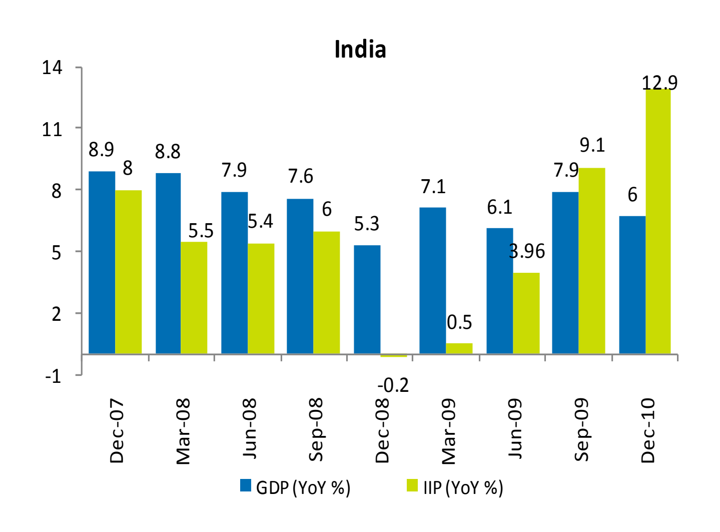
Uptick in the Metal Prices- “to help stabilize margins”

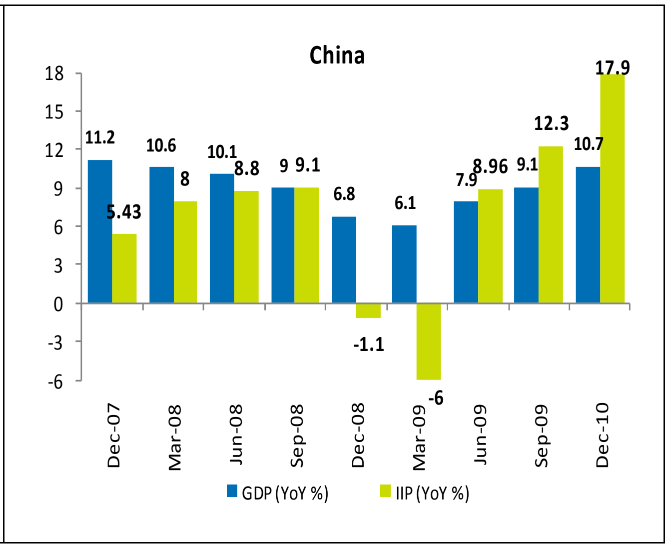
Global commodities market, including base metals was quite in boom until the start of 2008 led by radical developments in the developing countries like China and India. Infrastructure spending in the developing countries has been increasing tremendously generating demand for the base metals like copper, aluminum and zinc. This had led to rising metal prices, huge profit margins and capacity expansions. However, from 2008 the scenario turned topsy-turvy as economies world over got into recession. But, timely production cuts and slew of stimulus packages helped combat the fall in demand partially. Globally, a lot of stimulus packages had been announced to boost the economic activities. The stimulus packages announced so far amount to ~2.6% of the world GDP.



Source: Sushil Finance Estimates, IMF

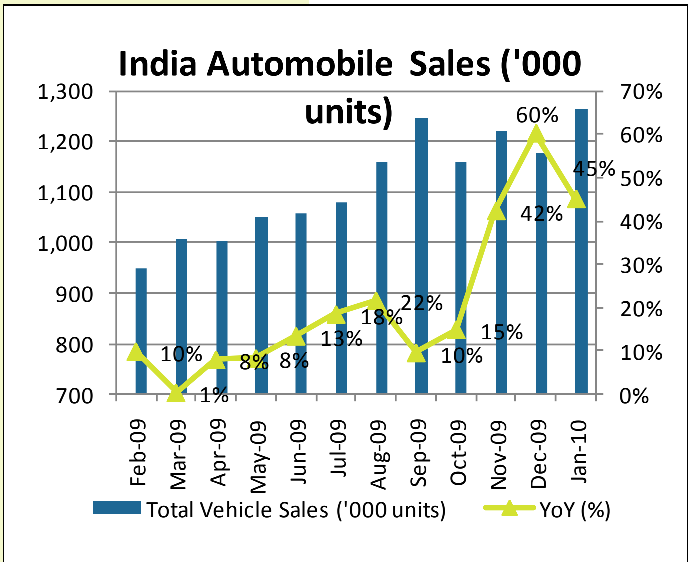
These packages announced cater to varied needs from tax cuts to auto bailout packages, to boost construction and infrastructure sector, and to meet the liquidity needs. The impact of these stimulus packages can be seen from pick-up in the economic activities as shown in the figure below:

