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Greaves Cotton Ltd.

PRICE: RS.336 | **RECOMMENDATION: BUY**
TARGET PRICE: RS.421 | **FY11E P/E: 12x**

Greaves Cotton is one of the largest makers of light diesel engines in the world. Over the years, the company's focus on R&D has resulted in an efficient product which is gaining acceptance with OEMs. GCL has been made the sole supplier of engines to Tata Motors' 4W LCV "Penguin", which is in the launch phase. The company's prime client, Piaggio (PVPL), has been a focused player in light transportation and has seen its 3W volumes grow 29% in 9M FY10. We believe higher demand from rural sector and increasing preference of light vehicles for intra-city transportation should drive growth in the 3-4W (sub 1 ton) auto segment. The company's infrastructure equipment division is expected to turnaround in FY11. We feel GCL is an ideal stock to play the development of light cargo transportation in the country. Valuations at 12x is not demanding. BUY

Key Investment Rationale

- **Three wheelers - Growth driven by need for low cost transportation.** Passenger segment 3W continues to generate bulk of the volumes for GCL's automotive engines division. Given that three wheelers are the cheapest mode of transportation for passengers as well as goods, we see steady demand for this product from the urban as well as the rural areas. In the urban landscape, the emergence of "Hub and Spoke" model is resulting in LCVs being used for intra-city transportation.

- **Addition of new OEMs and variants to give impetus to growth.** Diversifying from Piaggio, GCL has been making inroads into other OEMs including Tata Motors and M&M. It has been made the sole supplier of engines for Tata Motors' new 4W LCV model in the 0.5 ton segment named "Penguin". In addition to this, Piaggio is also sourcing engines from GCL for its 4W "Ape Truk Plus" which has been selectively launched in September 2009. The 4W segment has been gaining market share over 3W in the cargo segment. We believe these two models can generate significant volumes in the coming years. Simultaneously, we see the overall LCV cargo market expanding due to the availability of superior models.

- **Infrastructure equipment segment to turnaround in FY11.** The infrastructure equipment segment bore the brunt of credit crisis in 2008 and posted a sharp decline of 59% in revenues in FY09. Segment margins turned negative due to lower volumes and higher material costs. However, due to the expansion in infrastructure sector and renewed thrust on road building (targeting a quantum rise in road building to 20km/per day), we see demand responding positively. Profitability has been improving sequentially and we expect this division to turnaround in FY11 and contribute meaningfully to the profits in FY12 onwards.

- **Significant margin expansion in FY10 on soft material prices.** GCL reported 500 bps expansion in EBITDA margins in 9M FY10 on the back of higher volumes coupled with softer material prices. Margin expansion was despite the Infrastructure equipment business continuing to report losses. Going ahead, we expect to see some benefits of softer material prices in FY10 to partially reverse as material prices have inched up in recent months. However, the impact on overall margins would be partially cushioned by improving profitability in Infrastructure equipment segment. Thus we have built in minor reduction in EBITDA margins in FY11.

Stock details

BSE code	:	501455
Market cap (Rs mn)	:	16749
Free float (%)	:	48.6
52-wk Hi/Lo (Rs)	:	465/236
Avg. daily volume	:	50000
Shares o/s (mn)	:	48.83

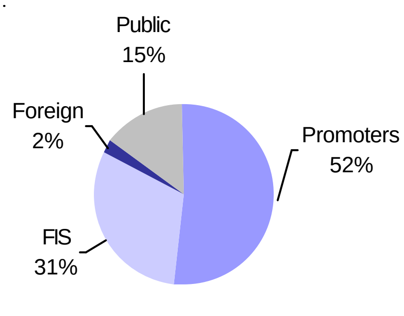
Summary table - Year end June

(Rs mn)	FY10E	FY11E	FY12E
Sales	13,313	15,343	18,155
Growth (%)	28.4	15.3	18.3
EBITDA	2,099	2,342	2,723
EBITDA margin (%)	15.8	15.3	15.0
Net profit	1,165	1,368	1,640
Net cash (debt)	660	1,296	2,250
EPS (Rs)	23.8	28.0	33.6
Growth (%)	198.0	17.5	19.8
CEPS	29.5	34.2	40.2
DPS (Rs)	4.0	5.0	5.5
ROE (%)	25.7	24.9	24.6
ROCE (%)	35.7	34.6	34.2
EV/Sales (x)	1.1	0.9	0.7
EV/EBITDA (x)	7.5	6.5	5.2
P/E (x)	14.1	12.0	10.0
P/Cash Earnings	11.4	9.8	8.3
P/BV (x)	3.7	3.0	2.4

