MAY 29, 2007 India Equity Research I Research Report I Technology

# HELIOS & MATHESON INFORMATION TECHNOLOGY LTD.

*Healthcare Business to be the growth driver. Outsourcing to improve margins.*

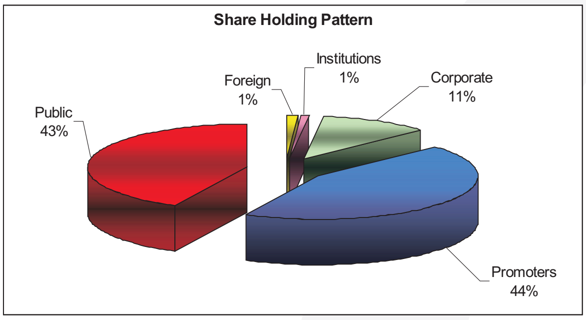
**BUY**

**Target Price :Rs 235**

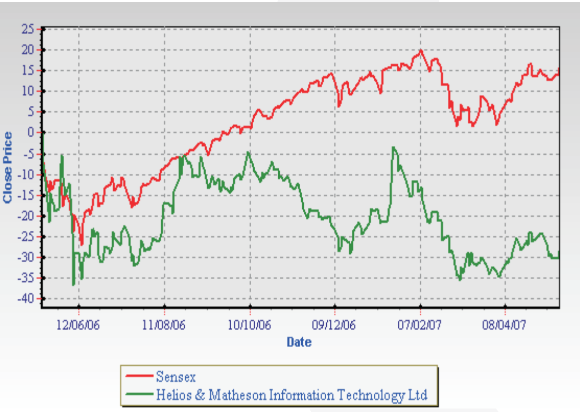
## Helios' s SNAPSHOT

| | |
|---|---|
| **Mkt Price MAY 27,2007)** Rs. 128 (F.V. Rs 10) | **Target Price** Rs. 235 |
| **52 Wk H / L** Rs. 186 / 105 | **Bloomberg Code** HMIT IN |
| **Mkt Cap** Rs. 258.93 Crs | **Shares O/S** 2 Crs |
| **BSE CODE** 532347 | **NSE CODE** HELIOSMATH |

## SHARE HOLDING PATTERN




## CHART




## Quick Fundamentals

| Asset Class | IT Small Cap | | | |
|---|---|---|---|---|
| **Fiscal Year** | **200703** | **200803E** | **200903E** | **201003E** |
| Sales Gross | 395.9 | 554.2 | 748.2 | 935.2 |
| Net Profit | 58.8 | 72.8 | 102.3 | 128.5 |
| EPS | 29.4 | 36.4 | 51.1 | 64.2 |
| P/E Ratio (x) | 4.4 | 3.5 | 2.5 | 2.0 |
| PEG Ratio (x) | 0.17 | 0.12 | 0.07 | 0.08 |
| Price/book value (x) | 1.8 | 1.3 | 0.9 | 0.6 |
| Price/sales (x) | 0.6 | 0.5 | 0.3 | 0.3 |
| ROCE (%) | 38.4% | 33.4% | 36.3% | 35.4% |
| RONW (%) | 52.2% | 42.4% | 40.8% | 36.2% |
| EV to EBITDA (x) | 2.05 | 0.81 | 0.30 | (0.03) |
| Dividend yield | 2.3% | 2.8% | 4.0% | 5.0% |
| EV/Sales | 0.54 | 0.19 | 0.07 | (0.01) |

## Investment Rationale

⇨ Helios & Matheson Information Technology Ltd is a 15-year old IT services organization. The company earns majority of its revenue from the Healthcare segment which contributes around 40% of the total revenues of the company. Gartner analysts predict that by 2009, healthcare investments in IT will increase by more than 50 percent."

⇨ The healthcare IT is growing twice as fast as the other IT verticals. Healthcare segment grows at 12% p.a as against 5-6% in other segments like BFSI. Healthcare Industry is a recession proof industry & is the single largest industry contributing to more than 15% of US GDP. Helios can leverage on its long term expertise of 15 years in the field of Healthcare and take advantage of the booming healthcare segment by offering comparatively better services to the clients than its peers in the industry, who are in the health care business since last 4-5 years.

⇨ The company has recently acquired a controlling stake in NASDAQ listed company, TACT Inc., NY, USA. (NASDAQ capital market: TACX) & subsequently changed its name to Helios & Matheson North America Inc. The acquired company has focus on healthcare IT space & will help the company increase its presence in the healthcare space. The company is shifting the business of TACT to India to increase its offshore operations to 45 per cent by March 2008. We expect healthcare to contribute 50% to the revenues of the company in the next 2 years time.