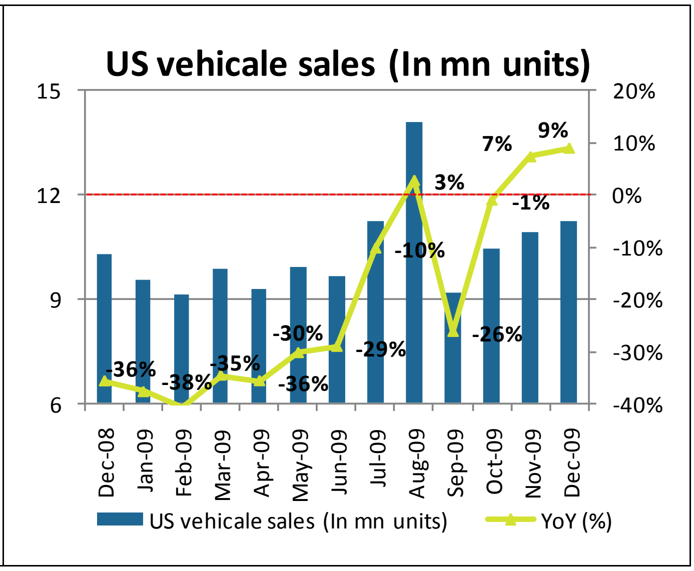




Source: Bloomberg

Zinc is mainly used for galvanization of steel (~ 45kg of zinc is required for every tonne of galvanized steel), which finds its usage in construction and automobile sector. Approximately 45% of the zinc produced is used in the construction sector and 25% in automobile sector. The demand for zinc is thus largely depended on these two sectors accounting for a total 70% of the consumption. The downtrend in the automobile and construction sectors had resulted into a sharp decline in the zinc prices. The zinc prices had corrected from a high of $4,603 per tonne to $1,046 per tonne, marking a correction of ~78%. However, post the stimulus packages, the automobile demand has picked up, which can be seen in the diagram below:

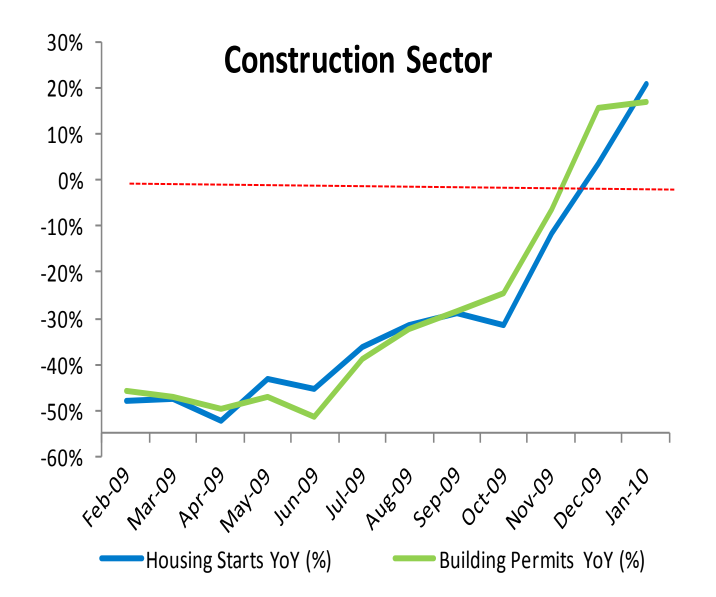


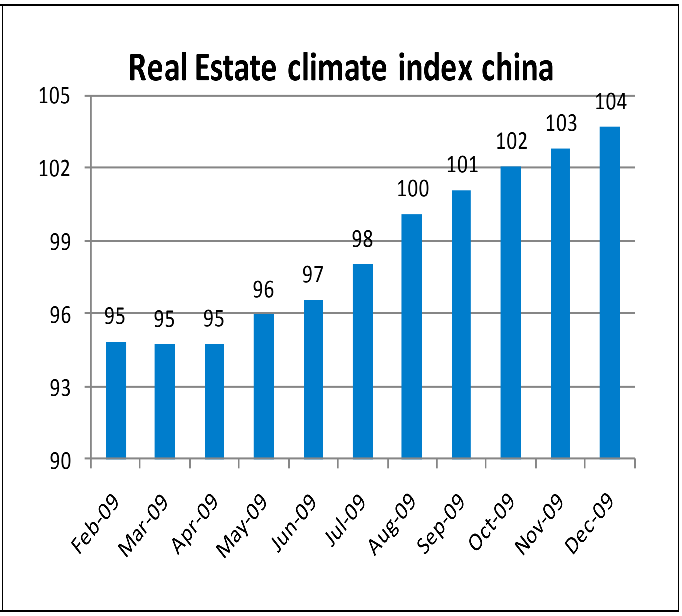


Source: Bloomberg

India's automobile sales steadily gained momentum after making a low of 735,459 units in Dec'08. In Jan'10 the automobile sales have increased by 45% YoY to 12, 64,937 units.

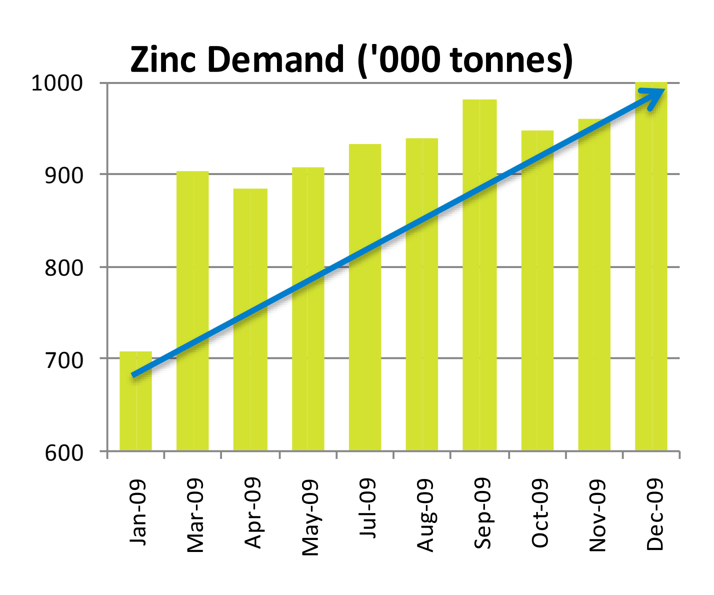
While auto sales in US have also picked up. In Dec'09 US auto sales have risen by 9% on YoY basis to 11.23 mn units. As automobile sales have picked up, so has the demand for stainless steel, resulting into incremental demand for zinc. Even the construction sector seems to be coming out of the dark woods as can be seen from the diagrams below:

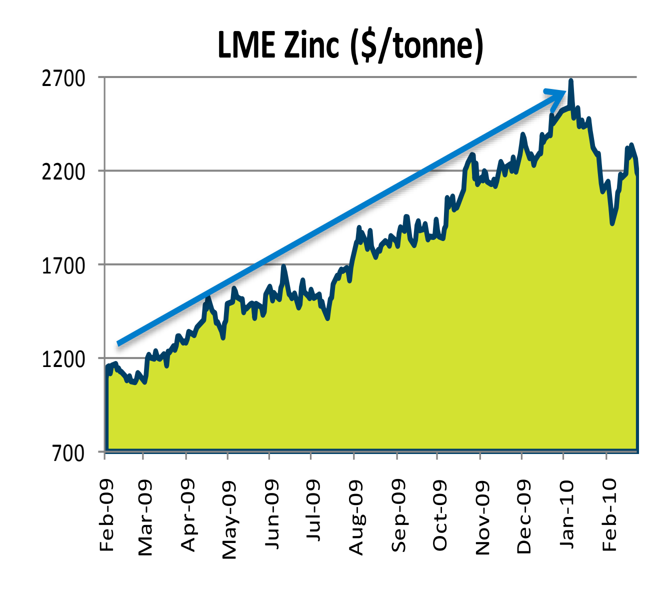




Source: Bloomberg

Leading US housing indices have entered the positive territory from Nov'09. US housing starts are up by 21% on YoY basis for Jan'10, while the building permits are also up 17% YoY for the same period. On the back of strong demand from the automobile space and stabilization in the construction sector, the demand for zinc has picked up resulting into rise in the zinc prices, which can be seen from the diagram below:



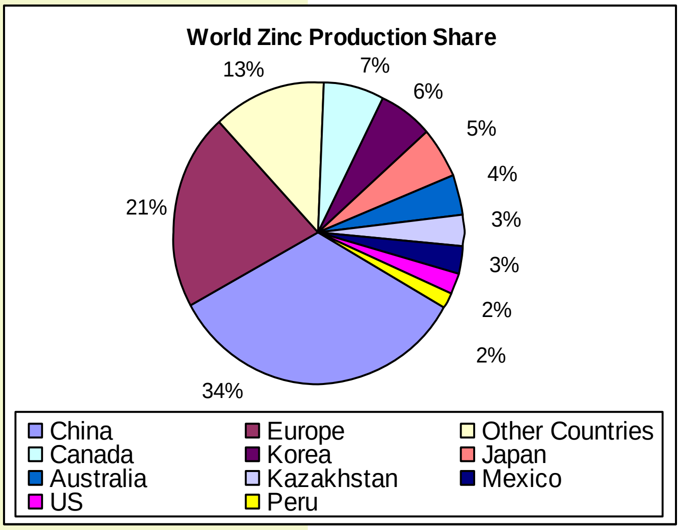


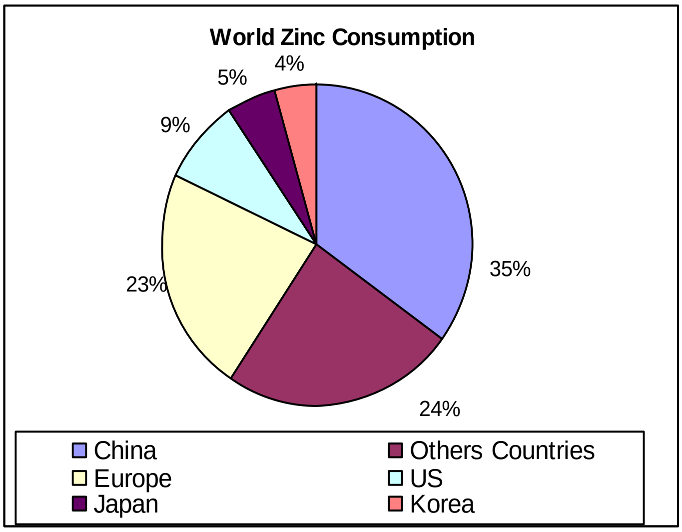
Source: Bloomberg

According to International Lead & Zinc Study Group, zinc demand is likely to recover in most of the countries in CY10. Global zinc demand for CY10 is likely to increase by 11.9%

YoY to 12.04 MT. The demand in India and China is likely to increase by 10.6% and 7.6% YoY respectively according to ILZSG.