FY09-10	Q4	Q1	Q2	Q3
Net Sales	2,619	2,988	3,425	3,579
EPS (Rs)	2.5	4.9	6.7	6.9

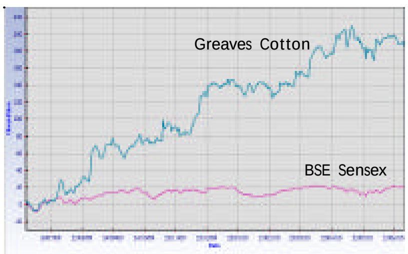
Source: Company & Kotak Securities - Private Client Research

Shareholding pattern as on 31 Mar 10



Source: Capitaline

One-year performance (Rel to sensex)



Source: Capitaline

- **High Return ratios**. Owing to the high asset turnover coupled with attractive net profit margins, we see GCL generating a high ROE of 26% in FY10. The company is practically debt-free and likely to end with decent cash surplus by FY10E of Rs 22 per share. Capex needs are not very demanding and can be financed through internal accruals.

Valuations

Greaves is currently trading at a P/E of 14.1x and 12.0x FY10E and FY11E earnings respectively. On a EV/EBITDA basis, the stock is trading at forward 6.5x. Our DCF based target price for the stock works out to Rs 421.

Risks and Concerns

- **Steep increase in material prices may lead to margin erosion as** GCL's business is material intensive accounting for 69% of revenues.

We Initiate coverage with BUY recommendation on Greaves Cotton with a price target of Rs.421

- **OEMs like Piaggio sourcing engines from captive units.** Piaggio is building an engine manufacturing facility in India, which should become operational in 2010. This unit has the capability to make 1000-1200 cc diesel engines for new generation minitrucks for the African and Asian markets. While this risk has been an overhang on the stock, the GCL management has clarified that this engine unit would mainly cater to the two-wheeler segment which Piaggio is planning to reenter.
- We believe there is understanding between GCL and Piaggio on continuation of the sourcing agreement. GCL has an excellent relationship with Piaggio and has firm agreement for long-term procurement of engines. In the past, GCL has not let down Piaggio on meeting supply commitments.

Company Background

Leading supplier to OEMs

Greaves Cotton Limited, established in 1859, is one of India's leading and well-diversified engineering companies. It manufactures a wide range of industrial products to meet the requirement of core sectors in India and abroad. The Company's core competencies are in Diesel / Petrol Engines, Gensets, Pumpsets and Construction Equipment.

One of the leading makers of light diesel engines in the world

The business operations of the Company are divided into various divisions strategically structured to ensure maximum focus on each business area and yet retain a unique synergy in the operations:

The Business Divisions are:

Business divisions

Divisions	Product Lines
Agricultural Equipment	Petrol / Kerosene Engines: 1 to 5 HP, Pumpsets and Power Tillers
Automotive	Light Diesel Engines: 4.4 to 20 HP
Auxiliary Power	Large Diesel Generating Sets Range: 500 VA to 500 kVA single unit and upto 2500 kVA in parallel running
Construction Equipment	Concrete Mixer, Concrete Pump, Batching Plant, Vibratory Compactor, Wheel Loader, Motor Grader.
Industrial Engines	Diesel Engines: 1.4 to 1000 HP range

Source: Company

Emerged stronger and focused after turnaround in 2005

Greaves incurred losses during 2000-2002, mainly on account of failed diversifications such as Rajasthan Polymers and Resins Ltd., tractors business with SAME, and three wheeler venture with Piaggio. The company divested its polymers, transmission and tractor ventures to emerge as a focused player in light engine business. Consequently, after losses for 3 years, the company's operations turned around to become profitable in FY05. This has been possible because of its core segments of engines and infrastructure. We expect both segments to continue with their healthy growth

Management

Competent management

The BoD comprises of a Managing Director and five Independent Directors, and one from the promoter group Mr. Karan Thapar, who is Non-Executive Chairman of the company. The day-to-day management is vested with Mr. Prabhakar Dev, Managing Director and CEO of the company, who is a professional and has joined the company in 2008. The Company's Board is well balanced, majority of whom are independent and with professional background and expertise in different fields.

