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FOR PRIVATE CIRCULATION

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Numeric Power Systems Ltd

Price: Rs.350 | **Recommendation: BUY**

Price target: Rs.615

Stock details

BSE code	:	532051
NSE code	:	NUMERICPW
Market cap (Rs mn)	:	1,769
Free float (%)	:	34
52-wk Hi/Lo (Rs)	:	508 / 241
Avg. daily volume BSE	:	3964
Avg. daily volume NSE	:	1817
Shares o/s (mn)	:	5.1

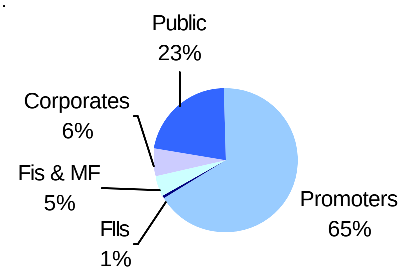
Consolidated summary table (year end Mar)

Rs mn	FY06	FY07E	FY08E	FY09E
Sales	2,331	2,987	3,493	4,020
Growth (%)	(7.1)	28.1	16.9	15.1
EBITDA	253	326	404	498
EBITDA margin (%)	10.8	10.9	11.6	12.4
Net profit	198	245	293	362
Net debt	28	60	11	(111)
EPS (Rs)	39.5	49.0	58.1	71.6
Growth (%)	(8.9)	24.0	19.8	23.4
DPS (Rs)	2.0	2.0	2.0	2.0
ROE (%)	22.0	24.2	23.2	23.0
ROCE (%)	24.7	27.2	27.9	29.9
EV/Sales (x)	0.8	0.6	0.5	0.4
EV/EBITDA (x)	7.1	5.6	4.4	3.3
P/E (x)	8.9	7.1	6.0	4.9
P/BV (x)	1.9	1.6	1.3	1.0

FY07	Q1	Q2	Q3
Sales (Rs mn)	592	594	702
EPS (Rs)	10.3	9.5	12.5

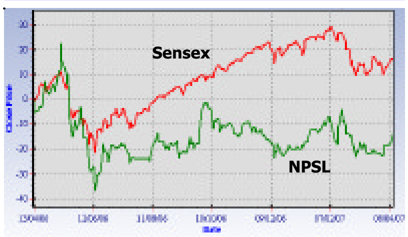
Source: Company & Kotak Securities - Private Client Research

Shareholding pattern as of Mar 2007



Source: Capitaline

One-year performance (Rel to Sensex)



Source: Capitaline

Numeric Power Systems Ltd (NPSL) is a leading manufacturer of uninterrupted power supply (UPS) systems and power conditioners in India. The company has a diverse range of products to suit different industries like IT, telecom, banking, insurance, healthcare, SMEs and domestic households. Currently, the company has six manufacturing facilities in the south and one in the north, thereby catering to mass markets. With more businesses requiring technological solutions and sophisticated electrical equipment, the need for power protection systems for continuous and quality power is increasing at a very rapid pace.

The strong demand for the products of the company coupled with an increasing focus towards servicing of equipment and a tie-up with Socomec SA of France, which is Europe's leading switchgear and UPS systems company, is expected to lead to a significant rise in revenues and profitability for the company, going forward. With a significant international presence through its subsidiaries and marketing points we believe NPSL is a growing multinational in the power management solutions arena. We are positive on the growth prospects of the company. Therefore, we are initiating coverage with a BUY recommendation on NPSL with a price target of Rs. 615 (76% upside potential) over a 12-month horizon, which is based on the DCF method of valuation.

Key investment rationale

- **Robust GDP growth to lead to higher growth in user industries**. The Indian GDP is growing at above 8% and is expected to continue to grow at such rates, if not higher, for the visible future. This has led to the formation of a growing Indian middle class, which is the main consumption class. The per capita consumption of power in India is very low at 606 kwh as against a global average of 3000 kwh. On the corporate side, the demand for power is likely to be primarily led by hi-tech equipment, data storage and automation that are happening across the country. This would translate into higher demand for conditioned power and also high quality and continuous power.

- **India faces significant power deficit & voltage fluctuations - Opportunity for NPSL.** India faces an energy deficit of 9.3% and peak deficit of 13.9%. This is likely to get worse with the development of malls, multiplexes and changing lifestyle of Indians. However, there is not much spare power capacity available in the country. Also, the quality of power is the big question in India. There are several outages and voltage fluctuations in power supply, which could damage critical equipment and result in loss of data. This provides an opportunity to NPSL as UPS provides continuous and conditioned power to the critical equipments.

- **Reputed client list.** The company enjoys the confidence of reputed clients like Infosys, Intel, Veritas, HDFC, Citibank, ICICI, RBI, NIC, Reliance, ABB, BMW, Nokia to name a few across user industries, which it serves. In the IT segment, the company commands almost 60% market share. In banking, almost 82% of the ATMs out of 22000 odd in the country are fitted with UPS supplied by NPSL. The company enjoys a superior relationship with Siemens and Phillips for medical equipment in the healthcare segment.

- **Tie-up with Socomec SA of France**. In order to move to high value-added products, which command better pricing power, the company has formed a JV with Socomec SA of France, which is Europe's leading switchgear and UPS systems company. With the Socomec alliance, NPSL plans to undertake retail trading of the Socomec brand of UPS of more then 10 KVA with three-phase input and output along with related accessories on a national scale. Socomec has a turnover of more than €230 mn and has a 30% market share in Europe.
- **New Parwanoo plant to jack up revenues, profitability.** The company successfully set up a new plant at Parwanoo, Himachal Pradesh with a capacity to manufacture UPS of up to 20000 KVA per annum. The unit has commenced commercial production since September 2005. The plant has stabilized its operations in FY07 and we feel the full potential of the plant would be realized in the following years.
- **High-margin service business growth to raise overall EBIDTA margins**. NPSL provides services such as annual maintenance contracts of UPS and power conditioners of not only its own brands but also for other brands. The company has 174 service locations across the country and provides round-the-clock services to its customers almost anywhere in the country. The service business is typically a high-margin business for NPSL. Hence, it is now laying more emphasis on the growth of the service department.
- **Integrated player in power protection systems.** In FY06, NPSL implemented an auxiliary power systems project for Power Grid Corporation for all northeastern states. This is a turnkey effort by the company involving design, supply and installation of total power conditioning systems. With this project, the company has elevated itself to an integrated player in the power protection systems and this would act as a reference point for more such projects in future.
- **Focus on exports.** The company has been steadily exporting its products to various countries like Canada, UK, China, South America, Singapore, Mauritius and Africa. Typically exports have higher operating margins than the domestic business of UPS. The company is also looking to expand its presence in Africa and it may go for some acquisition or JV in the future.
- **Market leader; bags numerous awards.** The company has been the market leader in the UPS segment with an overall market share of 15.9% as ranked by Frost and Sullivan. The company has the distinction of being declared the "No.1 Online UPS Manufacturer in India" for the last three years at the Soft Disk award and also being "Soft Disk No. 1 power electronic company of the year" for the past fourteen consecutive years.
- **Robust growth in sales and profits.** The net sales of the company have grown at a CAGR of 28.6% from Rs.852 mn in FY01 to Rs.2.3 bn in FY06. The net profits of the company have grown at a CAGR of 39.1% from Rs.53 mn in FY01 to Rs.198 mn in FY06. We expect the net sales of the company to grow at a CAGR of 19.9% from Rs.2.3 bn in FY06 to Rs.4.0 bn in FY09E and net profits to grow at a CAGR of 22.4% from Rs.198 mn in FY06 to Rs.362 mn in FY09E.

We recommend a BUY on NPSL with a price target of Rs.615 (upside 76%)

- **Attractive valuations.** At the current price of Rs. 350, the stock is trading at very attractive valuations of 6.0x FY08E and 4.9x FY09E earnings estimates. We feel the valuation is attractive due to NPSL’s strong track record and good future potential due to the expanded capacity and growth in demand, which is expected to lead to growth in terms of revenues and profitability, going forward.

BACKGROUND

NPSL was incorporated in September 1994

R Chellappan (BE and Electronics Engineering graduate and rank holder from Madras University) started NPSL on November 25 1984 as a research and development group. The focus of the company was on digital equipment. In 1985, the company shifted its focus from digital equipment to power electronics. Later it also started manufacturing power electronic products. In 1986, the company established a national footprint and finally NPSL was incorporated on September 1994.