China - "to help generate demand and stabilize prices"





Source: ILZSG

China is the largest producer and consumer of zinc as shown in the figure above. The country accounts for 34% of the world's zinc production and 35% of the world's zinc consumption. Having a major share in the zinc consumption and production, the zinc prices are therefore largely influenced by the Chinese demand-supply scenario.

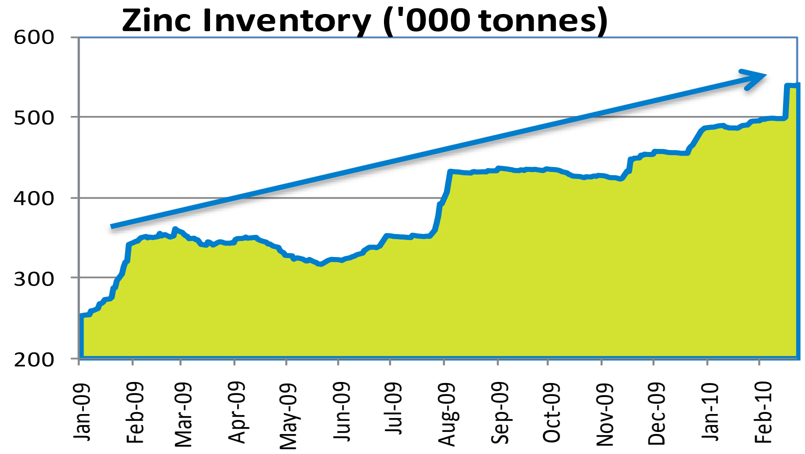
China produced 43.57 lakh tonne of zinc in CY09 up by 11.3% YoY, while the global zinc production declined 3.2% YoY. While China's consumption grew 18% YoY to 47.3 lakh tonne in CY09, the global zinc consumption declined 5% YoY to 108.32 lakh tonne in CY09.

Refined Prodcution ('000 tonnes)	CY09	YoY Chg (%)
Europe	2031	-18.0%
Canada	686	-10.2%
Mexico	323	0.6%
Peru	149	-21.6%
US	204	-28.7%
China	**4357**	**11.3%**
Japan	541	-12.2%
Kazakhstan	328	-10.4%
Korea	636	-13.9%
Australia	526	5.4%
Other Countries	1496	0.7%
Total	**11277**	**-3.2%**

Refined Prodcution ('000 tonnes)	CY09	YoY Chg (%)
Europe	1966	-25%
US	898	-10%
China	**4730**	**18%**
Japan	434	-23%
Korea	393	-22%
Others Countries	2411	-12%
Total	**10832**	**-5%**

Source: ILZSG

Such higher production and consumption numbers were mainly backed by the CH¥486 trillion stimulus package announced by the Chinese government to boost its economic conditions. The impact of the stimulus package is also reflective in the GDP and IIP numbers. China's GDP for the Dec'09 quarter stands at 10.7% while the IIP stands at 17.9%, indicating pick up in the industrial activities. The Chinese zinc industry is very fragmented comprising of large number of smelters operating at a very small scale. These small scale smelters are very quick at adjusting their supply to the falling demand and prices. With the sharp increase in the zinc prices, these small scale smelters are back in business, thereby increasing the supply, which can be seen from the rising inventory level.



Source: Bloomberg

In the last three months the zinc prices have increased by just 3.8% to $2177 per tonne while the inventory has increased by 19% in the same period to 542,200 tonne. Amidst the rising inventory, the zinc prices have also fallen from a high of $2610 per tonne to the current $2177 per tonne in the last one month. We therefore believe that the zinc prices are likely to stabilize at the current levels, as the production starts from the small and marginal players is likely to cap the further increase in the zinc prices.
We have therefore been very conservative in our financial model, taking FY11E zinc realization (inclusive of premium) at $2250 per tonne and FY12E at $2317/tonne vs. the current LME price of $2177 per tonne (exclusive of premium).

