

# NTPC Ltd: 2Q FY10 results

## Expensive defense

### Revenue lower led by fuel issues:

In 2Q FY10, NTPC reported revenues of Rs 107.8 billion (up 11.6% YoY, down 10.2% QoQ), EBIDTA of Rs 36.8 (up 23.7% YoY, down 0.5% QoQ) and PAT of Rs 21.5 billion (up 2% YoY, down 1.9% QoQ) vs. our estimates of Rs 115.7 billion, Rs 36.2 billion and Rs 20.9 billion, respectively. Revenue was lower than our estimate due to lower generation by 9.2% YoY to ~50.4 billion units. Management indicated this was due to scheduled plant maintenance shutdown and lower supply of coal at Kahalgaon and Farakka plants (tables 3 and 4). Other expenditure was down 7.2% QoQ (17.2% YoY), due to write-back of excess provision for employees/benefits of Rs. 829.3 million. This coupled with lower employee cost of 14.6% QoQ (16.6% YoY), led to EBIDTA and PAT slightly higher than our estimate despite lower reported revenue.

### Delays in capacity addition is a recurring phenomenon

Based on CEA data, NTPC will add commercially operational capacity of ~11.7 GW in the XIth five-year plan period, i.e., ~52% of its initial target (table 6). We are sceptical of even this being achieved as ~68% of the above addition (~8 GW) is due in the last two years (FY11, FY12) of the XIth plan.

### Steep valuation: 5.7x FY11E adjusted core book

We agree on NTPC's defensive value supported by its high-quality earnings. However, paying 5.7x FY11E adjusted core book is too expensive for a company earning ~24% core ROE. NTPC's intrinsic value is based on growth in core book value. Delays in capacity addition versus target will lead to lower accretion of project equity, concurrently leading to a lower core book value and a lower intrinsic value for the company. Our SOTP valuation suggests a target price of Rs 131 (table 5). Underperform.

**Figure 1: Key financials**

Rs billion (unless otherwise mentioned), year-end March

|            | REIPL    |          |          | Variation (actual/est.,%) | 2Q FY10 consensus |
|------------|----------|----------|----------|---------------------------|-------------------|
|            | 2Q FY10A | 2Q FY09A | 2Q FY10E |                           |                   |
| Sales      | 107.8    | 96.6     | 115.9    | (7.5)                     | 110.0             |
| % growth   |          | 11.6     |          |                           |                   |
| EBITDA     | 36.8     | 29.8     | 36.3     | 1.5                       | 31.3              |
| Margin (%) | 34.2     | 30.8     | 31.3     |                           | 27.8              |
| Net profit | 21.5     | 21.1     | 20.6     | 4.1                       | 21.3              |
| EPS (Rs)   | 2.6      | 2.6      | 2.5      | 4.1                       | 2.6               |
| % growth   |          | 2.0      | (4.1)    |                           |                   |

Source: Company data, Reliance Equities estimates.

## Underperform

Rs 215

Target price: Rs 131

Power utilities

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|                              |                |
|------------------------------|----------------|
| Bloomberg code               | NATP IN        |
| Reuters code                 | NTPC.BO        |
| 3m avg. traded value (Rs mn) | 971.6          |
| 52-wk H/L (Rs)               | 233/113        |
| Sensex                       | 16810.9        |
| Mcap (US\$ mn/Rs bn)         | 38030.2/1770.4 |

### Shareholding (%)

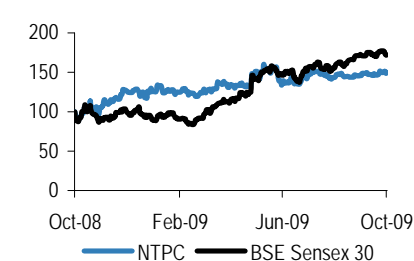
|                 | Jun-09 | Mar-09 |
|-----------------|--------|--------|
| Promoters       | 89.5   | 89.5   |
| MFs, Fls, banks | 4.2    | 3.4    |
| FIIIs           | 3.1    | 3.7    |
| Others          | 3.3    | 3.4    |

### Stock performance (%)

|              | 1m  | 6m   | 1yr  |
|--------------|-----|------|------|
| Absolute     | 3.1 | 12.1 | 50.2 |
| BSE 30 Index | 0.5 | 51.0 | 72.0 |

### Share price performance

Base=100



Source: Bloomberg, Capitaline.