Key milestones of the company

Year	Milestones
1994	Acquires two plants from Enfield India to manufacture petrol and diesel engines
2000	Launches lightweight diesel engine model GL 400, complying with Bharat Stage I emission norms for 3W
2006	Opens a new technology centre at Aurangabad to develop new generation engines
2007	Opens second transit mixer manufacturing facility in TN
2007	Acquires Bukh-Farymann Diesel GMBH, Germany
2008	opens state-of-the-art Tech centre making G-series engines in Pune
2009	launches twin-cylinder diesel engine for 4W SCVs

Source: Company

Strong technical and manufacturing base

Greaves has a strong knowledge base in single cylinder diesel engines used for low cost transportation and its engines are extensively used in the three wheeler segment.

Strong focus on R&D

- **Reliable quality and efficient product technology:** GCL has the technology to make diesel/petrol engines as well as engines compatible with LPG and CNG. The company's focus has been on product manufacturing accompanied by constant technological upgradation through R&D. It has set up two Technology Centres, one at Aurangabad in the year 2006 and another one at Chinchwad, Pune, in January 2008. The focus on technology at Greaves should empower the Company to evolve engines that are customized to perform efficiently and cost effectively.
- **Cost efficient operations** - Greaves has over the years built a strong vendor base for its products, which has not only helped in cost reduction but has also improved productivity. The company also has a inhouse foundry for making castings which are used as cylinder heads, crank cases and other engine components.
- **Strong after-market support** - Greaves also has a strong after market support of nearly 800 dealers across the country to cater to post sales requirements of customers

Business Profile

With a view to ensure a better focus on target markets and to streamline operations, the business of the Company has recently been restructured into five divisions:

Engines and infrastructure are the two main segments

- **Agricultural Equipment Division** - manufacturing and marketing of agricultural equipment like engines, pumpsets, power tillers, harvesters etc.
- **Automotive Division** - manufacturing and marketing automotive engines for the three and four wheeler segments.
- **Auxiliary Power Division** - manufacturing and marketing power generating sets.
- **Construction Equipment Division** - manufacturing and marketing of wide range of concreting and compacting equipment.
- **Industrial Engines Division** - manufacturing and marketing engines based on diesel and other fuels, as a prime mover for a host of industrial applications.

Automotive Division - around 62% of revenues, Play on the hub and spoke model

Light diesel engines segment is the largest revenue contributor for Greaves. The company manufactures light engines for diesel/petrol and also CNG/ LNG applications for the 3W and 4W light commercial vehicle segment. GCL is the only independent engine supplier for three wheelers, with key OEM customers (except Bajaj Auto and Force Motors).

Three wheelers - mainstay of the Automotive division

3W sales is the main revenue driver

Three wheelers constitute 73% of small-sized commercial vehicles in India, with annual sales of 0.6 mn units. Over the past 5 years, the segment has registered 10% CAGR (degrowth in FY08 & FY09), driven by rising urbanization and preference for light vehicles for intra-city transport covering short distances. Within the 3W, the goods carriers account for 15% of volumes but have been losing its share in cargo movement to 4W like Tata Ace and M&M's Maxximo and Gio.

Volumes in 3W & 4W

Units (Apr-Mar)	FY08	FY09	FY10
Total - 3W volumes	**505,413**	**497,378**	**613,650**
% change	-9	-2	23
Passenger	373,243	411,324	522,167
% change		10	27
Cargo	132,170	86,054	91,483
% change		-35	6
Piaggio 3W cargo	58,923	42,890	50,965
% change		-27	19
Piaggio 3W Passenger	93,933	105,146	134,741
% change		12	28
Total - 4W (overall)	**180,321**	**160,791**	**229,537**
% change		-11	43

Source: Company

Emergence of hub and spoke model

With the burgeoning road infrastructure development, commercial vehicle sales will be driven by a focus on application-specific commercial vehicles such as medium and heavy commercial vehicles (M&HCVs) for long distance transportation and light commercial vehicles (LCVs), typically the sub-3.5-ton vehicles, for last mile connectivity. The rising demand for specialized vehicles, due to the creation of the hub-and-spoke model is driving the growth in light commercial vehicles market in India

Piaggio: Greaves' prime client in auto engines

Supplier to Piaggio's 3W & 4W models

Piaggio is the one of the leaders in light transportation solutions in India, offering a range of three- and four-wheeled vehicles that are customized to meet the diverse transportation needs. Today these constitute a vital link in secondary and tertiary distribution across the country.