	FY10E	FY11E	FY12E
Zinc realization ($/tonne)	2000.0	2250.0	2317.5

Source: Sushil Finance Estimates

Even at this level of realization, Hindustan Zinc is likely to report strong EBITDA margins of over 60% as shown in the table below:

	FY10E	FY11E	FY12E
EBITDA Margin (%)	60.6%	61.5%	61.9%

Source: Sushil Finance Estimates

We thus believe that even if the zinc prices consolidate at the current levels ~$2100 per tonne, HZL is likely to post good set of numbers going ahead backed by volume growth and backward integration.

RISKS & CONCERNS

Slump in demand for Alloy steel:

Zinc is largely used in the production of alloy steel. The demand for alloy steel is in turn largely depended on the construction activities and automotive sector. Thus, any slowdown in the construction activities and less demand from automotive sector could put a check on the zinc demand.

Rupee Appreciation

Its revenue is largely influenced by the USD-INR movements as it sells at a premium over the LME prices. Therefore, any appreciation of rupee against the USD will adversely impact the revenue of the Company.

OUTLOOK & VALUATION

Hindustan Zinc is India's largest and world's second largest integrated producer of zinc and lead. Timely expansion being incurred by the Company – on the onset of the metal cycle – is likely to boost the earnings of the Company in a big way. While HZL is likely to be the biggest beneficiary of the current high Zinc prices (~ USD 2550), our estimates are based on relatively lower Zinc price assumptions (~ USD 2200). Strong balance-sheet, being cash-rich and debt-free status, provides significant cushion to the Company in undertaking initiatives for organic/inorganic growth. Moreover, its vertically integrated operations coupled with strong recovery in base metal prices are also likely to propel the EBITDA margins of the Company. HZL is currently trading at an EV/EBITDA of 4.7x and P/BV of 1.9x its FY12 estimates. **At the current market price of Rs.1226, HZL's FY12E EV/PAT works out to 5.6x i.e. a payback period of just 5.6 years. Considering its mining life of over 25yrs, and a very low payback period, we recommend ACCUMULATE for the stock with the target price of Rs.1410 (Target FY12E EV/PAT of 7x).**

Valuation	(Rs. Mn)
MCAP	518022
CASH & CASH EQUIVALENTS (FY12E)	210888
EV	307220
Net Profit (FY12E)	54403
Payback Period (years)	5.6
Mining Life	>25 yrs
Payback Period Multiple	7
EV	380824
Target	**1410**

PROFIT & LOSS STATEMENT (Rs.Mn)

Y/E Mar.	FY09	FY10E	FY11E	FY12E
Revenues	**58220.6**	**77995.1**	**93774.5**	**105786.4**
Net Raw Material	19056.4	22557.8	26438.9	29720.6
Employee Cost	3648.8	4679.7	5438.9	5818.3
Other Expenditure	3642.4	3509.8	4219.9	4760.4
Total Expenditure	29461.2	30747.3	36097.7	40299.2
Operating Profit	**28759.4**	**47247.9**	**57676.8**	**65487.2**
EBIDTA (%)	49.4%	60.6%	61.5%	61.9%
Dep. & Amortizations	2852.7	3899.8	4501.2	4760.4
EBIT	**25906.7**	**43348.1**	**53175.6**	**60726.8**
EBIT(%)	44.5%	55.6%	56.7%	57.4%
Interest	218.7	218.4	234.4	243.3
PBT excl OI	25688.0	43129.7	52941.2	60483.5
Other Income	7894.4	5854.0	7970.8	9309.2
Extraordinary Items	0.0	0.0	0.0	0.0
PBT incl OI	**33582.4**	**48983.7**	**60912.0**	**69792.7**
Tax	6306.3	8841.6	12212.9	15389.3
PAT	**27276.1**	**40142.2**	**48699.2**	**54403.4**
PAT (%)	46.8%	51.5%	51.9%	51.4%

BALANCE SHEET STATEMENT (Rs.Mn)