**Figure 2: Quarterly results—Standalone**

Rs billion (unless indicated otherwise), year-end March

|                             | 2Q FY10        | 2Q FY09        | % YoY        | 2H FY10        | 2H FY09        | % YoY        |
|-----------------------------|----------------|----------------|--------------|----------------|----------------|--------------|
| <b>Net sales</b>            | <b>107.8</b>   | <b>96.6</b>    | 11.6         | <b>227.9</b>   | <b>192.0</b>   | 18.7         |
| Other operating income      | 4.7            | 4.3            |              | 10.0           | 8.5            |              |
| <b>Expenditure</b>          | <b>75.7</b>    | <b>71.1</b>    | 6.4          | <b>164.0</b>   | <b>142.3</b>   | 15.2         |
| <b>EBIDTA</b>               | <b>36.8</b>    | <b>29.8</b>    | 23.7         | <b>73.8</b>    | <b>58.2</b>    | 26.9         |
| EBITDA (%)                  | 34.2           | 30.8           |              | 32.4           | 30.3           |              |
| Other income                | 2.7            | 3.2            | (13.9)       | 5.2            | 6.1            | (15.0)       |
| Depreciation                | 6.4            | 5.3            | 22.2         | 12.6           | 10.8           | 16.4         |
| EBIT                        | 33.1           | 27.7           | 19.7         | 66.5           | 53.5           | 24.2         |
| Interest                    | 5.4            | 5.3            | 2.7          | 9.9            | 9.5            | 3.9          |
| PBT                         | 27.7           | 22.4           | 23.7         | 56.6           | 44.0           | 28.6         |
| Tax                         | 6.2            | 1.3            | 379.8        | 13.2           | 5.7            | 132.7        |
| Tax rate (%)                | 22.3           | 5.8            |              | 23.3           | 12.9           |              |
| <b>PAT</b>                  | <b>21.5</b>    | <b>21.1</b>    | 2.0          | <b>43.5</b>    | <b>38.4</b>    | 13.3         |
| <b>EPS (Rs)</b>             | <b>2.6</b>     | <b>2.6</b>     | 2.0          | <b>5.3</b>     | <b>4.7</b>     | 13.3         |
|                             |                |                |              |                |                |              |
| <b>Expenditure break-up</b> | <b>2Q FY10</b> | <b>2Q FY09</b> | <b>% YoY</b> | <b>2H FY10</b> | <b>2H FY09</b> | <b>% YoY</b> |
| <b>Cost of fuel</b>         | 66.1           | 59.6           | 10.9         | 143.5          | 120.9          | 18.6         |
| As a % of sales             | 61.3           | 61.6           |              | 63.0           | 63.0           |              |
| <b>Personnel costs</b>      | 5.0            | 6.0            | (16.6)       | 10.9           | 11.8           | (7.5)        |
| As a % of sales             | 4.7            | 6.3            |              | 4.8            | 6.2            |              |
| <b>Other expenses</b>       | 4.6            | 5.5            | (17.2)       | 9.5            | 9.5            | (0.3)        |
| As a % of sales             | 4.2            | 5.7            |              | 4.2            | 5.0            |              |

Source: Company data, Reliance Equities estimates.

**Figure 3: PLF for coal and gas-based stations**

| %           |       |      |      |      |      |        |            |      |      |
|-------------|-------|------|------|------|------|--------|------------|------|------|
|             | April | May  | June | 1Q   | July | August | September* | 2Q   | 1H   |
| <b>Coal</b> |       |      |      |      |      |        |            |      |      |
| FY10        | 93.2  | 93.5 | 91.9 | 92.9 | 83.6 | 82.0   | 81.6       | 82.4 | 87.3 |
| FY09        | 88.4  | 90.3 | 88.5 | 92.2 | 84.0 | 80.9   | 83.4       | 83.1 | 87.5 |
| <b>Gas</b>  |       |      |      |      |      |        |            |      |      |
| FY10        | 86.9  | 78.0 | 77.9 | 79.9 | 77.9 | 87.3   | 71.2       | 76.9 | 78.7 |
| FY09        | 72.6  | 74.0 | 57.7 | 67.2 | 62.5 | 58.3   | 58.1       | 58.2 | 62.7 |

Source: CEA.