The company started manufacturing UPS systems in technical collaboration with M/s High Performance Drives Inc, USA. The technical collaboration was for the manufacture of high frequency MOSFET-based UPSs systems and power conditioners.

Later, Group Schneider, France and Information Systems Pte Ltd, Singapore appointed the company as authorized dealer for their UPS for the IT industry.

Started with two manufacturing units

The company started with two manufacturing units located in Pondicherry and Chennai and now has six manufacturing facilities in the south and one in the northern part of the country.

In 2001-02, NPSL launched new products in the line interactive range, namely Digital 500, which was the result of its research and development. The product was well accepted by the market.

Set up Srilankan subsidiary in FY03

During FY03, the company signed an agreement with the Board of Investment of Srilanka and established NPSL 's new manufacturing plant for the export of UPS systems in order to take advantage of the benefits of the Indo Sri Lanka Free Trade Agreement (ISFTA). The plant commenced commercial production in January 2003. The company also started exports from April 2003.

Set up Singapore subsidiary in FY04

In April 2004, the company set up another subsidiary in Singapore, which is primarily exporting UPS systems to countries like the US, Africa, Mauritius and Canada.

Set up new plant at Himachal Pradesh in FY06

The company set up a new plant at Parwanoo, Himachal Pradesh to cater to the northern markets and substantially reduce the lead time for delivery. The plant commenced commercial operations in September 2005.

Set up Mauritius subsidiary in FY06

In October 2005, the company set up another subsidiary in Mauritius in order to expand its global footprint and set up a UPS assembling facility.

In March 2006, the company successfully installed three windmills of capacity 500 KW each near Dharapuram in Tamil Nadu.

JV with Merlin Gerin

In 1996, the company tied up with the Merlin Gerin UPS systems of France for supplying high-end products with capacities up to 4800 KVA. However, since June 2006 the companies have mutually agreed to terminate the agreement and, consequently, both companies can pursue their own individual plans in India. Later the company entered into a JV with Socomec SA of France for high end UPS systems which is expected to do much better in the space of 3-phase systems.

PLANT DETAILS

The company has its corporate headquarters in Chennai. At present, the company has seven manufacturing facilities, six of them in the south and one in the northern part of the country. The details are as follows:

Corporate head quarters at Chennai

Plant details

Unit No.	Location	Activity
1	Sedarapet, Pondicherry	Design & manufacture of transformers and wound components / coils for captive consumption.
2	Sedarapet, Pondicherry	Design, manufacture, sales & service of Numeric brand UPS systems. This plant is equipped with modern assembly systems and conveyor line.
3	Cuddalore Road, Pondicherry	This facility produces and supplies the digital HP range of UPS systems to the IT / Distribution and the fast growing banking markets.
4	ECR, Pondicherry	This plant supplies the digital HPE range of UPS systems to the IT / Distribution and the corporate segment.
5	Parwanoo, Himachal Pradesh	This facility supplies Numeric Digital HP and HPE range of UPS Systems to the IT / Distribution and the corporate segment to support the north Indian markets.
6	Chennai	CNC fabrication plant. This is a modern sheet metal process and powder coating facility.
7	Chennai	Stabilizer manufacturing plant. From this plant the company exports stabilizers and isolation transformers in addition to captive consumption and sales with UPS systems.

Source: Company

BUSINESS, PRODUCT MIX

Product description

NPSL manufactures power protection products

NPSL manufactures power protection products such as UPS and power conditioners, which are used for computer or network protection and process automation. The company has a wide range of products catering to IT and IT-enabled services, medical applications, financial and insurance sectors, Government and large corporate, small and medium enterprises, and domestic households.

Varied capacity from 0.5 KVA to 4800 KVA

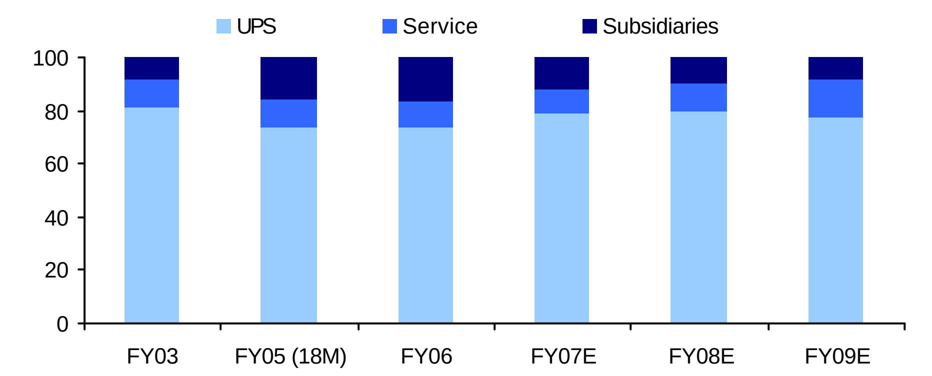
The company provides the total range of one-phase and three-phase UPS systems of varied capacity from 0.5 KVA to 4800 KVA that are built with advanced technology and state-of-the-art features suitable for unitary and parallel redundant configurations addressing a wider band of the industry from PCs, servers, banks, data centers, healthcare and large IT network protection.

The company also manufactures the digital series UPS Systems. They are popular across the SME and the small and home office (SOHO) segment for its reliability. Also, the new range of line interactive series are sophisticated, plug and play with advance communication possibilities.

Energy efficient inverters

The company manufactures energy efficient inverters that are designed to meet international standards for quality and high performance. The digital inverters convert DC power to clean modified AC power that is ideal for residential and office appliances.

Revenue composition (%)



Source: Company, Kotak Securities - Private Client Research

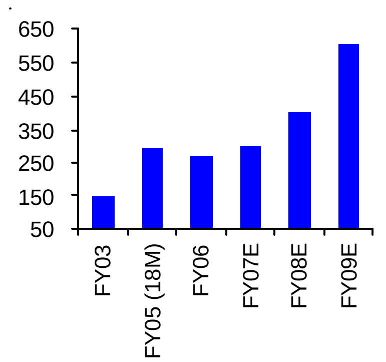
Typically, 30% of the revenues come from the banking segment, 30% from the government and corporates, 15-20% from the IT and ITeS segment and the balance 20-25% from the small and home office segment.

Services - an increasing proportion of revenues

NPSL also provides services such as remote monitoring through customer IT networks and web-enabled solutions. The company does power audits and helps customers determine the right kind of solution required to ensure continuous and quality power. NPSL also provides services such as capacity assessment and sizing, offering a higher technology range of UPS and allied power conditioners.

The company provides services such as annual maintenance contracts of UPS and power conditioners of not only its own brands but also for other brands. Typically, when it sells a UPS it carries warranty of one to three years depending on the capacity of the UPS and terms of the contract. Hence, there is huge potential in terms of after sales service and annual maintenance contract for the UPS.

Services revenue growth (Rs mn)

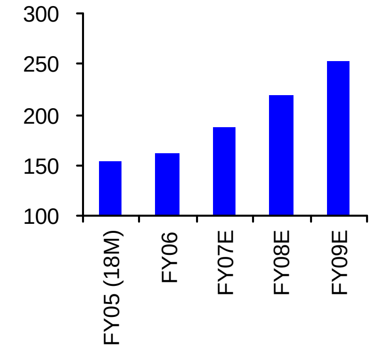


Source: Company, Kotak Securities - Private Client Research

Imports UPS of smaller capacity from China and Taiwan

The company imports UPS of smaller capacity from China and Taiwan in bulk and then distributes them through its local channels. Basically, NPSL imports them from OEM suppliers, as their cost of production is much lower then the Indian cost of production. Generally, these are used for connecting to single computers. Even on the pricing front, they sell below Rs.2000 each. The company finds it more profitable to import and then distribute through its strong nationwide distribution channel.

International subsidiaries revenues (Rs mn)



Source: Company, Kotak Securities - Private Client Research

Subsidiaries

NPSL has three subsidiaries in Sri Lanka, Mauritius and Singapore. The fully owned subsidiary in Sri Lanka and an export-processing unit in Chennai cater to the overseas markets. The other subsidiaries in Singapore and Mauritius trade in the company's products. They have enabled effective tapping of markets in Africa and the US directly and through partners. The Singapore subsidiary also acts as a sourcing point for batteries, which are fully imported for the end product.