Piaggio enjoys a marketshare of 56% in the three-wheeler cargo segment and 26% in the three-wheeler passenger segment.

Piaggio Vehicles Pvt. Ltd. (PVPL), has in FY10 introduced the Ape Truk Plus - a 4-wheel cargo truck in the one-tonne (1,000 kg) category. The vehicle which was launched in Chennai in November 2009 will be introduced in all other major markets over a period. The vehicle comes fitted with 870cc twin cylinder engine manufactured by Greaves and a five-speed gearbox and boasts of a mileage of 22 km/ litre.

The Ape Truk Plus is the second in Piaggio's range of 4-wheeler solutions. Piaggio had launched its 4-wheeled mini truck Ape Truk a couple of years ago. The Ape Truk is a sub-one tonner mini-truk with a carrying capacity of 865 kg. It is powered by a single-cylinder 482cc engine. Both the Ape Truk and Ape Truk Plus have been launched in the cargo segment. The company is planning to launch the passenger version in 2010.

The market size of 4-wheeled mini truks is around 27000 units per month, with the Tata Ace commanding a major share of 58%. Piaggio currently has a 5% market share in the segment.

Adding new OEMs - a key derisking strategy

GCL to supply engines for Tata Motor's `Penguin' 0.5t 4W

While Piaggio is the prime client of GCL, it is also making inroads into the engine requirements of other OEMs. Except for Bajaj Auto and Force Motors (uses engines from captive sources), most other 3W and 4W makers are clients of GCL. Recent addition has been Tata Motors, which has made GCL the sole supplier of engine for its 0.5 ton 4W "Penguin", which is in the process of a nation-wide launch.

The key to GCL's success in light engines is its R&D focus, which has come out with engines that offer "Value Proposition" to the clients. The large production base of the company optimizes cost of production. GCL crossed the 2 mn engine mark in 2009.

Growth Outlook: We forecast 15% CAGR in Auto segment revenues

Based on the above-mentioned factors we have factored in 15% increase in auto segment revenues. Volumes will get a boost in FY12 from the nationwide launch of Tata Motors' "Penguin" model in FY11.

Auxiliary Power and Industrial - around (9% of revenues)

Major presence in low to mid HP DG sets

The Auxiliary Power Division manufactures multicylinder engines in the power range of 15-800 BHP. These engines are used mainly in powering generating sets, as well in industrial, marine and defence applications. In the power generation sector, which is the main market for this segment, the Company has a presence in 15 to 500 KVA range. The Company has a significant market share in the 250-500 KVA range gensets. The Division has for some time now been working on improving the technology of the gensets. It has therefore moved to fully packaged gensets with sophisticated PC based control panels.

Competitive landscape

KVA	Applications	major players
Upto 26 KVA	Agri, pumps, compressors	KOEL, Cummins and Greaves
26-500 KVA	cars, buses, HCVs and gensets	KOEL, CIL, Greaves
500-1000 KVA	Industrial, marine, Captive power	CIL, Wartsila, KOEL
Above 1000 KVA	Captive power and marine	CIL, Wartsila

Source: Company

The Division has in FY09 launched a new water cooled engine range called the "G" series that is specifically designed for application in the power generation, industrial and construction segments. In addition to this, the company has also launched two gas powered gensets with 115 and 200 KVA capacity to take advantage of the emerging opportunity from availability of gas.

Manufacturing, services and infrastructure are key demand drivers

Momentum in IIP growth augers well

- Engines form the core of the capital goods segment and Greaves is among the major manufacturers of diesel engines in India, we believe that the macro environment is strongly supportive of the company's growth, going forward. IIP growth for FY10 came at 10.4% as compared to 2.8% for FY09. The healthy double digit growth during FY10 has came on back of strong growth in manufacturing and mining segment, which are large users of diesel engines.
- At the same time, driven by the need to have a back-up source of power, sectors such as Telecom, Commercial construction, IT, ITES, Retail, Hotels and Hospitals have emerged as significant buyers of diesel engines. The chronic power deficit in the country (16% peak deficit) has only fuelled this demand.
- Demand for diesel engines from the construction sector is driven by excavation and drilling applications. Road building is an important demand driver especially with the government's thrust on increasing the pace of road building in the country.