⇨ There has been a significant Growth in Key Verticals. Contribution from healthcare business to the revenues has gone up to 40% in FY07 from 37% in FY 06. The share of verticals like BFSI 14% (10% in FY06), Manufacturing 16% (15% in FY06) & Support services 4% (1% in FY06) have increased in the last one year. However the share of Technology sector has gone down from 37% in FY06 to 26% in FY 07 because of higher contributions from other verticals..

⇨ The company earned 63% of its revenues onsite as against 37% offshore for the year ended March 2007. We believe that the company will leverage its long term relationships with its clients to increase their contribution from offshore businesses. We believe that in the next two years the contribution from offshore revenues will be around 50-52%. This will help the company to improve its operating margins.

⇨ Helios reported Topline number for FY2007 at Rs.395.59 crs as against Rs. 221.34 crs an increase of 78.7% YOY. The Net profit for the year stood at Rs. 59.92 crs as against Rs. 38.02 crs in FY2006 an increase of 57.6% YOY. The operating Margin for FY 07 was 25.71% as against 24.8% in FY06. The rise was basically due to higher contribution from the healthcare business which is a high growth & high margin business. The revenue from repeat business stood at 90.6% for FY2007.

## Valuation & Recommendation

At the current market price of Rs. 128/-share, Helios is trading at a PE of 3.3x FY08E, 2.4x FY09E & 1.9x FY10E which is quite attractive . We believe the revenues to grow at a CAGR of 30% for the period from2008E-2010E and Net Profit to grow at a CAGR of 32% for the same period. We expect the margins to improve as the company's share of Offshore business is improving, which will be positive for the margins and will offset any fall in margins due to rising rupee and higher employee expenses. We expect the company to earn an ROCE of 46.6% in FY08 & 47.1% in FY09E. The stock is trading at a PEG of 0.11x FY08E, 0.06x FY09E & 0.08x FY10E. At Rs.128/- share the stock is trading at a discount of 83.3% from our intrinsic price of Rs. 235/- share. We recommend a BUY rating on the stock with a long term view.

## *Industry Analysis*

### Global IT Industry

Worldwide spending on (IT) and IT-enabled business services (together referred to as IT-ITES) grew by nearly 7% in 2005 & by 6.3% in 2006. The global IT services spending, which mainly is towards outsourcing, is projected to grow at a CAGR of about 5.6 per cent in the 5-year period from 2005-2009. Global IT-ITES spending is projected to register a CAGR of more than 8% over 2005-09. Spending in ITES-BPO is expected to grow at a significantly higher rate (CAGR of more than 10%) over the same period. Worldwide IT spending will grow 6.6% in 2007, up from 6.3% in 2006. Spending in the three major product/service categories are expected to be :

a) Software will lead growth again, with 8% spending growth in 2007,
b) Services will remain stable, with 6% growth,
c) Hardware will bounce back in 2007, with 6.5% growth, up from about 6% growth in 2006.
*- source IDC*

### Worldwide IT spending forecasts

| (US$ billion) | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2005-09 CAGR |
|---|---|---|---|---|---|---|---|
| IT services | 418 | 441 | 467 | 495 | 526 | 557 | 6.00% |
| ITES-BPO | 360 | 395 | 436 | 479 | 529 | 588 | 10.50% |
| **Services total** | **779** | **836** | **903** | **974** | **1,054** | **1,145** | **8.20%** |
| **Software** | **193** | **206** | **220** | **235** | **250** | **266** | **6.60%** |
| **Hardware** | **390** | **410** | **431** | **449** | **473** | **500** | **5.10%** |
| **Total** | **1,362** | **1,452** | **1,553** | **1,658** | **1,777** | **1,911** | **7.10%** |

**Source: IDC**

### Worldwide IT services spending by region

| (US$ billion) | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2005-09 CAGR |
|---|---|---|---|---|---|---|---|
| America | 455.3 | 490.9 | 531.1 | 574.8 | 623.4 | 679.8 | 8.30% |
| EMEA | 240.5 | 255.5 | 273.9 | 293.4 | 313.9 | 336.5 | 6.90% |
| Asia-Pacific | 104.8 | 116.8 | 130.6 | 145.2 | 162.2 | 181.6 | 11.60% |
| **Total** | **800.6** | **863.2** | **935.6** | **1013.4** | **1099.5** | **1197.9** | **8.40%** |

**Source: IDC**

### Indian IT Sector

The Indian IT sector witnessed a CAGR of 32% in the last four years till FY06. It is poised to grow at 28-30% in next four years. The domestic IT market in India grew by 22.4% in 2006* and the estimated year-on-year growth in 2007 is almost 21.5% (Rs. 75,891 crore), making it the fastest growing market in the Asia-Pacific region.
The industry's contribution to the national GDP rose from 1.9 per cent in FY 1999-2000 to a projected 4.8 per cent in the current fiscal. India's share in the global IT services market is about 3.1 per cent currently and this is expected to increase to 6.4 per cent by FY2009-10. Export revenues from the software and services are expected to reach $60 bn by Fy2010.