Sale and distribution of batteries

The company undertakes sales and distribution of Panasonic batteries in India. Panasonic Industrial Asia Pte Ltd is the world's largest consumer electronics company with a presence in 170 countries with global sales of US$80 bn. It has appointed NPSL as national distributor for their SLA Batteries in 2005. The distribution agreement between the company and Panasonic is for offering a complete range of Panasonic high performance SLA batteries directly to the Indian markets and also through their appointed channel partners.

In FY06, the company implemented an auxiliary power systems project for Power Grid Corporation for the entire northeastern states. This is a turnkey effort by NPSL involving the design, supply and installation of total power conditioning systems. With this project, the company has elevated itself to an integrated player in the power protection systems.

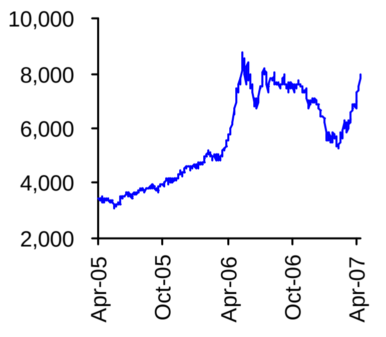
The company deals in the following products

- UPS systems
- Voltage and frequency stabilizers
- Isolation transformers
- Inverter/home power products of 0.5 & 1.0 KVA
- DC Power
- Solar power backups
- Custom built power conditioners and accessories
- Electrical power quality audits & system design
- Range of sealed lead acid batteries from Panasonic

Range of UPS products supplied by NPSL

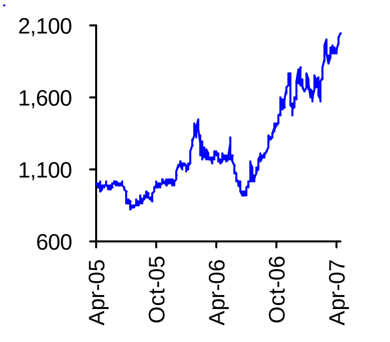
- 0-2.2 KVA offline & line interactive UPS systems
- 0-6 KVA digital HP range of online UPS systems — with microprocessor
- 10-60 KVA digital HPE series online UPS systems — with digital signal processors
- 0-80 KVA numeric HPE 33 range of UPS systems
- 10-4800 KVA advanced technology UPS from overseas partner

LME copper spot price $ per MT



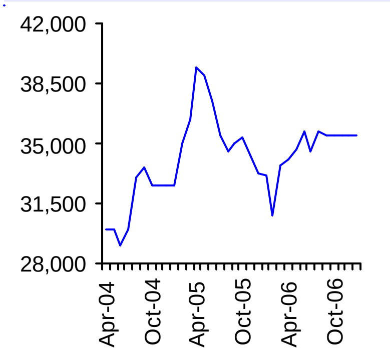
Source: Bloomberg

LME Lead spot price $ per MT



Source: Bloomberg

Steel price Rs per MT



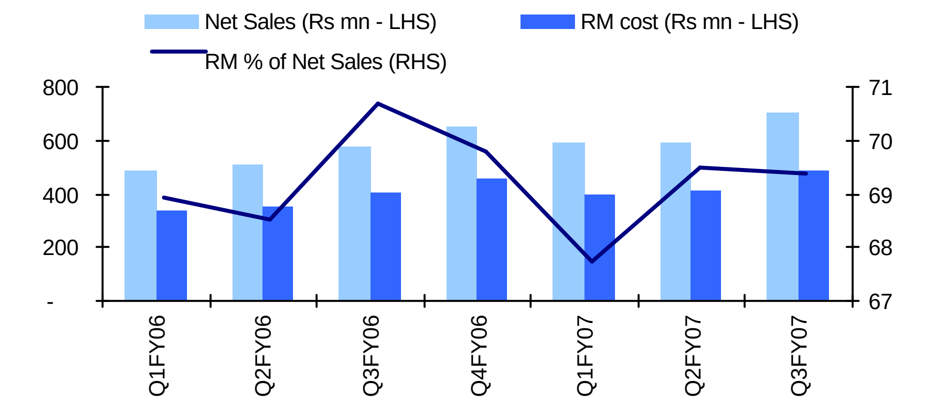
Source: Bloomberg

Raw material and its availability

UPS systems comprise power electronics, advanced control electronics, transformers, sheet metal enclosures and batteries. Lead, copper, aluminum and steel are the principal raw materials required to manufacture UPS. On an average, 40% of the total cost of a UPS is the battery and the remaining 60% comprises the electronics cost. Lead is the major component of batteries. Copper is used in the windings and the coils.

Laminations are used to make the transformer. Steel is used to make the enclosure inside which the hearth of the UPS system is installed. The prices of all the above metals have increased 30% to 100% over the last few years. Hence, it continues to be a challenge for the company, going forward. However, the management is confident about offsetting the rise in raw material prices by passing them on to customers and also achieving cost savings on account of better processes and technologies going forward.

Raw material cost as a % of net sales - Quarterly



Source: Company

NPSL has been able to maintain its raw material to sales ratio in the range of 68-70% in the last two years despite surging input prices of copper and lead. This clearly indicates the company has the ability to pass on the hike in prices of its key raw materials. To overcome the problem of increase in metal prices the company gearing up to the advanced technological level to reduce the metal based inputs into the products. Thereby, the company can control the overall cost of production. Hence, we feel NPSL will not get adversely impacted in a major way if there is any further rise in the prices of its key raw materials.

Clients

Reputed client list across the industry

Some of the esteemed clients of ups are Microsoft, Infosys, Intel, Wipro, Veritas in the **IT** segment where it commands almost 60% market share. Typically large customers such as IT and ITeS segment needs more UPSs for continuous and quality power for their data servers and other IT applications.

The company is associated with most banks in the nationalized private sector and also MNC banks. In **banking**, almost 82% of the ATMs out of 22000 odd in the country are fitted with UPS supplied by NPSL. Almost all banks including SBI, Citibank, ICICI, HDFC, IDBI etc., are customers of the company. The company has a significant presence in the financial services and insurance segment also. NPSL also supplies UPS to stock exchanges in the country.

The company enjoys a superior relationship with Siemens and Phillips for the supply of medical equipment. Hence, the company enjoys a major share in the **healthcare** segment also. NPSL has a significant presence in all hospitals and private healthcare clinics in India.

In the **government** segment, the company has a significant presence. Some of the esteemed clients are RBI, the Prime Ministers Office, the External Affairs Minister's office, a majority of the immigration offices, BSNL, Indian Railways and National Informatics Centre (NIC) among others. NIC is the Department of Information Technology, which provides network backbone and e-governance support to the Central Government, state governments, UT Administrations, districts and other government bodies.

In the **education and research** sector, the company supplies to various IIT, IIM, NIT and state-funded schools and major technology centers/engineering college projects.

The big **corporates** and MNCs are also regular customers of the company. The list includes Reliance, Times group, TVS, ABB, L&T, MRF, Nokia, BMW, Ashok Leyland, HCL to name a few.

NPSL maintains very strong relationships with its customers

NPSL has very strong relationships with most clients and meets a majority of their requirements. The superior product quality of the company is well appreciated by the above clients. Thus, we expect a steady flow of business from the abovementioned large domestic companies and MNCs.

Distribution network

Two national distributors and close to 1000 partners

NPSL sells directly to big corporate buyers including domestic companies and MNCs. The company has two national distributors and over 100 channel partners and close to 1000 partners to sell its products across the country. NPSL also has agents in various regions of the country, which bring in regular business and thus strengthen the distribution network of the company.

Regional hub with warehouse at Chandigarh

The company has established a regional hub with a warehouse facility in Panchkula near Chandigarh, for maintaining stocks of all fast moving UPS systems and accessories. This enables the company to meet the increasing customer demands from the northern region and reduce the delivery lead time substantially.

Service network

174 service locations across India

NPSL has 174 service locations across India and provides round-the-clock service to its customers almost anywhere in the country. The company has highly efficient service personnel, all of whom are personally trained by NPSL. The company has over 600 factory-trained engineers for technical support. NPSL also has a well-managed inventory of spares.