Agro equipment- 16% of revenues

Significant player in power tillers

Greaves is essentially present in portable petrol/kerosene engine pumpset segment. They are either marketed as complete pumpsets for agricultural sector or as bare engines for miscellaneous applications. The Division also sources and supplies power tillers and other mini agro - equipment that enables small and marginal farmers to mechanize their operations. The performance of this segment is mainly dependent on the agriculture growth in the country.

With an annual sale of around 90,000 portable agricultural pumpsets, Greaves agro equipment already commands majority share of the market in this segment. Over the years, GCL has built a strong sales and service network across the length and breadth of the country, which serves as a good platform for the company to launch new products.

The government has a strong commitment to increase mechanization in the farm sector, which should be a steady long-term demand driver.

Infrastructure Equipment (12% of revenues)

The Construction Equipment Division manufactures and markets concreting and compacting equipment - primarily mixers, batching plants, concrete pumps and vibratory rollers for asphalt and soil compaction

One of the major players in concrete mixer and compactors

GCL has a tie-up with Bomag for manufacturing compators used for road construction. It has launched the heaviest Single Drum Vibratory Compactor ever to hit the Indian soil with a weight of more than 19 ton. The company has also expanded its portfolio to include earth-moving equipment with the launch of its Wheeled Loader CG 932 H in tie up with Mitsubishi Heavy Industries Limited, Japan. GCL will market these loaders in India.

The Construction and Road Building equipment sector was growing robustly over the last few years. However, the global slowdown in FY09 dealt a body blow to the real estate construction which resulted in the equipment demand falling off the cliff. With significant concrete mixing capacities lying idle, the demand for new mixers, batching plants and concrete pumps had reduced considerably. Most equipment purchases are financed by Financial Institutions and NBFCs and a credit freeze in 2008-09 added to the industry woes. While credit availability has eased since mid-2009 and demand has started to look up but market size it is still nowhere closer to the peak levels in FY08.

Products in infrastructure equipment

Road making

- Soil Compactors
- Heavy tandem rollers
- Light tandem rollers

Concreting equipment

- Transit mixers
- Concrete pumps
- Batching plants

Several drivers for long-term demand for equipment

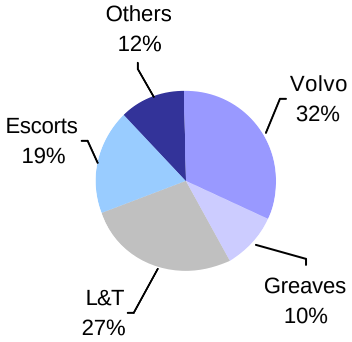
- Huge infrastructure development in the country estimated to be USD 375 bn in the 11th plan period should create healthy demand for construction machinery. Most of the investment will be in areas (Roads, Power, Irrigation and Mining) with high elasticity of demand for construction equipment. A better measure of the expansion in infrastructure activity could be order books of EPC companies, which have shown robust expansion.

Order book of construction majors

Rs bn	FY09	FY10	% change
L&T	703	1002	42.5
IVRCL	136	234	72
Patel Engg	72	100	39
IRB	57	100	77

Source: Company

Compactors market share



Source: Feedback Consultancy

- The Union Minister Mr Kamal Nath has unveiled a massive road development plan by raising the road building target from less than 5 kms/day in FY09 to close to 20 kms/day. Policy issues are also being ironed out and ordering activity has clearly improved.
- Foreign players have started entering India. This would mean increase in product variety, new applications and services, which may mean greater competition but would also catalyse market expansion.
- Implementation of international standards of construction quality in India, which may spur contractors to go for specialized equipment.

Competitive landscape

Market Share (%)	Concrete Pump	Batching plant	Concrete mixer
Stetter	38	55	69
Greaves	11	3	22
Aquarius	26	5	0
Sany	16	0	0

Source: Feedback Consultancy

Earnings Outlook

We forecast 17% CAGR in revenue growth between FY10-12

We expect GCL's revenues to grow at a CAGR of 17% between FY10-12 mainly driven by the growth in automotive engines and infrastructure equipment segment. GCL's prime client Piaggio has reported 19%, 28% and 23% growth in April-March 2010 period in 3W cargo, 3W Passenger and 4W (Ape Truk) categories, respectively. Further impetus to growth would be provided by ramp-up in Ape Truk Plus and Tata Motor's Penguin models.