The Indian IT industry derives around 70 per cent of its export revenues from the US. Though the share of Europe in Indian IT exports has increased steadily, the US continues to be the dominant client. In terms of geographies, Asia-Pacific is expected to grow at a fast pace over the next 4 years.
* -Source Nasscom.

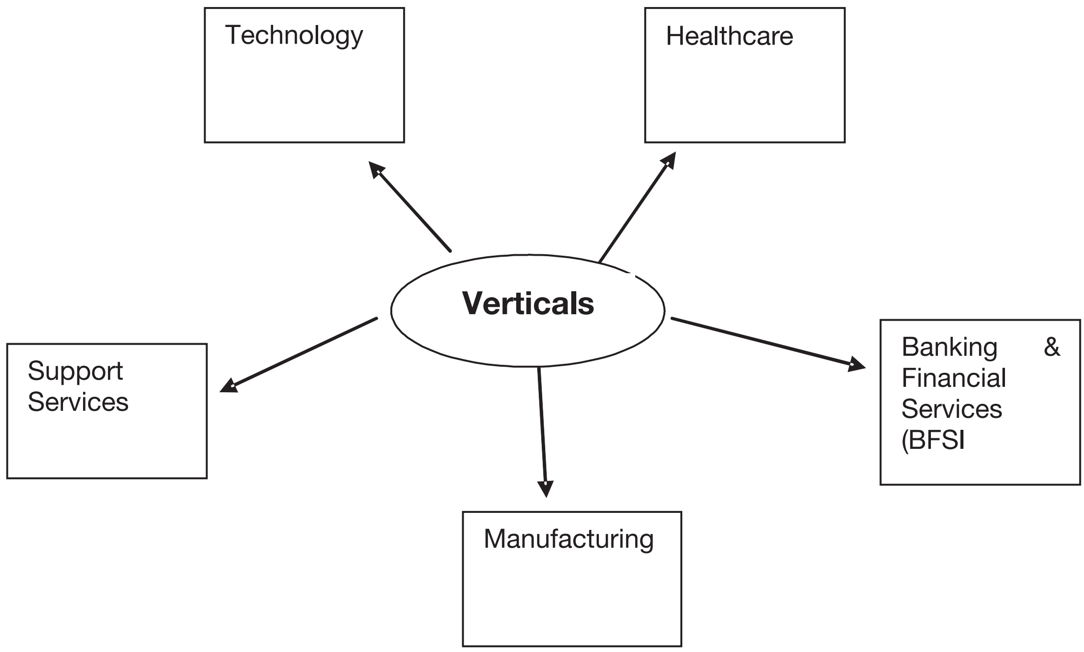
## Company Background

**Helios & Matheson** Information Technology Ltd is a 15-year old IT services organization with its corporate headquarters in Chennai. The company derives major chunk of its revenues from the Healthcare (40%), Technology (26%), Manufacturing (16%), Banking, Financial services & Insurance (BFSI) space (14%) & rest from support services. The company employs over 1800 people with services spanning from the entire software services lifecycle, application development and integration to application life cycle management. It operates 5 global software development Centers, 4 in India and 1 in United States along with 6 sales offices in LA, Allentown, Houston, Chicago, SFO, & Singapore. The company has an impressive clientele of more than 70 clients, which includes UCB, IBM, Sun Micro systems, AIG, AMEX, KPMG Consulting, Warner Brothers, Walt Disney, J&J, Toyota, Mitsubishi Motors, Pepsi, UBS, Accenture, Citigroup etc.

Helios & Matheson acquired controlling stake in TACT Inc., NY, USA. (NASDAQ capital market: TACX) & subsequently changed its name to Helios & Matheson North America Inc. The company is the first Indian company to acquire a controlling stake in a listed American Corporation with focus on healthcare IT space." The company has also acquired Companies like System logic Solutions, Bangalore, India in 2001, Laxmi Group Inc. California, USA in 2001,it also acquired healthcare focused companies Maruthi Consulting Inc., USA and Jayamaruthi Software Systems ltd, Chennai, India in 2004. The company was ranked among the top 30 fastest growing IT companies by the NASSCOM 2005 survey.