\* Note: Data for September is provisional.

**Figure 4: PLF details—Sharp decline in PLF of Kahalgaon and Farakka due to non-availability of fuel**

| %                |      |        |            |      |        |            |           |         |            |
|------------------|------|--------|------------|------|--------|------------|-----------|---------|------------|
|                  | FY10 |        |            | FY09 |        |            | YoY (bps) |         |            |
| PLF%             | July | August | September* | July | August | September* | July      | August  | September* |
| <b>Kahalgaon</b> | 63.7 | 53.1   | 45.4       | 64.7 | 64.9   | 72.3       | -104.0    | -1178.0 | -2686.0    |
| <b>Farakka</b>   | 63.3 | 54.6   | 51.8       | 62.8 | 58.9   | 61.0       | 52.0      | -432.0  | -918.0     |

Source: CEA.

\* Note: Data for September is provisional.

**Figure 5: SOTP-based valuation**

| Rs/share                               |                    |                   |              |              |                          |
|--|--------------------|-------------------|--------------|--------------|--------------------------|
|  | Valuation multiple | Value (Rs./share) |              |              | Remarks                  |
|  |                    | FY10E             | FY11E        | FY12E        |                          |
| Core invested equity in power projects | 3.1                | 85.3              | 92.8         | 113.2        | BV multiple based on ROE |
| Core invested equity in JVs            | 3.1                | 8.4               | 8.9          | 11.3         | BV multiple based on ROE |
| 8.5% tax-free bonds                    | 1                  | 11.9              | 9.9          | 7.9          | On value of Investment   |
| Other Treasury & cash                  | 1                  | 23.0              | 18.3         | 15.8         | On value of Investment   |
| <b>Total equity value</b>              |                    | <b>128.6</b>      | <b>130.0</b> | <b>148.2</b> |                          |
| Add: Value of coal mining assets       | 1.6                | 0.2               | 0.7          | 1.2          | BV multiple based on ROE |
| <b>Total value incl. coal mining</b>   |                    | <b>128.8</b>      | <b>130.7</b> | <b>149.4</b> |                          |

Source: Company data, Reliance Equities estimates.