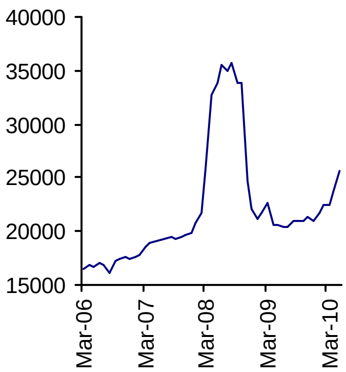
The infrastructure equipment division is on a recovery mode after the sharp downswing in FY09. Given the continued thrust on road building and infrastructure, we expect this division to continue to grow at a fast clip.

Segment revenue mix

(Rs mn)	FY08	FY09	FY10E	FY11E	FY12E
Auto engines	6549	7175	9039	10140	11907
% yoy change	-9.0	9.6	26.0	12.2	20.0
Agri	1441	1916	2299	2805	3366
% yoy change	28.0	33.0	20.0	22.0	20.0
DG	1572	1019	1243	1491	1760
% yoy change		-35.2	22.0	20.0	18.0
Infrastructure segment	3405	1242	1702.5	2162	2638
% yoy change	51.0	-63.5	37.1	27.0	22.0
Others	131	151	170	170	170
% yoy change	-91.7	15.3	12.6	0	0
Gross sales	13,098	11503	14454	16768	19841
% yoy change	7.7	-12.2	25.7	16.0	18.3

Source: Company; Kotak Securities - Private Client Research

Pig iron price in Rs/tn



Source: Bloomberg

EBITDA margins to stabilize around 15%

For its main revenue segment of automotive engines, GCL enters into annual supply contracts with OEMs at fixed price. In supply contracts, GCL builds in some safety buffer to account for normal material price rise. However, any sharp increase can significantly impact margins.

The Infrastructure division is on a recovery mode. This division had EBIT margins of 14% in FY07-08 but following the downswing in FY08 margins fell into red in FY09. We see this division turning around in FY11.

PBIT margins

(%)	FY07	FY08	FY09	FY10E	FY11E	FY12E
Engines	15.2	12.6	13.3	17.1	16.5	16.0
Infrastructure	14.3	14.2	-3.7	-3.5	6.0	9.0
Total	15.0	13.4	11.4	15.2	15.7	15.5

Source: Company, Kotak Securities - Private Client Research

Low gearing and moderate capex needs

At the end of FY09, GCL had a debt of Rs 444 mn equivalent D/E ratio of 0.1x. The company's engine capacity is 350,000 units which the company can double at a cost of Rs 600 mn.

Strong numbers in 9MFY10

9M FY10 Performance (Year end June)

(Rs mn)	9M FY10	9M FY09	% change
Net Revenue	**9991.3**	**7976.8**	**25.3**
Other op income	4.1	6.1	-32.8
Operating Expenditure	8384.5	7091.4	18.2
RM costs	6822	5560.6	22.7
Staff costs	681.7	669	1.9
Other costs	880.8	861.8	2.2
Operating profit	**1610.9**	**889.2**	**81.2**
Other income	29.7	32.1	-7.5
Interest	101.2	128.1	-21.0
Gross Profit	**1539.4**	**793.2**	**94.1**
Depreciation	202	188	7.4
PBT	**1337.4**	**605.2**	**121.0**
Tax	-435.6	-188.6	131.0
Adjusted PAT	**901.8**	**416.6**	**116.5**
Extraordinary items	0	11.8	-100.0
OPM (%)	16.1	11.1	
RM costs to sales (%)	68.3	69.7	
Other expenditure to sales (%)	8.8	10.8	
Tax rate (%)	-33	-31	
EPS (Rs)	**18.5**	**8.5**	

Source: Company

Significant margin expansion in engines

Segment revenues

(Rs mn)	9M FY10	9M FY09	% change
Engines	8484	6597	28.6
Infrastructure	1091	1025	6.5
Others	418	363	15.0
Total	9995	7985	25.2

Source: Company

Segment margins

(%)	9M FY10	9M FY09
Engines	19.6	14.4
Infrastructure	-5.1	-1.8
Others	27	20
Total	**17.2**	**12.6**

Source: Company

During the nine months period, revenue from engines grew 28.6% much in line with the 3W volumes growth of 29%. The infrastructure segment has been recovering from the downswing of the previous year and posted a modest revenue growth of 6.5%. Segment margins for engines improved significantly aided by lower material price pressure and increased volumes. The infrastructure equipment margins have been negative but are showing sequential improvement.