Competition

Market leader with 15.9% market share

NPSL has been the market leader in the UPS segment (as ranked by Frost & Sullivan) with an overall market share of 15.9%. The nearest competitor is Emerson Network Power with 13.2% market share and then American power with 12.2% market share. The company has the distinction of being declared the 'No.1 power electronics company of the year' for fourteen consecutive years at the Soft Disk award with the latest being in 2006. Other major players are WeP Peripherals and TVS-E. All these companies mostly import the UPS and then sell it in India through various distribution channels. There are also many small and medium unorganized players in the country who cater to local markets.

Unorganized players cannot match the quality and innovation of the products

The UPS and power conditioners are used in various industries like IT, telecom, banking, insurance, healthcare, government and large corporate, small and medium enterprises. It is also used in domestic households. All these user industries are growing at a rapid pace in India. Also, the unorganized players cannot match the quality and innovation of the products provided by the company. In view of this, we feel there is enough growth in demand to absorb competition. Hence, we do not expect competition to be any major threat to the operations and profitability of the company.

Entry barriers

Technological edge

The company has the technological edge in terms of state-of-the-art features like line interactive, plug and play and advanced communication services. NPSL continuously undertakes market feedback through its strong distribution channel and develops new products with advanced facilities as required by customers. We feel unorganized players do not have any such facilities. Hence, NPSL would continue to maintain its leadership position in the market.

Strong service network

The company provides services such as annual maintenance contracts of UPS and power conditioners of not only its own brands but also for other brands. NPSL has 174 service locations across India and provides round-the-clock services to its customers almost anywhere in the country. Due to this, the company is continuously in touch with its customers, which help it to generate more business.

We feel NPSL has a quick and efficient service network for UPS in India. We see this as a major differentiator between the company and other players. Also, the unorganized players do not offer any such services. Hence, we expect NPSL to convert more of the unorganized market into an organised one.

Storong distribution network

The company has a strong distribution network of close to 1000 partners across India. We feel NPSL has the ability to meet the increasing customer demands and reduce the delivery lead-time, thereby commanding better market share and support of the customers.

Value-added services

NPSL also provides value-added services such as remote monitoring through customer IT networks and web-enabled solutions, power audits, capacity assessment and sizing among others. We feel that the above value-added services would keep it ahead of competitors.

Integrated player in the power protection systems

With the implementation of an auxiliary power systems project for Power Grid Corporation for all northeastern states, the company has elevated itself to an integrated player in the power protection systems. We feel this would keep it far ahead of the competition both in terms of organized and unorganized players.

UPS INDUSTRY

Global UPS industry is estimated at $3 bn, growing at 8%

The global UPS industry is estimated at $3 bn. In the past few years the industry has been growing at 8% and is expected to continue to grow at such rates. It is expected to touch double-digit growth rates as power shortages and voltage fluctuations become more acute in developing countries.

Indian UPS industry estimated at Rs.18-20 bn, growing at 16 to 18%

The Indian UPS industry is an Rs.18-20 bn per annum industry. In the past few years the industry has grown at 16% to 18% per annum. The industry is likely to continue to record such robust growth rates, going forward also. This is primarily due to rising power deficit and higher voltage fluctuations prevalent in the country. Also, with more businesses requiring technological solutions and sophisticated electrical equipment, the need for power protection systems for continuous and quality power is increasing at a very rapid pace.

Based on the application of the product, the Indian UPS industry can be classified into four categories.

A) UPS for IT, ITeS, healthcare, telecom and other manufacturing companies:

Every 1000 PCs would translate into 600 UPS sales

The connect ratio of UPS with personal computers has gone up to 60% in the last couple of years. This essentially means that for every 1,000 PCs sold the potential for UPS sales is nearly 600 UPS in India. The ITeS sector and data centers in large enterprises are expected to fuel the growth of this market in the coming years. Many companies in India have started looking at downtime cost implications now and, thus, are investing in the UPS system to enjoy continuous and quality power.

Growing IT and ITeS sector

Typically, the Indian IT and ITeS enterprises are large in nature in terms of business at single locations. This translates into good potential for the high-end UPS models. Large enterprise customers such as ITeS players want high levels of uptime. Thus, the IT infrastructure in these cases is well integrated with UPS and precision air conditioning systems. IT and ITeS players are also ramping up and continuously increasing their head count due to strong global demand and higher English speaking young Indian population.

Cannot afford even a single minute of downtime

The corporate data centers in India, typically, have servers from different countries. Hence, they cannot afford even a single minute of downtime, which could cost in terms of loss of very critical data. Thus, ITeS and corporate data centers are going in for high-end UPS models.

High-end technology requires continuous and quality power

Also, sectors like manufacturing, telecom, healthcare and energy are expected to go in for high-end UPS purchases, as they cannot afford breakdown and data loss due to power failure or voltage fluctuations. Most business processes nowadays are based on high-end technology that requires continuous and quality power. Thus, we see good growth in the UPS business from this segment.

This segment is very competitive. As such, it is a low margin high service segment of the UPS industry. Also, the customers here require quality after sales service. Organised players in the market mostly service this segment.

B) UPS for banking, financial services and insurance sector:

Mix of high and low-end UPS systems

The banking, insurance and financial sector is typically a mix of high and low-end UPS systems. These are primarily required at branches and also at each and every ATM, as they cannot afford even a single second of power loss, which can lead to loss of very critical data. The banks in India have a large number of branches and ATMs spread across the country. Banks tend to have a large central data center that requires a high-end UPS model with larger capacity. An ATM, on the other hand, would require a lower capacity UPS system. Thus, this segment typically drives both the high- and the low-end UPS market in India as they are used in bulk by the banking, financial services and insurance sector.

C) UPS for government organizations, large corporates:

Competitive among organised players

This is a typical business that has very large order size associated with it. It is based on the tender system. In this segment, one has to give technical evaluation and meet other strict criteria to be able to fill the tender. Also, this segment is competitive among organised players. This is a bulk business segment as typically the order is for an entire project or new plant or corporate office.

D) UPS for SMEs, domestic households:

Mostly serviced by the unorganized market

This segment is mostly serviced by the unorganized market where cost is the only consideration impacting the purchase of UPS. However, slowly people are recognizing the superior value of the branded product. Hence, the organised players are able to make a dent in this segment also. Also, due to frequent power cuts and high voltage fluctuations, the Indian domestic households have realized that UPS and voltage stabilizer are necessary for their refrigerators and television sets in order to enjoy power back up as well as protection against damage of the equipment due to voltage fluctuations. Hence, this segment is also expected to grow at a fast clip.

New market, untapped markets, class B, C cities in India

Lot of investment in the telecom infrastructure, cyber cafes, STD and ISD telephone booths

Recently, there has been a lot of investment in the telecom infrastructure in the Indian B and C class cities. They have come at par with those in the metros. Also, a lot of business houses have adopted the latest technology, thereby requiring continuous and quality power. These changes have really helped the IT sector to penetrate deeply into these cities and also adjoining rural areas. Also, the internet cyber cafés have been expanding like the STD and the ISD telephone booths across the country, which definitely require UPS in order to run smoothly.

Moreover, many ITeS and BPO players have also been eyeing these B and C class cities, which are expected to drive the growth of the UPS market in India. Many of the initial ITeS centers in B & C class cities are small. Hence, there will be more demand for low and medium range UPS systems. Also, these cities are exposed to frequent power cuts and voltage fluctuations, which opens up a huge market for UPS systems.

KEY INVESTMENT RATIONALE

Robust GDP growth to lead to higher growth in user industries

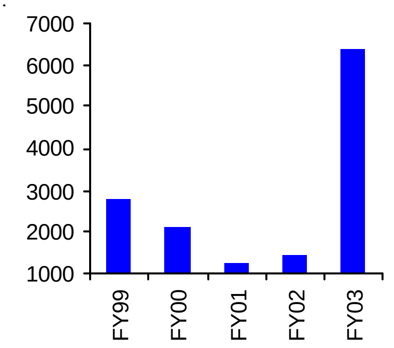
The Indian GDP is growing at above 8% and is also expected to continue to grow at such rates if not higher for the visible future. This has led to the growing Indian middle class, which is the main consumption class. India is getting transformed into a rapidly developing large consumption driven global economy. This is leading to higher growth in demand for goods and services.