**Figure 6: Plant-wise capacity addition for XIth plan**

| MW   |                   |           |          |              |            |              |              |              |
|--|-------------------|-----------|----------|--------------|------------|--------------|--------------|--------------|
| Project  | CoD schedule (MW) |           |          |              |            |              |              |              |
|  | MW                | CoD month | FY08     | FY09         | FY10E      | FY11E        | FY12E        | FY13E        |
| <b>Coal-based stations</b>                             |                   |           |          |              |            |              |              |              |
| <b>Sipat STPP St-I</b>                                 | <b>1,980</b>      |           |          |              |            |              |              |              |
| Unit-I   |                   | Sep-10    |          |              |            | 660          |              |              |
| Unit-II  |                   | Mar-11    |          |              |            | 660          |              |              |
| Unit-III   |                   | Sep-11    |          |              |            |              | 660          |              |
| <b>Sipat STPP St-II</b>                                | <b>1,000</b>      |           |          |              |            |              |              |              |
| Unit-4   |                   | Jun-08    |          | 500          |            |              |              |              |
| Unit-5   |                   | Jan-09    |          | 500          |            |              |              |              |
| <b>Korba STPP III</b>                                  | <b>500</b>        |           |          |              |            |              |              |              |
| Unit-7   |                   | Oct-10    |          |              |            | 500          |              |              |
| <b>Kahalgaon-State II Phase-I Unit-5</b>               | <b>500</b>        |           |          |              |            |              |              |              |
| Unit-5   |                   | Aug-08    |          | 500          |            |              |              |              |
| <b>Kahalgaon STPS St.II ( Phase-II)</b>                | <b>1,000</b>      |           |          |              |            |              |              |              |
| Unit-6   |                   | Dec-08    |          | 500          |            |              |              |              |
| Unit-7   |                   | Jul-09    |          |              | 500        |              |              |              |
| <b>National Capital TPP,Dadri- St.II-Ph.I &amp; II</b> | <b>980</b>        |           |          |              |            |              |              |              |
| Unit-5   |                   | Jan-10    |          |              | 490        |              |              |              |
| Unit-6   |                   | May-10    |          |              |            | 490          |              |              |
| <b>Barh STPP</b>                                       | <b>1,980</b>      |           |          |              |            |              |              |              |
| Unit-1   |                   | XIth plan |          |              |            |              |              | 660          |
| Unit-2   |                   | XIth plan |          |              |            |              |              | 660          |
| Unit-3   |                   | XIth plan |          |              |            |              |              | 660          |
| <b>Farakka STPS Stage-III</b>                          | <b>500</b>        |           |          |              |            |              |              |              |
| Unit-6   |                   | Jan-11    |          |              |            | 500          |              |              |
| <b>Simhadari STPP St-II</b>                            | <b>1,000</b>      |           |          |              |            |              |              |              |
| Unit-3   |                   | Apr-11    |          |              |            |              | 500          |              |
| Unit-4   |                   | Oct-11    |          |              |            |              | 500          |              |
| <b>Bongaigaon TPP</b>                                  | <b>750</b>        |           |          |              |            |              |              |              |
| Unit-I   |                   | Aug-11    |          |              |            |              | 250          |              |
| Unit-II  |                   | Dec-11    |          |              |            |              | 250          |              |
| Unit-III   |                   | Apr-12    |          |              |            |              |              | 250          |
| <b>Mouda TPP</b>                                       | <b>1,000</b>      |           |          |              |            |              |              |              |
| Unit-1   |                   | Apr-12    |          |              |            |              |              | 500          |
| Unit-2   |                   | Oct-12    |          |              |            |              |              | 500          |
| <b>Barh STPP Stage-II</b>                              | <b>1,320</b>      |           |          |              |            |              |              |              |
| Unit-1   |                   | Apr-13    |          |              |            |              |              |              |
| Unit-2   |                   | Feb-14    |          |              |            |              |              |              |
| <b>Vindhyachal-IV TPP</b>                              | <b>1,000</b>      |           |          |              |            |              |              |              |
|  |                   | Sep-12    |          |              |            |              |              | 500          |
|  |                   | Mar-13    |          |              |            |              |              |              |
| Total thermal  |                   |           |          |              |            |              |              |              |
| <b>Total coal</b>                                      |                   |           | <b>0</b> | <b>2,000</b> | <b>990</b> | <b>2,810</b> | <b>2,160</b> | <b>3,730</b> |

Source: CEA, Reliance Equities research.