Performance of Greaves Farymann likely to improve in FY10

Greaves Farymann Diesel is a subsidiary of GCL and is a specialist in the development, production and sale of small diesel engines for construction and marine applications. GCL saw synergies between the low-cost Indian operations and established brand and reach of Farymann Diesel. GFD reported revenue of Rs 244 mn and a loss of Rs 107 mn in FY09. The GCL management has indicated that this company has received decent orders lately and should report improved performance in FY10.

VALUATIONS

Greaves is currently trading at a P/E of 14.1x and 12.0x FY10 and FY11x earnings respectively. On a EV/EBITDA basis, the stock is trading at forward 6.5x. Our DCF based target price for the stock works out to Rs 421.

DCF valuation (Rs mn)

PV of FCFE	16273
surplus cash	660
Shareholders' Value	16933
Value per share	371
1 Yr forward	420.4
Upside (%)	25

Source: Kotak securities - Private Client Research

Free Cash Flow to Firm

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
PAT	1,368	1,640	1,746	1,952	2,255	2,601	2,996	3,268	3,358
Depreciation	300	326	342	359	377	396	416	436	458
Interest	100	70	150	150	150	150	150	150	150
Capex	(330)	(358)	(376)	(395)	(415)	(435)	(457)	(480)	(504)
NWC change	(318)	(268)	(306)	(1,009)	(406)	(463)	(528)	(559)	(583)
FCFF	1,121	1,409	1,556	1,057	1,961	2,249	2,577	2,816	2,879
Discounted Value	989	1,098	1,070	642	1,052	1,064	1,077	1,039	938

Source: Kotak securities - Private Client Research

Assumptions

Revenue Grth FY10-15	16.00
Terminal growth	4.00
WACC	13.3
Beta	1.0
Risk Free Rate	7.5
Market Risk Premium	6.0
Cost of Equity	13.5
Cost of Debt	8.00
Debt	444
Equity	16,846
WACC	13.3

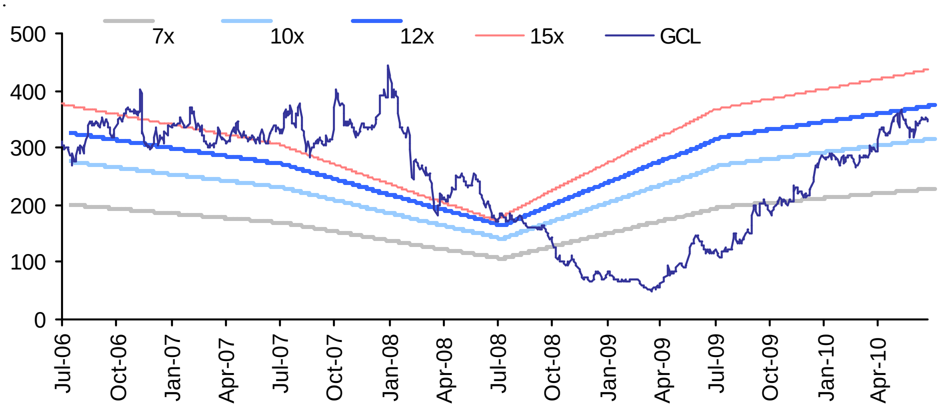
Source: Kotak securities - Private Client Research

Sensitivity Analysis

WACC (%)	12.3%	13.3%	14.3%
3.0	454	414	383
4.0	478	421	397
5.0	510	454	415

Source: Kotak securities - Private Client Research

PE Band



Source: Capitaline, Kotak Securities - Private Client Research

FINANCIALS

Profit and Loss Statement (Rs mn)