Rising economy leads to increasing demand for high tech equipments

With the present pace of development in the Indian economy there is a high demand for hi-tech infrastructure in fields such as healthcare, telecom and industrial automation, primarily in the areas that require continuous and quality power supply.

The company basically serves the IT, telecom, healthcare, banking, insurance, government, large corporate, small and medium enterprises and the domestic household industry. Since the company has a presence in all the above fast growing sectors through its clients we expect strong growth for the products of the company going forward.

Villages electrified in India



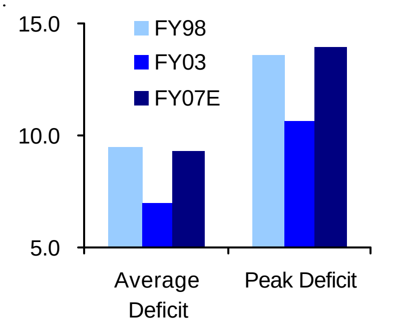
Source: Ministry of power

Low per-capita power consumption

The per capita consumption of power in India is very low at 606 kwh, as against the global average of 3000 kwh. The electrification percentage for rural India is only 79.4% and only 44% of the total rural households have access to electricity in India. The economy is growing at above 8% and the government is looking at inclusive growth, which would translate into further demand for power from rural areas. Hence, we see a huge opportunity in terms of raising per capita consumption of power in India.

The demand for power is likely to be primarily led by hi-tech equipment, data storage and automation that are happening across the country. This would translate into higher demand for conditioned power and also high quality and continuous power. Thus, we feel the demand for the company's products like UPS could significantly go up in the visible future.

Average and peak power deficit in India (%)



Source: Ministry of power

Power deficit, voltage fluctuations present opportunity for NPSL

India has an energy deficit of 9.3% and peak deficit of 13.9%. India has a significant power deficit and this is likely to get worse with the development of mall and multiplexes. Also, due to the changing lifestyle of Indians, the power requirement of the country is expected to go up. However, there is not much spare power capacity available in the country. Also, the quality of power is a big question in India. There are several outages and voltage fluctuations in power supply, which could damage critical equipment and result in loss of data.

With more businesses requiring technological solutions and sophisticated electrical equipment the need for power protection systems for continuous and quality power has become of prime importance today. High growth industries require continuous and quality power, thereby providing greater opportunities for the products of the company. Hence, we feel due to power deficit and voltage fluctuations there is a significant market potential in the country for the UPS and power conditioners in India.

Wide range of products

0.5 KVA to 4800 KVA

The demand for continuous and quality power is rising in India due to high end and crucial application of equipment, which run on power. Looking at this opportunity, NPSL has proactively increased the range of its products and is now offering a wide variety of products to suit the different needs of the people. The company is present in all categories of products ranging from 0.5 KVA to 4800 KVA. At present, the company offers various products comprising UPS and power conditioners.

Recently launched digital series

The company has also provided digital controls in the recently launched Digital HP series up to 6 KVA models and the advancement to the mid-range systems up to 60 KVA — Digital HPE series. These new versions are capable of facilitating remote management of UPS equipment at customer locations and drive cost effective solutions through intelligent monitoring and internet links. Thus, the company has a wide range of products to suit the different needs of customers.

Quality of products, innovation via continuous R&D

In-house R&D

NPSL follows strict quality norms to ensure quality product for its consumers. The company is dealing with very sensitive and crucial data centers. Thus, the quality is very important. NPSL, through its R&D center continuously develops better and efficient products.

Continuous technological innovation and staying close to the customer

The company continuously introduces new and latest products like the digital UPS systems. Thus, it provides modern, state-of-the-art UPS and power conditioners to its clients. The new range of line interactive series introduced by the company are sophisticated, plug and play with advanced communication possibilities. This helps retain the confidence of the clients and helps generate newer business from existing big clients of the company. Continuous technological innovation and staying close to the customer helps the company develop advanced power solutions for both domestic as well as the international markets.

The company is ultimate focused on quality. Hence, it has put in practice the processes at all divisions to ensure process improvements on raw materials, improvised manufacturing techniques and continuous technical support to come out with the latest and the superior quality products.

Reputed client list

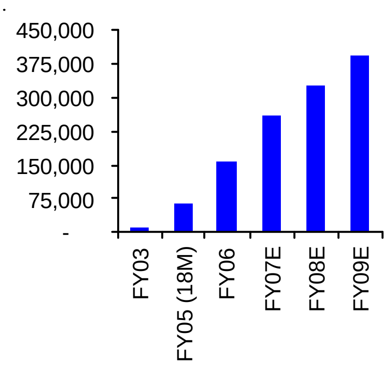
60% market share in IT

The company enjoys the confidence of reputed clients like Infosys, Intel, Veritas, HDFC, Citibank, ICICI, RBI, NIC, Reliance, ABB, BMW, Nokia to name a few across user industries, which it serves. In every user industry, the company directly deals with top players, thereby leading to strong customer relations, which would help increase the business in future. Also, NPSL would find ready buyers for its innovative high quality products in the future, thereby leading to increased revenues and more importantly superior profitability going forward.

82% market share of ATMs

In the IT segment, the company commands almost 60% market share. In banking, almost 82% of the ATMs out of 22000 odd in the country are fitted with UPS supplied by NPSL. The company enjoys superior relationships with Siemens and Phillips for medical equipment. Hence, NPSL also enjoys a major share in the healthcare segment.

UPS traded (nos)



Source: Company, Kotak Securities - Private Client Research

Tie-up with France's Socomec SA

In order to move to high value-added products, which command better pricing power, NPSL has formed a JV with Socomec SA of France, which is Europe's leading switchgear and UPS systems company. With the alliance, NPSL plans to undertake retail trading of Socomec brand of UPS.

Socomec has a turnover of more than €230 mn and has a 30% market share in Europe. The company has 16 subsidiaries worldwide and eight manufacturing facilities. Three of its manufacturing facilities are located in France, two in Italy, one in Tunisia and two in India. Its two Indian facilities were initially set up in partnership with HPL through the joint venture company Socomec HPL UPS Private Ltd. In August 2006, the French company had bought out its Indian partners and converted its Indian joint venture into a wholly-owned subsidiary.

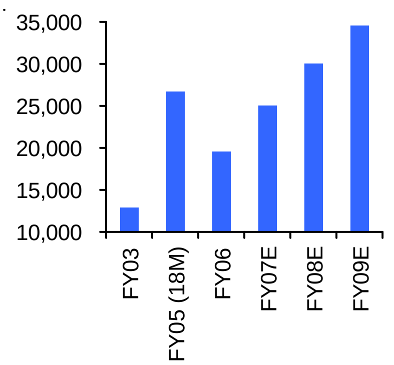
The JV company by the name Socomec-Numeric UPS Private Ltd would undertake marketing, distribution and retailing of the Socomec brand of UPS systems of more then 10 KVA with three phase input and output along with related accessories on a national footprint.

JV would undertake marketing, distribution and retailing of the Socomec brand of UPS systems

Both companies would have equal share in the JV and Socomec is going to invest US$1.5 mn in the next two years in the JV company.

The JV would undertake retailing of products that are sold under the international brand name of Socomec with its trademark or brand affixed on the product at the time of manufacturing. The JV would not opt for third party sourcing from any other UPS manufacturer.

UPS manufactured (nos)



Source: Company, Kotak Securities - Private Client Research

New Parwanoo plant to contribute to revenues, profitability

The company successfully set up a new plant at Parwanoo, Himachal Pradesh with a capacity to manufacture UPS of up to 20000 KVA per annum. The unit commenced commercial production in September 2005. The plant has stabilized its operations in FY07. Hence, we feel the full potential of the plant would be realized in the following years.

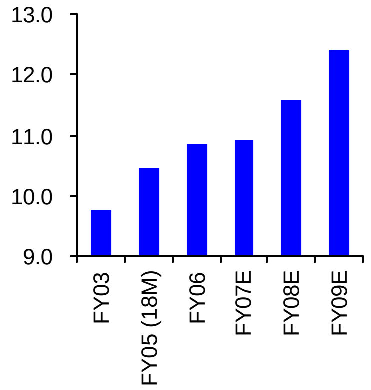
The rationale behind setting up the plant in Himachal Pradesh is that a lot of its user industries have set up their offices in Himachal Pradesh due to tax concessions offered by the government of Himachal Pradesh. Also, the demands for the products of the company are growing at a pretty rapid pace in the northern region. Hence, the company felt the need to expand the capacities in order to cater to the demands of various industries.