| Plantwise capacity addition for XIth plan (cont'd)   |                   |            |          |              |              |              |              |              |
|--|-------------------|------------|----------|--------------|--------------|--------------|--------------|--------------|
| MW   |                   |            |          |              |              |              |              |              |
| Project  | CoD schedule (MW) |            |          |              |              |              |              |              |
|  | MW                | CoD month  | FY08     | FY09         | FY10E        | FY11E        | FY12E        | FY13E        |
| <b>Gas based stations</b>                            |                   |            |          |              |              |              |              |              |
| <b>No gas addition from FY08 to FY12</b>             |                   |            |          |              |              |              |              |              |
| <b>Hydro based stations</b>                          |                   |            |          |              |              |              |              |              |
| <b>Loharinagpala</b>                                 | <b>600</b>        |            |          |              |              |              |              |              |
| Unit-I   |                   | XIIth plan |          |              |              |              |              | 200          |
| Unit-II  |                   |            |          |              |              |              |              | 200          |
| Unit-III   |                   |            |          |              |              |              |              | 200          |
| <b>Tapovan</b>                                       | <b>520</b>        |            |          |              |              |              |              | 130          |
| Unit-I   |                   | XIIth plan |          |              |              |              |              | 130          |
| Unit-II  |                   |            |          |              |              |              |              | 130          |
| Unit-III   |                   |            |          |              |              |              |              | 130          |
| Unit-IV  |                   |            |          |              |              |              |              |              |
| <b>Koldam</b>  | <b>800</b>        |            |          |              |              |              |              |              |
| Unit-I   |                   | 2011-12    |          |              |              |              |              | 200          |
| Unit-II  |                   |            |          |              |              |              |              | 200          |
| Unit-III   |                   |            |          |              |              |              |              | 200          |
| Unit-IV  |                   |            |          |              |              |              |              | 200          |
| <b>Total hydro</b>                                   |                   |            | <b>0</b> | <b>0</b>     | <b>0</b>     | <b>0</b>     | <b>800</b>   | <b>1,120</b> |
| <b>NTPC JV details</b>                               |                   |            |          |              |              |              |              |              |
| <b>Bhilai Expn TPP</b>                               | <b>500</b>        |            |          |              |              |              |              |              |
| <b>(NTPC-SAIL Power)</b>                             |                   |            |          |              |              |              |              |              |
| Unit-I   |                   | Apr-09     |          |              | 250          |              |              |              |
| Unit-II  |                   | Sep-09     |          |              | 250          |              |              |              |
| <b>Nabinagar TPP</b>                                 | <b>750</b>        |            |          |              |              |              |              |              |
| Unit-1   |                   | Mar-12     |          |              |              |              | 250          |              |
| Unit-2   |                   | Jul-12     |          |              |              |              |              | 250          |
| Unit-3   |                   | Nov-12     |          |              |              |              |              | 250          |
| <b>Vallur (Ennore) TPP</b>                           | <b>1,000</b>      |            |          |              |              |              |              |              |
| Unit-1   |                   | Jan-12     |          |              |              |              | 500          |              |
| Unit-2   |                   | Feb-12     |          |              |              |              | 500          |              |
| Unit-3   |                   | Dec-12     |          |              |              |              |              | 500          |
| <b>Indira Gandhi STPP (Aravali)</b>                  | <b>1,500</b>      |            |          |              |              |              |              |              |
| Unit-1   |                   | Nov-10     |          |              |              | 500          |              |              |
| Unit-2   |                   | Feb-11     |          |              |              | 500          |              |              |
| Unit-3   |                   | Jul-11     |          |              |              |              |              | 500          |
| <b>Muzaffarpur</b>                                   | <b>220</b>        |            |          |              | 220          |              |              |              |
| <b>Total JV</b>                                      |                   |            | <b>0</b> | <b>220</b>   | <b>500</b>   | <b>1,000</b> | <b>1,250</b> | <b>1,000</b> |
| <b>Total with JV (proportionate stake)-XIth plan</b> | <b>9,757</b>      |            | <b>0</b> | <b>2,112</b> | <b>1,240</b> | <b>3,310</b> | <b>3,095</b> | <b>5,470</b> |
| <b>Total with JV (full stake)-XIth plan</b>          | <b>11,730</b>     |            | <b>0</b> | <b>2,220</b> | <b>1,490</b> | <b>3,810</b> | <b>4,210</b> | <b>5,850</b> |
| <b>Total without JV-XIth plan</b>                    | <b>8,760</b>      |            | <b>0</b> | <b>2,000</b> | <b>990</b>   | <b>2,810</b> | <b>2,960</b> | <b>4,850</b> |

Source: CEA, Reliance Equities research.

**Figure 7: Details of core equity on which NTPC gets regulated RoE**

Rs million (unless otherwise specified), year-end March

|   | FY09E       | FY10E       | FY11E       | FY12E       | FY13E       |
|---|-------------|-------------|-------------|-------------|-------------|
| <b>Total equity incl JVs (yr-end)</b>   | 229,332     | 246,508     | 267,729     | 327,505     | 410,592     |
| <b>Equity/share ( Rs/share)</b>         | <b>27.8</b> | <b>29.9</b> | <b>32.5</b> | <b>39.7</b> | <b>49.8</b> |
| <b>Total equity excl JVs (yr-end)</b>   | 208,737     | 224,484     | 244,252     | 297,907     | 368,224     |
| <b>Equity/share ( Rs/share)</b>         | <b>25.3</b> | <b>27.2</b> | <b>29.6</b> | <b>36.1</b> | <b>44.7</b> |
| <b>JVs equity (yr-end)</b>              | 20,595      | 22,024      | 23,477      | 29,598      | 42,368      |
| <b>Equity/share ( Rs/share)</b>         | <b>2.5</b>  | <b>2.7</b>  | <b>2.8</b>  | <b>3.6</b>  | <b>5.1</b>  |
| <b>Average equity incl JVs (yr-end)</b> | 223,543     | 237,920     | 257,119     | 297,617     | 369,049     |
| <b>Equity/share ( Rs/share)</b>         | <b>27.1</b> | <b>28.9</b> | <b>31.2</b> | <b>36.1</b> | <b>44.8</b> |
| <b>Average equity excl JVs (yr-end)</b> | 203,206     | 216,611     | 234,368     | 271,080     | 333,065     |
| <b>Equity/share ( Rs/share)</b>         | <b>24.6</b> | <b>26.3</b> | <b>28.4</b> | <b>32.9</b> | <b>40.4</b> |
| <b>Average JVs equity (yr-end)</b>      | 20,337      | 21,310      | 22,751      | 26,537      | 35,983      |
| <b>Equity/share ( Rs/share)</b>         | <b>2.5</b>  | <b>2.6</b>  | <b>2.8</b>  | <b>3.2</b>  | <b>4.4</b>  |