Year end March	FY09	FY10E	FY11E	FY12E
Revenues	**10,371**	**13,313**	**15,343**	**18,155**
% change yoy	(9.8)	28.4	15.3	18.3
EBITDA	**1,140**	**2,099**	**2,342**	**2,723**
% change yoy	(29.4)	84.2	11.6	16.3
Depreciation	253	274	300	326
EBIT	**888**	**1,826**	**2,042**	**2,397**
% change yoy	(36.9)	105.7	11.9	17.4
Net Interest	222	134	100	70
Other Income	118	40	100	120
Earnings Before Tax	**784**	**1,731**	**2,042**	**2,447**
% change yoy	(38.4)	121.0	18.0	19.8
Tax	(393)	(567)	(674)	(808)
as % of EBT	-50.1	-32.7	-33.0	-33.0
Net Income adj	**391**	**1,165**	**1,368**	**1,640**
% change yoy	(56.9)	198.0	17.5	19.8
Adj Net income for equityholds	391	1,165	1,368	1,640
Extraordinary income	14.5	0.0	0.0	0.0
Reported Net Income	**405**	**1,165**	**1,368**	**1,640**
Shares outstanding (m)	48.8	48.8	48.8	48.8
EPS (Rs)	**8.0**	**23.8**	**28.0**	**33.6**
DPS (Rs)	4.0	5.0	5.5	6.0
CEPS	16.3	29.5	34.2	40.2

Source: Company, Kotak Securities - Private Client Research

Balance Sheet (Rs mn)

Year end March	FY09	FY10E	FY11E	FY12E
Cash and cash equivalents	179	1,100	1,736	2,690
Accounts receivable	1,509	1,500	1,746	2,066
Stocks	1,407	1,776	2,067	2,446
Loans and Advances	761	875	1,007	1,158
Current Assets	3,857	5,251	6,556	8,360
LT investments	659	894	894	894
Net fixed assets	2,488	2,615	2,715	2,789
CWIP	172	50	50	50
Total Assets	**7,176**	**8,810**	**10,215**	**12,093**
Payables	2,183	2,822	3,173	3,754
Others	210	330	330	330
Current liabilities	2,393	3,152	3,503	4,084
LT debt	444	440	440	440
(deferred tax+minority int)	253	253	253	253
Equity & reserves	4,086	4,965	6,019	7,316
Total Liabilities	**7,176**	**8,810**	**10,215**	**12,093**

Source: Company, Kotak Securities - Private Client Research

Cash Flow Statement (Rs mn)

Year end March	FY09	FY10E	FY11E	FY12E
PBDIT	1,140	2,099	2,342	2,723
Tax and adjustments	(117)	(567)	(674)	(808)
Cash flow from opns	**1,023**	**1,533**	**1,668**	**1,915**
Net Change in WC	(860)	286	(318)	(268)
Net Cash from Operations	163	1,818	1,350	1,647
Capital Expenditure	(254)	(278)	(400)	(400)
Cash from investing	480	(196)	100	120
Net Cash from Investing	**226**	**(474)**	**(300)**	**(280)**
Interest paid	(222)	(134)	(100)	(70)
Dividends Paid	(225)	(286)	(314)	(343)
Debt Raised	(48)	(4)	-	-
Net cash from financing	**(495)**	**(424)**	**(414)**	**(413)**
Net change in cash	(106)	921	636	954
Free cash flow	(91)	1,541	950	1,247
cash at end	179	1,100	1,736	2,690

Source: Company, Kotak Securities - Private Client Research

Ratio Analysis

Year end March	FY09	FY10E	FY11E	FY12E
EBITDA margin (%)	11.0	15.8	15.3	15.0
EBIT margin (%)	8.6	13.7	13.3	13.2
Net profit margin (%)	3.8	8.7	8.9	9.0
Adjusted EPS growth (%)	-56.9	198.0	17.5	19.8
Receivables (days)	53.1	41.1	41.5	41.5
Inventory (days)	49.5	48.7	49.2	49.2
Sales / Net Fixed Assets (x)	4.2	5.1	5.7	6.5
ROE (%)	13.9	25.7	24.9	24.6
ROCE (%)	22.0	35.7	34.6	34.2
EV/ Sales (x)	1.4	1.1	0.9	0.7
EV/EBITDA (x)	14.6	7.5	6.5	5.2
Price to earnings (x)	30.1	14.1	12.0	10.0
Price to book value (x)	4.6	3.7	3.0	2.4
Price to cash earnings (x)	20.6	11.4	9.8	8.3

Source: Company, Kotak Securities - Private Client Research

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