### *Business Analysis*

**HMITL caters to the following Verticals:**



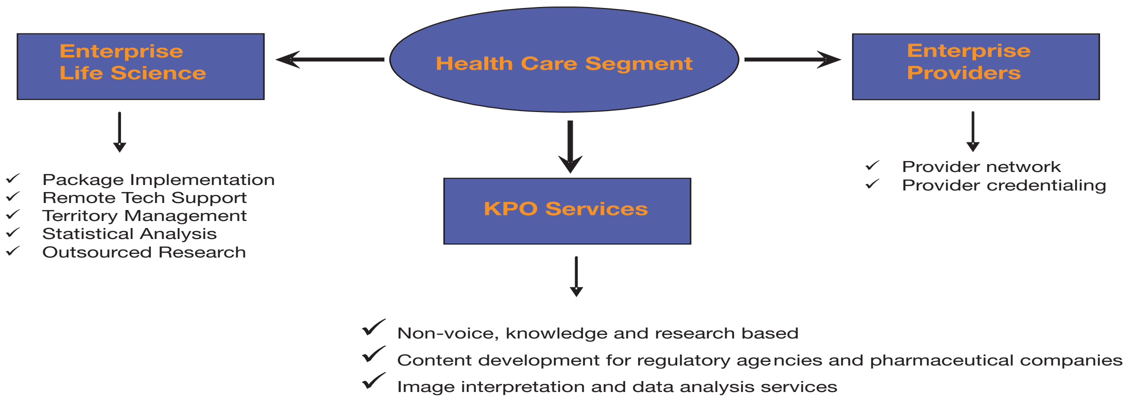

Helios & Matheson Information Technology Ltd.(HMITL) provides a vide array of technology & services to its clients across different verticals.

✓ITES-BPO
✓Application Management Services
✓Offshore Delivery
✓Project Management Services
✓Enterprise Security & Privacy Practice
✓Application Outsourcing
✓Business Technology Consulting

## Business Analysis of the Health Care Segment

*Healthcare to be the Growth Driver*

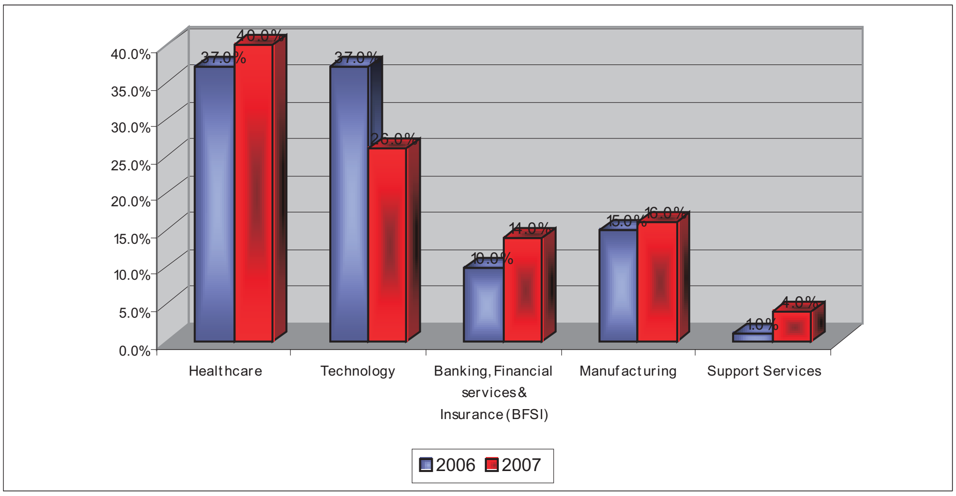
Helios & Matheson earns majority of its revenue from the Healthcare segment which contributes around 40% of the total revenues of the company. The healthcare sector has historically under invested in IT, however, this trend is changing now. Gartner analysts predict that by 2009, healthcare investments in IT will increase by more than 50 percent." The sector is assumed to be recession proof. We expect healthcare to contribute 50% to the revenues of the company in the next 1-2 years time. This will enhance the operating margins of the company as the company specializes in the healthcare business from last 15 years & can leverage on this expertise in the form of lower cost. Studies also suggest that offshoring constitutes only 6% of the total IT spending of a company. That shows there is huge market potential existing in this segment.
Helios & Matheson has recently acquired a controlling stake in NASDAQ listed company, TACT Inc., NY, USA. (NASDAQ capital market: TACX) & subsequently changed its name to Helios & Matheson North America Inc. The acquired company has focus on healthcare IT space & will help the company increase its presence in the healthcare space.