Source: CEA, Reliance Equities research.

**Figure 8: Summary financials**

| Rs million (unless otherwise indicated), year-end March |                 |                  |                  |                  |
|---|-----------------|------------------|------------------|------------------|
| <b>Income statement</b>                                 | <b>FY08</b>     | <b>FY09</b>      | <b>FY10E</b>     | <b>FY11E</b>     |
| <b>Sales</b>  | <b>370,501</b>  | <b>419,237</b>   | <b>429,223</b>   | <b>467,298</b>   |
| Raw material  | (220,202)       | (271,107)        | (259,225)        | (278,563)        |
| Employee expenses                                       | (18,960)        | (24,631)         | -                | -                |
| SG&A & mktg exps.                                       | (16,284)        | (19,521)         | (48,342)         | (53,768)         |
| Other operating exps.                                   | (71)            | (246)            | -                | -                |
| Other op. income  | 17,008          | 22,024           | -                | -                |
| <b>EBITDA</b>   | <b>131,992</b>  | <b>125,756</b>   | <b>121,655</b>   | <b>134,967</b>   |
| Depn and amort.   | (21,385)        | (23,645)         | (26,547)         | (30,899)         |
| <b>EBIT</b>   | <b>110,607</b>  | <b>102,111</b>   | <b>95,108</b>    | <b>104,068</b>   |
| Net int. income/exp.                                    | (17,981)        | (20,229)         | (21,672)         | (26,817)         |
| Inc./loss from assoc.                                   | -               | -                | -                | -                |
| Other non-op inc./exp.                                  | 12,668          | 11,467           | 32,106           | 30,193           |
| PBT   | 103,022         | 93,349           | 123,590          | 107,976          |
| Provision for taxes                                     | (28,401)        | (11,582)         | (28,825)         | (25,427)         |
| Minority interest                                       | -               | -                | -                | -                |
| Preference dividend                                     | -               | -                | -                | -                |
| Reported net profit                                     | 74,621          | 81,767           | 94,765           | 82,549           |
| <b>REIPL net income</b>                                 | <b>74,621</b>   | <b>81,767</b>    | <b>94,765</b>    | <b>82,549</b>    |
| Wtd avg # of shares                                     | 8,245.5         | 8,245.5          | 8,245.5          | 8,245.5          |
| EPS (basic, rep) (Rs)                                   | 9.0             | 9.9              | 11.5             | 10.0             |
| EPS (dil., rep.) (Rs)                                   | 9.0             | 9.9              | 11.5             | 10.0             |
| <b>EPS (dil., adj.) (Rs)</b>                            | <b>9.0</b>      | <b>9.9</b>       | <b>11.5</b>      | <b>10.0</b>      |
| DPS (Rs)  | 3.5             | 3.6              | 3.7              | 3.8              |
| Divid payout ratio (%)                                  | 38.7            | 36.3             | 32.2             | 38.0             |
| <b>Balance sheet</b>                                    | <b>FY08</b>     | <b>FY09E</b>     | <b>FY10E</b>     | <b>FY11E</b>     |
| Cash and equiv.   | 149,331         | 162,715          | 185,784          | 147,319          |
| A/c.s receivable  | 29,827          | 35,842           | 41,158           | 44,809           |
| Loans and adv.  | 40,354          | 68,469           | 67,471           | 64,474           |
| Inventory   | 26,757          | 32,434           | 33,751           | 36,584           |
| Other current assets                                    | 9,218           | 9,792            | 9,792            | 9,792            |
| <b>Total curr. assets</b>                               | <b>255,487</b>  | <b>309,252</b>   | <b>337,957</b>   | <b>302,979</b>   |
| Accounts payable  | 55,483          | 74,391           | 66,738           | 70,976           |
| Short-term debt   | 73,147          | 73,147           | 73,147           | 73,147           |
| Other curr. liab.                                       | -               | -                | -                | -                |
| <b>Total curr. liab.</b>                                | <b>128,630</b>  | <b>147,538</b>   | <b>139,885</b>   | <b>144,123</b>   |