As on 31st Mar.	FY09	FY10E	FY11E	FY12E
Equity Share Capital	4225.3	4225.3	4225.3	4225.3
Reserves & Surplus	139350.5	177042.0	223290.6	275621.7
Net worth	**143575.8**	**181267.3**	**227515.9**	**279847.0**
Total debt	86.9	86.9	86.9	86.9
Deferred tax liability	5588.6	2400.0	1980.0	780.0
Minority Interest	0.0	0.0	0.0	0.0
Capital Employed	**149251.3**	**183754.2**	**229582.8**	**280713.9**
Net Block	41049.2	51749.4	61348.3	57687.9
Capital WIP	11083.9	8221.0	4659.6	3633.3
Investments	69288.7	88798.7	127328.7	179808.7
Current Assets	37430.7	45356.5	47822.4	52151.6
Inventories	5456.6	6141.9	7223.7	8029.8
Sundry Debtors	1649.4	4701.1	5652.2	6666.0
Cash and Bank	27191.5	29812.4	29294.4	31079.6
Loans & Advances	3133.2	4701.1	5652.2	6376.2
Current Liabilities & Provisions	10009.5	10371.4	11576.2	12567.6
Net Current Assets	27829.5	34985.1	36246.2	39584.0
Total Assets	**149251.3**	**183754.2**	**229582.8**	**280713.9**

FINANCIAL RATIO STATEMENT

Y/E Mar.	FY09	FY10E	FY11E	FY12E
Growth Ratios (%)				
Net Sales	(26.1)	34.0	20.2	12.8
EBITDA	(46.5)	64.3	22.1	13.5
PAT	(38.0)	47.2	21.3	11.7
Profitability (%)				
EBITDA Margin	49.4	60.6	61.5	61.9
Adj. PAT Margin	46.8	51.5	51.9	51.4
ROCE	19.0	26.0	25.7	23.8
ROE	20.8	24.7	23.8	21.4
Per Share Data (Rs.)				
EPS	64.6	95.0	115.3	128.8
CEPS	71.3	104.2	125.9	140.0
BV	339.8	429.0	538.5	662.3
Valuation Ratios (x)				
PER	19.1	12.9	10.7	9.6
PEG	-	0.3	0.5	0.8
P/BV	3.6	2.9	2.3	1.9
EV/EBITDA	14.7	8.5	6.3	4.7
Dividend Yield	0.9%	0.4%	0.4%	0.3%
Turnover Days				
Debtor Days	19	22	22	23
Creditor days	58	58	58	58
Gearing Ratio (%)				
Debt: Equity (x)	0.0	0.0	0.0	0.0

Source: Company, Sushil Finance Research Estimates

CASH FLOW STATEMENT (Rs.mn)

Y/E Mar.	FY09	FY10E	FY11E	FY12E
Net Income Before Tax	33582.4	48983.7	60912.0	69792.7
Depreciation	2852.7	3899.8	4501.2	4760.4
Operating profit before w.cap changes	28839.4	47247.9	57676.8	65487.2
Change in WC	3498.9	(4884.9)	(2168.3)	(1848.7)
Cash Flow From Operations	**27129.3**	**33545.9**	**43326.2**	**48284.1**
Chg. In Fixed Assets	13166.1	14600.0	10600.0	1100.0
Chg. In Investment	(4431.3)	(19510.0)	(38530.0)	(52480.0)
Cash Flow from Investing	**(34193.4)**	**(28256.0)**	**(41159.2)**	**(44270.8)**
Chg In Debt	83.0	0.0	0.0	0.0
Chg In Share Capital	0.0	0.0	0.0	0.0
Dividend	1235.8	2450.6	2450.6	1984.7
Cash flow from Financing	**(1371.5)**	**(2669.0)**	**(2685.1)**	**(2228.0)**
Cash & Cash Equivalent	**27192.2**	**29812.4**	**29294.4**	**31079.6**

Rating Scale

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

Risk Rating

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

Total Expected Return Matrix

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

Please Note

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

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