## Other Verticals

*Growth in Key Verticals*

Segmentwise there has been a significant growth in the healthcare business & its contribution to the revenues has gone up to 40% in FY07 from 37% in FY06. The share of Technology sector has gone down from 37% in FY06 to 26% in FY07. Howevershare of verticals like BFSI, Manufacturing & Support services has increased in the last one year.

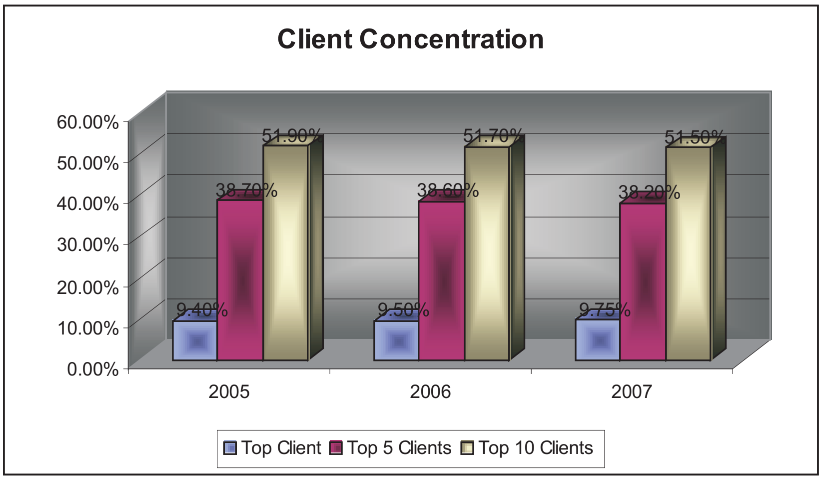


## Employees

The company currently has employee strength of 1800 people & is expected to reach 2400 people by March 2008 a growth of 33% yoy.. The company has an attrition rate of 11.6%, which is lower than the industry average of 14-15%. Of the total employees 77% of the employees are engineering graduates. 42% of the employees have a work experience of 3+ years. The employees billed onsite were 60.6% & Offshore were 39.4%.

## Client Base

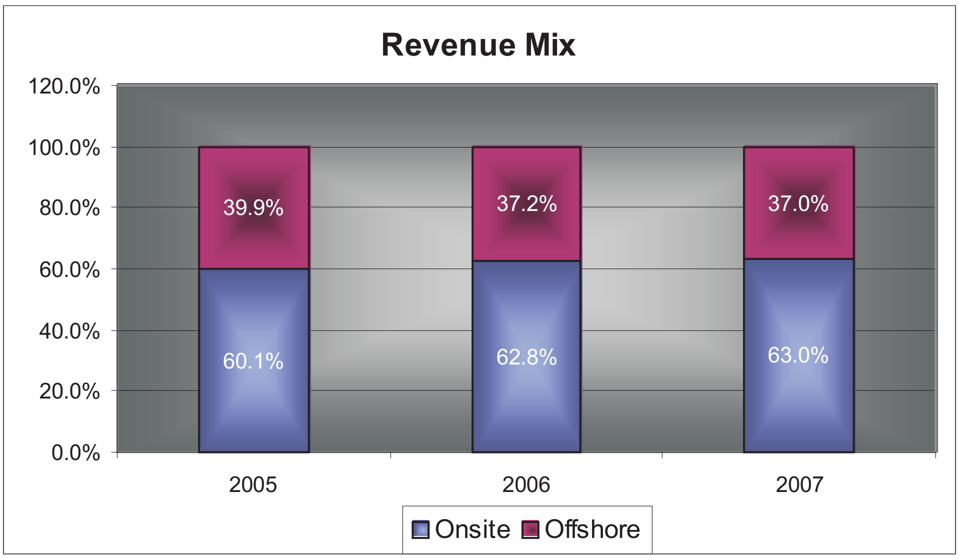
The company has a huge & diversified client base consisting of more than 70 clients. The top10 clients of the company contribute around 51.5% of the revenues of the company, where as the top 5 clients contribute 38.2% & the top most client contributes 9.75% of the total revenues. 90.6% of the revenues of the company are from repeat business.