| <b>Net curr. assets</b>                                 | <b>126,857</b>  | <b>161,714</b>   | <b>198,072</b>   | <b>158,855</b>   |
| Net fixed assets  | 445,326         | 541,588          | 644,248          | 729,705          |
| Net intangibles   | -               | -                | -                | -                |
| Investments   | 152,672         | 139,835          | 125,057          | 111,393          |
| Other long-term assets                                  | 40,394          | 51,838           | 51,838           | 51,838           |
| <b>Total assets</b>                                     | <b>893,880</b>  | <b>1,042,514</b> | <b>1,159,100</b> | <b>1,195,915</b> |
| Total loans   | 198,759         | 272,531          | 339,960          | 325,464          |
| Other long-term liab.                                   | 40,105          | 51,856           | 50,110           | 51,262           |
| Shareholders' funds                                     | 526,386         | 573,701          | 632,802          | 678,723          |
| Pref. shrs/other equity                                 | -               | -                | -                | -                |
| Minority interest                                       | -               | -                | -                | -                |
| <b>Total liab. and equity</b>                           | <b>893,880</b>  | <b>1,045,626</b> | <b>1,162,757</b> | <b>1,199,572</b> |
| <b>BVPS (Rs)</b>  | <b>63.8</b>     | <b>69.6</b>      | <b>76.7</b>      | <b>82.3</b>      |
| <b>DuPont analysis</b>                                  | <b>FY08</b>     | <b>FY09</b>      | <b>FY10E</b>     | <b>FY11E</b>     |
| Margin (%)  | 20.1            | 19.5             | 22.1             | 17.7             |
| Asset turnover (x)                                      | 0.4             | 0.4              | 0.4              | 0.4              |
| Leverage (x)  | 1.7             | 1.8              | 1.8              | 1.8              |
| ROE (%)   | 14.7            | 14.9             | 15.7             | 12.6             |
| <b>Cash Flow Statement</b>                              | <b>FY08</b>     | <b>FY09E</b>     | <b>FY10E</b>     | <b>FY11E</b>     |
| PBT   | 103,022         | 93,349           | 123,590          | 107,976          |
| D&A add back  | (21,385)        | (23,645)         | (26,547)         | (30,899)         |
| Taxes paid  | (28,401)        | (11,582)         | (28,825)         | (25,427)         |
| (Inc)/dec in w. cap                                     | 31,413          | 34,857           | 36,358           | (39,217)         |
| Other op. cash flow                                     | 30,051          | 11,495           | 23,375           | 129,736          |
| <b>Cash flow from op. (A)</b>                           | <b>114,700</b>  | <b>104,475</b>   | <b>127,950</b>   | <b>142,169</b>   |
| Cap exp. (B)  | (81,663)        | (119,907)        | (129,207)        | (116,356)        |
| Acquisitions (C)  | -               | -                | -                | -                |
| Divestitures (D)  | -               | -                | -                | -                |
| Others (E)  | 8,271           | 12,837           | 14,778           | 13,663           |
| <b>Cash flow from investing</b>                         | <b>(73,392)</b> | <b>(107,070)</b> | <b>(114,429)</b> | <b>(102,693)</b> |
| FCF (A+B+C+D+E)   | 33,037          | (15,432)         | (1,257)          | 25,813           |
| Divids pd (com. and pref.)                              | (33,764)        | (34,700)         | (35,664)         | (36,628)         |
| Inc. in equity  | -               | -                | -                | -                |
| Inc./(dec.) in debt                                     | 27,062          | 73,772           | 67,429           | (14,496)         |
| Other financing cash flows                              | (18,420)        | (24,600)         | (21,672)         | (26,817)         |
| <b>Cash flow from financing</b>                         | <b>(25,122)</b> | <b>14,472</b>    | <b>10,093</b>    | <b>(77,941)</b>  |
| <b>Total cash flow</b>                                  | <b>16,186</b>   | <b>11,877</b>    | <b>23,614</b>    | <b>(38,465)</b>  |
| <b>Capital management</b>                               | <b>FY08</b>     | <b>FY09</b>      | <b>FY10E</b>     | <b>FY11E</b>     |
| Inventory days  | 25.5            | 25.8             | 28.1             | 27.5             |