Tax holiday would help to lower overall tax outflow

Based on the heavy demand, the company strategically decided to set up a plant in Himachal Pradesh, thereby moving close to its customers. This makes strategic sense, as the company can save a lot on transportation cost, thereby improving margins and also reduce the lead time substantially, which is very critical to maintain and improve the overall market share in the country. Also, the unit has a ten-year tax holiday. So, we expect NPSL to benefit from the lower overall tax outflow.

High-margin service business growth to raise overall EBIDTA margins

EBIDTA (%)



Source: Company, Kotak Securities - Private Client Research

To increase from 10% to 20% of revenues in 2 to 3 years time

NPSL provides services such as annual maintenance contracts of UPS and power conditioners of not only its own brands but also for other brands. Typically, when it sells UPS it carries warranty of one to three years depending on the capacity of the UPS and terms of the contract. Hence, there is huge potential in terms of after-sales service and annual maintenance contract for the UPS.

NPSL has 174 service locations across the country and provides round-the-clock service to its customers almost anywhere in India. The company has highly efficient service personnel, all of whom are personally trained by NPSL. The company has over 600 factory-trained engineers for technical support. NPSL also has a well-managed inventory of spares. This gives it the edge over other UPS suppliers in India in terms of the service quality and reach, which NPSL offers.

The service business is typically a high-margin business for the company. The management has recognized the potential of this department. Hence, it is now laying more emphasis on the growth of the service department. Traditionally, the service department has contributed to approximately 10% of the total revenues, which is expected to go up to 20% of the total revenues in two to three years. This is expected to improve overall operational profitability of the company, going forward.

Integrated player in power protection systems

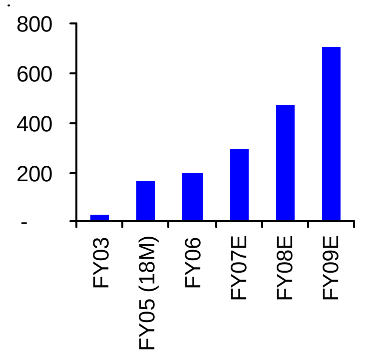
End to end solutions for SCADA / EMS

In FY06, NPSL implemented an auxiliary power systems project for Power Grid Corporation for the entire northeastern States. This is a turnkey effort by the company involving design, supply and installation of total power conditioning systems. The company also provided end-to-end solutions for Supervisory Control and Data Acquisition (SCADA)/Energy Management System (EMS) package, large network of Industrial Process, Power Transmission Support Systems (PGCIL) and distribution management. This enables the utilities to collect, store and analyze data from hundreds of thousands of data points in national or regional networks, perform network modeling, simulate power operation, pinpoint faults, preempt outages, and participate in energy trading markets.

With this project, the company has elevated itself to an integrated player in power protection systems. This could also act as a reference point for more such projects in the future. We expect NPSL to establish its strong presence in this segment, going forward, which would lead to increased revenues and profitability for the company going forward.

Focus on exports

Rising exports (Rs mn)



Source: Company, Kotak Securities - Private Client Research

The company has been steadily exporting its products to various countries like Canada, the UK, China, South America, Singapore, Mauritius and Africa. Typically, exports have higher operating margins than the domestic business of UPS. The management has the vision to increase the export to 20% of the total turnover in a couple of years time, which at present accounts for approximately 9-10% of the company's turnover.

NPSL has opened three subsidiaries, one each in Sri Lanka, Mauritius and Singapore. The fully owned subsidiary in Sri Lanka and an export-processing unit in Chennai cater to overseas markets. The other subsidiaries in Singapore and Mauritius trade in NPSL's products. They have enabled the effective tapping of markets in Africa and the US directly and through partners. NPSL is also actively looking to expand its presence in Africa and may go for some acquisition or JV in the future.

Market leader, bags numerous awards

Market leader with 15.9% market share

The company has been the market leader in the UPS segment with an overall market share of 15.9% (as ranked by Frost and Sullivan). The nearest competitor is Emerson Network Power with 13.2% market share and then American Power with 12.2% market share.

No. 1 power electronic company for the past fourteen consecutive years

NPSL has the distinction of being declared the 'No.1 Online UPS Manufacturer in India' for the last three years at the Soft Disk award with the latest being in 2006. The company also has the distinction of being 'Soft Disk No. 1 power electronic company of the year' for the past fourteen consecutive years. The journals from the Association of Computer professional in India that is Soft Disk conducts a qualitative research on an all-India basis and publishes the data every year.

This reinforces the fact that NPSL is the clear market leader and has demonstrated the ability to remain at the top in a competitive environment through steady focus on continuous research and development and strong after-sales service network across the country.

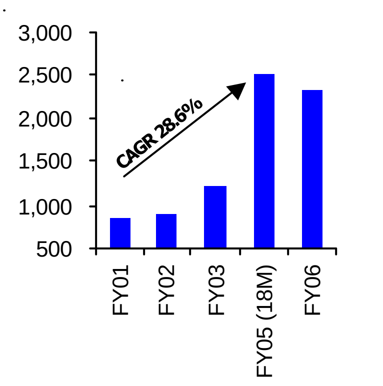
Awarded best service provider award

The company has been awarded market leadership award by Frost & Sullivan in 2005. In 2004, the company got an award for customer service leadership for the manufacturing segment and also product line leadership award in the banking insurance and NBFC segment by Frost & Sullivan. In 2004, International Facility Management Association also awarded best service provider award in the M&E suppliers category to the company.

Robust growth in sales, profits

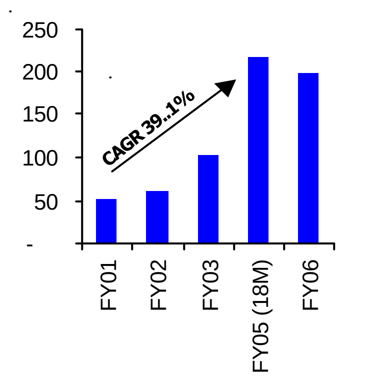
The net sales of the company have grown at a CAGR of 28.6% from Rs.852 mn in FY01 to Rs.2.3 bn in FY06. The net profits of the company have grown at a CAGR of 39.1% from Rs.53 mn in FY01 to Rs.198 mn in FY06. Due to the strong demand and good potential, the company has already added the capacities, which would help it to continue its strong growth in terms of revenues and profitability, going forward. We expect the net sales of the company to grow at a CAGR of 19.9% from Rs.2.3 bn in FY06 to Rs.4.0 bn in FY09E and net profits to grow at a CAGR of 22.4% from Rs.198 mn in FY06 to Rs.362 mn in FY09E.

Net sales (Rs mn)



Source: Company

Net profits (Rs mn)



Source: Company

Attractive valuation

At the current price of Rs. 350, the stock is trading at very attractive valuations of 4.9x FY09E earnings and 4.6x FY09E cash earnings. The stock is available at 3.3x EV/EBIDTA multiple and only 0.4x EV/sales multiple based on FY09E estimates. We expect RoE to improve from 22.0% in FY06 to 23.0% in FY09E. We feel the valuation is attractive due to the strong past track record and good future potential due to capacity expansion and growth in demand, which would lead to growth in terms of revenues and profitability going forward.

Financials

FY06 financials - consolidated	
(Rs mn)	FY06
Sales	2331
EBITDA (%)	10.8
PAT	198
EPS (Rs)	39.5

Source: Company

FY06 Financial performance - consolidated

For FY06, the company reported net sales of Rs.2.3 bn registering a 39.3% YoY growth. The company recorded higher EBIDTA margins of 10.8% in FY06 as against 10.5% in 18MFY05. NPSL reported net profits of Rs.197.6 mn, which is 36.7% YoY growth. The company reported an EPS of Rs.39.5 and CEPS of Rs.42.1 in FY06. At the current market price of Rs. 350, the stock is trading at 8.9x its FY06 earnings and 8.3x its FY06 cash earnings.