## Revenues

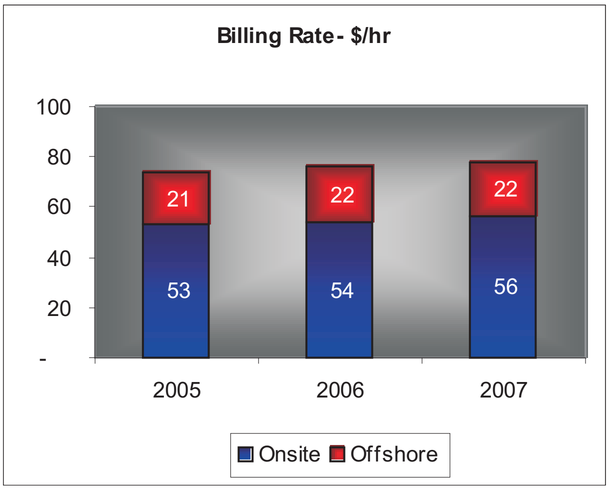
The company earned 63% of its revenues onsite as against 37% offshore for the year ended March 2007. We believe that the company will leverage its long term relationships with its clients to increase their contribution from offshore businesses. We believe that in the next two years the contribution from offshore business will be in the range of 50-52%. This will help the company to improve its operating margins, as offshore salaries are quite less as compared to onsite salaries & companies will also save on the Selling General & Administrative expenses (SG&A).

**Offshore Revenues to improve going forward - to impact margins positively**



## Billing Rates

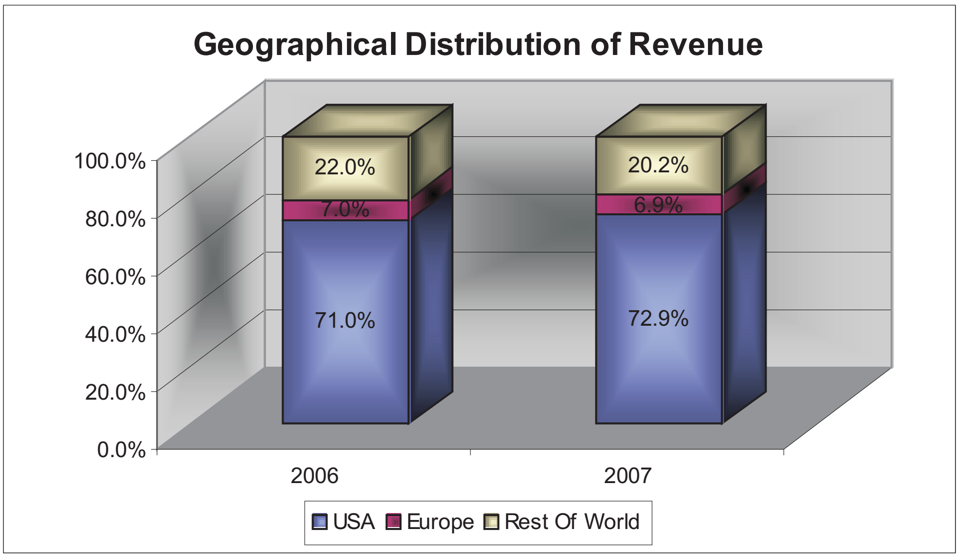
The billing rates have been stable for the last 2-3 years with a slight upward bias. The billing rates onsite is $56/hr as against $22/hr offshore for the year ended March 2007.Helios having long term relationships with its clients & with company's increased focus on healthcare business which is recession proof, we believe the billing rates to be stable with an upward bias.




## *Geographical Distribution Of Revenues*

Helios & Matheson earns more than 70% of its revenues from USA & with the acquisition of a controlling stake of 43% in the US-based A Consulting Team (TACT) the share of US is expected to further increase going forward. However 50% of the revenues from this region are expected to come from the healthcare segment, which is growing at double the pace of other verticals .Also Healthcare is the single largest industry contributing to more than 15% of US GDP. Apart from that Europe contributes 6.9% & Rest of World (ROW) contributes 20.2% to the total revenues of the company.

**Share Of Revenue in USA Increasing - over dependence on a single country will increase risk against currency volatility.**



## Joint venture with The A Consulting Team (TACT)

Helios & Matheson Information Technology acquired a controlling stake of 52% in the US-based The A Consulting Team (TACT) for $8.75m in an all-cash deal. Helios is the first Indian company to acquire a controlling stake in a listed US corporation with focus on healthcare space. The A Consulting Team is a 24-year-old company & is listed on Nasdaq , Helios recently changed the US Company's name to Helios & Matheson North America. The company is shifting the business of TACT to India to increase its offshore operations to 45 per cent by March 2008. The US subsidiary's technical pool would be utilised for client interfacing and handling incremental business. TACT, which reported $26.4 million revenues in 2006, will be adding 10 more hands to its 14-member business development team in the US.