| Receivable days   | 20.9            | 28.6             | 32.7             | 33.6             |
| <b>Growth and margins (%)</b>                           | <b>FY08</b>     | <b>FY09E</b>     | <b>FY10E</b>     | <b>FY11E</b>     |
| Sales growth  | 13.7            | 13.2             | 2.4              | 8.9              |
| EBITDA growth   | 31.4            | (4.7)            | (3.3)            | 10.9             |
| EPS growth  | 8.7             | 9.6              | 15.9             | (12.9)           |
| EBITDA margin   | 35.6            | 30.0             | 28.3             | 28.9             |
| EBIT margin   | 29.9            | 24.4             | 22.2             | 22.3             |
| Net margin  | 20.1            | 19.5             | 22.1             | 17.7             |
| Rev. growth – peers                                     | -               | -                | -                | -                |
| EBITDA growth – peers                                   | -               | -                | -                | -                |
| EBITDA margin – peers                                   | -               | -                | -                | -                |
| EPS growth – peers                                      | -               | -                | -                | -                |
| Noplat  | 80,115          | 89,442           | 72,926           | 79,562           |
| Invested capital  | 645,331         | 776,450          | 915,467          | 961,707          |
| ROIC (%)  | 13.4            | 12.6             | 8.6              | 8.5              |
| ROIC/WACC (x)   | 13.2            | 12.5             | 8.5              | 8.4              |
| ROIC – peers (%)  | -               | -                | -                | -                |
| <b>Valuations</b>                                       | <b>FY08</b>     | <b>FY09E</b>     | <b>FY10E</b>     | <b>FY11E</b>     |
| P/E (x)   | 23.4            | 21.4             | 18.4             | 21.2             |
| P/E (peers) (x)   | -               | -                | -                | -                |
| EV/sales (x)  | 5.0             | 4.6              | 4.6              | 4.3              |
| EV/sales – peers (x)                                    | -               | -                | -                | -                |
| EV/EBITDA (x)   | 14.2            | 15.4             | 16.2             | 14.8             |
| EV/EBITDA (peer group)                                  | -               | -                | -                | -                |
| P/B (x)   | 3.3             | 3.0              | 2.8              | 2.6              |
| P/B peer group (x)                                      | -               | -                | -                | -                |
| Div yield (%)   | 1.7             | 1.7              | 1.7              | 1.8              |
| Free cash flow yield (%)                                | 1.9             | (0.9)            | (0.1)            | 1.5              |
| <b>Quality of earnings</b>                              | <b>FY08</b>     | <b>FY09E</b>     | <b>FY10E</b>     | <b>FY11E</b>     |
| Op. cash flow/net income (x)                            | 1.5             | 1.3              | 1.4              | 1.7              |
| Capex/Depn (x)  | 3.8             | 5.1              | 4.9              | 3.8              |
| Tax charge/pre-tax income (x)                           | 27.6            | 12.4             | 23.3             | 23.5             |
| Net debt/equity (%)                                     | 0.2             | 0.3              | 0.4              | 0.4              |
| Interest cover (x)                                      | 6.2             | 5.0              | 4.4              | 3.9              |

Source: Company data, Reliance Equities estimates.

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#### **Key to REIPL recommendations**

**Outperform** = Expected total return is more than the hurdle rate.

**Neutral** = Expected total return is less than the hurdle rate but more than zero.

**Underperform** = Expected total return is negative.

**Expected total return** is defined as expected price appreciation over the next 12 months plus our dividend yield forecast for the stock.

**Hurdle rate** is defined as the ten-year government securities yield + our market risk premium assumption.

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#### **DISCLOSURES**

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