Q3FY07 Results Analysis - standalone

Rs mn	Q3FY07	Q3FY06	YoY%	Q2FY07	QoQ (%)	9MFY07
Net Sales	**702**	**577**	**21.8**	**594**	**18.1**	**1,887**
Inc/Dec in stock	(6)	(16)	(65.3)	(68)	(91.8)	(75)
Raw materials	492	423	16.3	480	2.5	1,372
Staff cost	51	33	52.6	53	(4.7)	146
Other exp.	85	82	3.6	71	20.0	243
Total exp.	622	522	19.1	536	16.0	1,686
EBIDTA	**80**	**55**	**46.9**	**58**	**37.9**	**201**
Other income	7	7	(4.9)	7	5.1	20
Depreciation	5	3	39.4	5	-	13
EBIT	**83**	**59**	**40.7**	**60**	**37.1**	**207**
Interest	9	6	48.5	8	12.3	27
PBT	**74**	**53**	**39.8**	**52**	**41.0**	**180**
Ext loss/ (gain)			-	-	-	
Tax & def tax	11	10	15.9	5	144.7	21
NPAT	**63**	**43**	**45.0**	**48**	**31.2**	**159**
Equity shares o/s (mn)	5.0	5.0		5.0		5.0
Ratios						
Op profit margin (%)	11.4	9.5	+190 bps	9.8	+160 bps	10.6
R M / Sales (%)	69.2	70.5		69.3		68.8
Staff cost / Sales (%)	7.2	5.8		9.0		7.7
Oth Exp. / Sales (%)	12.1	14.2		11.9		12.9
EPS (Rs)	12.5	8.6		9.5		31.8
CEPS (Rs)	13.4	9.3		10.4		34.4
Tax / PBT (%)	15.0	18.1		8.6		11.8

Source: Company

21.8% YoY growth in sales

Net sales for Q3FY07 were at Rs.702 mn as against Rs.577 mn in Q3FY06, thereby registering 21.8% YoY growth and 18.1% sequential growth. The growth in sales is primarily due to better demand for the products of the company and increased contribution from the new plant in Himachal Pradesh.

Higher operating margin of 11.4%

The company recorded EBIDTA margin of 11.4% for Q3FY07, which is up 190 bps on a YoY basis and also up 160 bps on sequential basis. The higher EBIDTA margin was achieved due to higher capacity utilization and cost control methods adopted by the company. This is well supported by the fact that raw materials as a percentage of sales have come down from 70.5% in Q3FY06 to 69.2% in Q3FY07. Also, other expenditure to sales has come down form 14.2% in Q3FY06 to 12.1% in Q3FY07.

45% YoY growth in profits

PAT for Q3FY07 is up 45.0% YoY and up 31.2% on a sequential basis to Rs.63 mn translating into a quarterly EPS of Rs.12.5 and quarterly CEPS of Rs.13.4, on standalone basis.

For 9M FY07, the company reported PAT of Rs.159 mn on a standalone basis, thereby translating into 9MFY07 EPS of Rs.31.8 and CEPS of Rs.34.4.

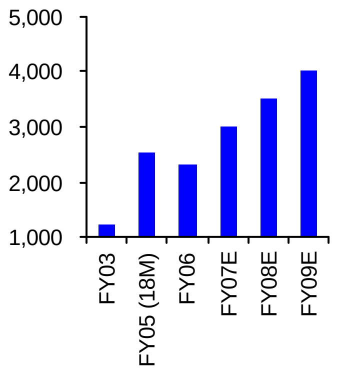
Equity Dilution — Merger of UPS business of NEPL with itself

Equity to go up from Rs.50 mn to Rs.50.5 mn

In FY08, the equity of the company is expected to go up from Rs.50 mn to Rs. 50.5 mn on account of the issue of 52920 shares to take over the UPS manufacturing business of Numeric Electronics Private Ltd (NEPL). The process involves the transfer of the UPS systems manufacturing business of NEPL by way of demerger and vesting the same in NPSL.

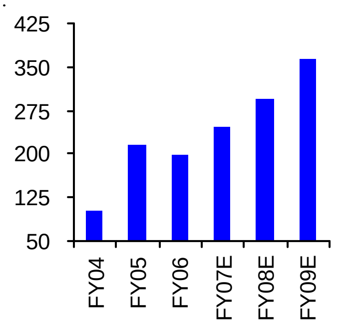
Going forward, we do not expect any further equity dilution in the medium-term as internal accruals of the company are sufficient to meet the ongoing expansion plans of the company. However, the vision of the company is also to backward integrate into manufacturer of batteries, which form a major component of the UPS. For this, the management may form a JV with one of the leading battery manufacturers in the world. If this project comes up then the company may look to dilute some equity in the future.

Net sales (Rs mn)



Source: Company, Kotak Securities - Private Client Research

Net profits (Rs mn)



Source: Company, Kotak Securities - Private Client Research

Projected Financials — consolidated

- For FY07E, we expect sales to grow 28.1% to Rs. 2.9 bn and net profit to be Rs. 244.9 mn translating into an EPS of Rs. 49.0 and CEPS of Rs. 52.5
- For FY08E, we expect sales to grow 16.9% to Rs. 3.5 bn and net profit to be Rs. 293.3 mn translating into an EPS of Rs. 58.1 and CEPS of Rs. 62.1. This is primarily due to increased contribution from the new plant at Parwanoo, Himachal Pradesh that commenced commercial production in September 2005. Also, there would be additional contribution from the JV with Socomec SA of France.
- For FY09E, we expect sales to grow 15.1% to Rs. 4.0 bn and net profit to be Rs. 361.9 mn translating into an EPS of Rs. 71.6 and CEPS of Rs. 76.0. This is primarily due to higher contribution from the services segment and also increased contribution for the international subsidiaries.
- For FY07E, FY08E and FY09E we expect the book value to be Rs. 222.7, Rs. 277.5 and Rs. 345.8 per share, respectively.
- The company reported EBIDTA margin excluding other income of 10.8% in FY06. We expect EBIDTA margin excluding other income to increase to 10.9% in FY07E due to growth in revenue led by higher capacity utilisation leading to more productivity and better process and cost controls leading to better efficiency.
- We expect the EBIDTA margin to rise to 11.6% in FY08E and further increase to 12.4% in FY09E due to increased contribution from the high margin service business, more exports and increased contribution from the subsidiaries.
- We expect RoE to improve from 22.0% in FY06 to 23.0%in FY09E.
- We expect RoCE to improve from 24.7% in FY06 to 29.9% in FY09E.

Capex and its funding

Low debt /equity of 0.2

The company is expected to spend approximately Rs. 50 mn in FY08E and Rs. 25 mn in FY09E to execute its current expansion plans in the UPS and power conditioning segments. Also, for any future expansion or backward integration plans the company is comfortably placed to raise additional debt as the debt to equity ratios is very low at 0.2% as of March 2006.

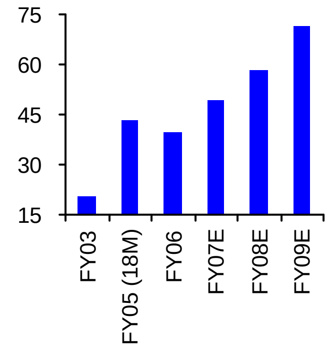
Generating healthy cash flows

However, the vision of the management is to be debt-free in two to three years. We feel the internal accruals of the company would be sufficient for the ongoing capex of the company. Also, the company is generating healthy cash flows and we feel NPSL would not be required to raise long-term debts for meting the current expansion plans of the company.

VALUATION & RECOMMENDATION

- At the current market price of Rs. 350, the stock trades at a P/BV of 1.6x for FY07E, 1.3x for FY08E and 1.0x for FY09E respectively.
- It discounts FY07E, FY08E and FY09E earnings at 7.1x, 6.0x and 4.9x, respectively.
- The stock looks attractive on a cash earnings basis. It trades at 6.7x FY07E, 5.6x FY08E and 4.6x FY09E cash earnings.
- We are positive on the growth prospects of the company. Hence, we are initiating coverage with a **BUY** recommendation on the stock with a price target of Rs. 615 over a 12-month horizon.
- At the current market price of Rs 350, the stock offers an upside potential of 76%.
- We have derived our target price based on two-stage DCF valuation methodology, with a WACC of 14.0% and terminal growth rate of 3%.