## Acquisition of the 3 Vmoksha companies in USA, Singapore and India

Helios & Matheson signed a definitive share purchase agreement (SPA) to acquire 100% equity in three Vmoksha entities based at Bangalore, Singapore and USA in the month of May 2005 for $19 million. However the sellers tried to renege the SPA and hence the company initiated arbitration proceedings. Based on the present knowledge of the facts and as per legal opinion obtained, the arbitration will not have any material adverse effect on the results & operations of the company. Helios & Matheson Information Technology Ltd has sought $21 million (Rs 95 crore) as damages from vMoksha Group of companies towards loss of profit as projected by vMoksha.

## Future Outlook

✓The company plans to leverage its expertise in the healthcare segment further by increasing the share of healthcare in its total revenue by more than 50% in next 2 years time. We believe this will further improve company's margins as this is a high growth & high margin business.

✓Helios & Matheson Information Technology acquired a controlling stake in the US-based A Consulting Team (TACT). The company is shifting the business of TACT to India to increase its offshore operations to 45 per cent by March 2008.

✓Helios & Matheson Information Technology (HMIT), is gearing up for acquisitions in Europe and the US. The company is looking at a deal in the range of $50 million to $100 million as part of its strategy to fill gaps in geographical presence and technology. It is also planning to set up an offshore centre in Coimbatore at an investment of Rs 35 crore.

## Financial Performance

**Fourth Quarter 2007**

Helios reported higher than expected Q4FY07 numbers . The revenues for Q4FY07 were Rs. 109.43 crs as against Rs. 102.04 crs in Q3FY07 a growth of 7.2% QOQ. Net profit for the above period was Rs.16.98 crs as against Rs.15.56 crs in Q3FY07 a growth of 9.1% QOQ. The operating Margin for the quarter was 22.1% as against 21.7% in Q3FY07. The rise was basically due to lower SG & A expenses.

**FY2007**

Helios reported Topline number for FY2007 at Rs.395.59 crs as against Rs. 221.34 crs a growth of 78.7% YOY. The Net profit for the year stood at Rs. 59.92 crs as against Rs. 38.02 crs in FY2006 a growth of 57.6% YOY.

The operating Margin for the year was 25.71% as against 24.8% in FY06. The rise was basically due to higher contribution from the healthcare business which is a high growth & high margin business.
The revenue from repeat business stood at 90.6% for Fy2007.

The contribution of offshore revenues remained flat at 37% in FY07 as against 37.2% in FY06. We expect offshore revenues to conteibute 45% in 2008 & 50% in 2009 as the company is trying to leverage on its long term relationships with its clients to convert onsite business to offshore. helios is also shifting the majority of the business of the newly acquired TACT (Helios & Matheson N.A) offshore.This shift in the revenue from onsite to offshore will help the company to strengthen its operating margins in the coming years. On the Geographical front, the share of North America in FY07 was 72.9% of the total revenues compared to 71% in FY06. Europe contributed 6.9% & the rest was contributed by the Asia Pacific region.

## Outlook, Valuation & Recommendation

We believe Helios is witnessing an increased demand for offshoring of healthcare IT Services. The trend towards offshoring is becoming stronger which will help the Indian IT companies grow their market share even in the face of a marginal increase in the global IT spends. The company is very liberal in rewarding its shareholders. The company has issued 1:1 bonus shares for two consecutive years in 2004 & 2005. the company has also been consistently rewarding its shareholders by distributing regular dividends.

At the current market price of Rs. 128/-share, Helios is trading at a PE of 3.3x FY08E, 2.4x FY09E & 1.9x FY10E which is quite attractive . We believe the revenues to grow at a CAGR of30% for the period from 2008E-2010E and Net Profit to grow at a CAGR of 32% for the same period. We expect the margins to improve as the company's share of Offshore business is improving, which will be positive for the margins and will offset any fall in margins due to rising rupee and higher employee expenses. We expect the company to earn an ROCE of 46.6% in FY08 & 47.1% in FY09E. The stock is trading at a PEG of 0.11x FY08E, 0.06x FY09E & 0.08x FY10E. At Rs.128/- share the stock is trading at a discount of 83.3% from our i**ntrinsic price of Rs. 235/- share.** We recommend a BUY rating on the stock with a long term view.