EPS (Rs)



Source: Company, Kotak Securities - Private Client Research

DCF valuation

Free Cash Flow to Firm

(Rs mn)	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
PAT	**245**	**293**	**362**	**391**	**426**	**464**	**489**	**515**	**543**	**562**	**587**	**613**
Depreciation	17	20	22	24	25	26	27	29	30	31	32	34
Interest (1-Tax)	25	28	22	19	19	19	20	21	21	22	22	23
Capex	(75)	(50)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(34)
Change in NWC	(163)	(251)	(198)	(146)	(124)	(136)	(152)	(141)	(135)	(125)	(133)	(149)
FCFF	**49**	**40**	**184**	**262**	**321**	**348**	**360**	**399**	**434**	**465**	**484**	**487**
Discounted Value	49	40	161	202	217	206	187	182	173	163	149	131

Source: Kotak Securiites - Private Client Research

DCF valuation per share (Rs mn)

Total FCFF	1,770
Terminal value	1,228
Total FCFF	2,998
Net debt	(111)
Shareholders' value	3,109
Value per share (Rs)	**615**
Terminal value % of FCFF	41

Source: Kotak Securities - Private Client Research

Sensitivity analysis

Terminal / WACC	13.0%	14.0%	14.5%
3	647	615	587
4	678	642	611
5	716	675	639

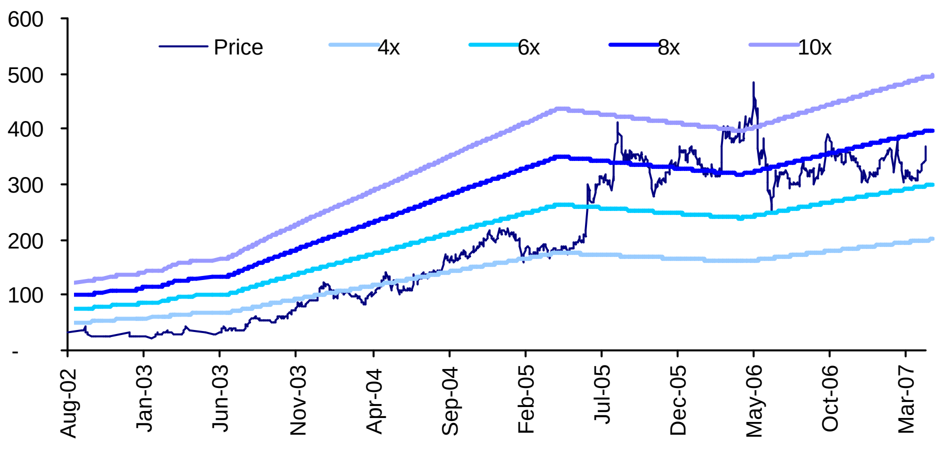
Source: Kotak Securiites - Private Client Research

Assumptions

Adjusted beta	1.1
Risk free rate (%)	8.0
Market Risk Premium (%)	6.0
Cost of Equity (%)	14.6
Cost of Debt (%)	10.0
WACC (%)	14.0
Terminal growth (%)	3.0

Source: Kotak Securities - Private Client Research

One year forward PE band



Source: Capitaline; Kotak Securities - Private Client Research

In view of small equity base of 5 mn shares with 65.8% promoter holding with floating stock of just 1.7-mn shares liquidity is a bit of concern for the stock. Since two years the company has been trading around 8x its one-year forward PE band, which also did shoot upto 10x on few occasions. Even at our target price of Rs. 615 the stock would trade at 8.6x its FY09 EPS estimate of Rs. 71.6 thereby also leaving some further upsides in future.

KEY RISKS

- NPSL is the leader in the UPS segment. Any move by the other players of reducing prices to capture the market share could impact the revenues and thus impact overall profitability of the company.

- Copper, aluminum, steel and lead are the main raw materials for the company. Thus, any increase in prices, which cannot be passed on to the customers could impact the profitability of the company. To overcome this situation, the company is gearing up to the advanced technological levels to reduce the metal based inputs into the products and thereby control the overall cost of production.

- NPSL imports 70-80% of its requirements of batteries used in its products. Thus, the company is exposed to foreign currency risks. However all competitors are in a similar situation and, hence, it would not cause a major dip in the margins of the company.

Consolidated profit and loss statement (Rs mn)

Year end March	FY06	FY07E	FY08E	FY09E
Revenues	**2,331**	**2,987**	**3,493**	**4,020**
% change YoY	(7.1)	28.1	16.9	15.1
EBITDA	**253**	**326**	**404**	**498**
% change YoY	(3.9)	29.2	23.8	23.3
Other Income	25.7	25.0	25.0	25.0
Depreciation	12.7	17.4	20.5	22.4
EBIT	**266**	**334**	**409**	**501**
% change YoY	(13.4)	25.8	22.3	22.6
Net interest	26.9	37.2	42.0	34.0
Profit before tax	239	297	367	467
% change YoY	(13.8)	24.4	23.5	27.3
Tax	41	52	73	105
as % of EBIT	15.5	15.6	17.9	21.0
Net income	**198**	**245**	**293**	**362**
% change YoY	(8.9)	24.0	19.8	23.4
Shares outstanding (m)	5.0	5.0	5.1	5.1
EPS (reported) (Rs)	39.5	49.0	58.1	71.6
CEPS (Rs)	42.1	52.5	62.1	76.0
DPS (Rs)	2.0	2.0	2.0	2.0

Consolidated balance sheet (Rs mn)

Year end March	FY06	FY07E	FY08E	FY09E
Cash and cash equivalents	151	190	139	161
Accounts receivable	764	986	1,170	1,367
Inventories	341	448	541	643
Others	94	125	150	175
Current assets	1,351	1,749	2,000	2,346
LT investments	28	28	29	29
Net fixed assets	262	320	350	352
Total assets	**1,641**	**2,097**	**2,378**	**2,727**
Payables	533	687	786	884
Others	31	35	40	45
Current liabilities	565	722	826	929
LT debt	179	250	150	50
Equity	50	50	51	51
Reserves	847	1,075	1,352	1,697
Total liabilities	**1,641**	**2,097**	**2,378**	**2,727**
BVPS (Rs)	179.5	222.7	277.5	345.8

Consolidated Cash flow statement (Rs mn)

Year end March	FY06	FY07E	FY08E	FY09E
EBIT	**266**	**334**	**409**	**501**
Depreciation	13	17	20	22
Change in working capital	(89)	(175)	(179)	(200)
Chg in other net current assets	(33)	(27)	(20)	(20)
Operating cash flow	156	149	230	303
Interest	(27)	(37)	(42)	(34)
Tax	(41)	(52)	(73)	(105)
Cash flow from operations	**88**	**60**	**115**	**164**
Capex	(116)	(75)	(50)	(25)
(Inc)/dec in investments	(21)	-	-	-
Dividends	(17)	(17)	(17)	(17)
Cash flow from investments	**(154)**	**(92)**	**(67)**	**(42)**
Increase/(decrease) in debt	34	71	(100)	(100)
Cash flow from financing	**34**	**71**	**(100)**	**(100)**
Opening cash	184	151	190	139
Closing cash	151	190	139	161

Source: Company, Kotak Securities - Private Client Research

Ratio analysis

Year end March	FY06	FY07E	FY08E	FY09E
EBITDA margin (%)	10.8	10.9	11.6	12.4
EBIT margin (%)	11.4	11.2	11.7	12.5
Net profit margin (%)	8.5	8.2	8.4	9.0
Adjusted EPS growth (%)	-8.9	24.0	19.8	23.4
Receivables (days)	119.7	106.9	112.6	115.2
Inventory (days)	53.4	48.2	51.7	53.8
Sales/assets (x)	8.9	9.3	10.0	11.4
Interest coverage (x)	9.9	9.0	9.7	14.7
Debt/equity ratio (x)	0.2	0.2	0.1	0.0
ROE (%)	22.0	24.2	23.2	23.0
ROCE (%)	24.7	27.2	27.9	29.9
EV/ Sales (x)	0.8	0.6	0.5	0.4
EV/EBITDA (x)	7.1	5.6	4.4	3.3
Price to earnings (x)	8.9	7.1	6.0	4.9
Price to book value (x)	1.9	1.6	1.3	1.0
Price to Cash Earnings (X)	8.3	6.7	5.6	4.6

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