Income Statement (in crores RS.)

| | 2004 | 2005 | 2006 | 2007 | 2008e | 2009e | 2010e |
|---|---|---|---|---|---|---|---|
| Revenues | 74.69 | 119.93 | 218.77 | 395.9 | 554.2 | 748.2 | 935.2 |
| Other Income | 0.86 | 2.38 | 2.57 | 2.50 | 2.50 | 3.00 | 2.50 |
| Total Income | 75.55 | 122.31 | 221.34 | 398.36 | 556.71 | 751.18 | 937.73 |
| Employee Expenses | 1.00 | 1.17 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Power, Oil & Fuel | 0.15 | 0.39 | 0.00 | 1.19 | 1.66 | 2.24 | 2.81 |
| Selling & Administrative Expenses | 6.45 | 9.92 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Provisions & Write Offs | 0 | 0 | 0.00 | 0 | 0 | 0 | 0 |
| Other Manufacturing expenses | 44.84 | 74.93 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Impairment of Assets | 0.00 | 0.00 | 0.00 | 0 | 0 | 0 | 0 |
| Other Expenses | 1.49 | 2.57 | 164.41 | 292.94 | 421.20 | 568.62 | 710.77 |
| Total Expenditure | 53.93 | 88.98 | 164.41 | 294.13 | 422.86 | 570.86 | 713.58 |
| EBITDA | 21.62 | 33.33 | 56.93 | 104.24 | 133.85 | 180.32 | 224.15 |
| Interest | 3.96 | 3.91 | 3.13 | 9.57 | 13.75 | 12.60 | 11.55 |
| Depreciation & Amortization | 7.03 | 8.95 | 12.34 | 26.06 | 32.56 | 45.56 | 59.56 |
| Earnings Before Taxes | 10.63 | 20.47 | 41.46 | 68.61 | 87.54 | 122.16 | 153.04 |
| Total Taxes | 0.55 | 0.84 | 1.87 | 18.10 | 13.13 | 18.32 | 22.96 |
| Fringe benefit tax | 0.00 | 0.11 | 0.83 | 0 | 0 | 0 | 0 |
| Deferred Tax | 2.12 | 1.04 | 1.57 | 0.00 | 0.00 | 0.00 | 0.00 |
| Net Income After Taxes | 7.96 | 18.48 | 37.19 | 50.51 | 74.41 | 103.83 | 130.08 |
| | | | 174% | 17 | 17 | 17 | 17 |
| Earnings from Invests: Equity | 0.00 | 0.00 | 0.00 | 0 | 0 | 0 | 0 |
| Minority Interest in Income | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Extraordinary Items | 0.00 | -0.01 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Adjusted Net Income | 7.96 | 18.60 | 38.02 | 58.81 | 72.84 | 102.26 | 128.51 |
| | 24% | 134% | 104% | 55% | 24% | 40% | 26% |
| Net Income Available to Eq Sh holders | 7.96 | 18.60 | 38.02 | 58.81 | 72.84 | 102.26 | 128.51 |
| Earnings Per Share (Rs) | 15.92 | 18.58 | 19.00 | 29.39 | 36.40 | 51.11 | 64.22 |
| Total Common Dividends | 1.46 | 2.41 | 3.92 | 5.88 | 7.28 | 10.23 | 12.85 |
| Shares Outstanding (Diluted) | 0.500 | 1.001 | 2.001 | 2.00 | 2.00 | 2.00 | 2.00 |

Balance Sheet (in crores)

| Balance Sheet | 2004 | 2005 | 2006 | 2007 | 2008E | 2009E | 2010E |
|---|---|---|---|---|---|---|---|
| Cash | 13.42 | 31.93 | 36.48 | 139.39 | 193.18 | 216.32 | 246.82 |
| Receivables | 23.94 | 27.55 | 64.09 | 86.76 | 106.29 | 102.49 | 153.74 |
| Inventories | - | - | - | - | - | - | - |
| Loans and Advances | 16.40 | 15.80 | 23.15 | 41.89 | 58.65 | 79.17 | 98.96 |
| Total Current Assets | 53.8 | 75.3 | 123.7 | 268.0 | 358.1 | 398.0 | 499.5 |
| Gross Fixed Assets | 60 | 81 | 175 | 225 | 275 | 375 | 475 |
| Less:Depriciation | 21 | 30 | 76 | 102 | 134 | 180 | 239 |
| Net Fixed Assets | 39 | 50 | 100 | 124 | 141 | 196 | 236 |
| Investments | 1 | 0 | 65 | 40 | 80 | 100 | 120 |
| Other Assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| WIP | 3 | 3 | 3 | 35 | 32 | 31 | 29 |
| Others | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Assets | 97 | 129 | 292 | 467 | 612 | 724 | 885 |
| **Current Liabilities** | **16.34** | **30.47** | **120.45** | **161.17** | **231.71** | **250.24** | **293.25** |
| Provisions | 2.14 | 3.58 | 7.83 | 14.01 | 34.76 | 46.92 | 58.65 |
| Current Liab & Provns | 18.48 | 34.05 | 128.28 | 175.17 | 266.46 | 297.16 | 351.90 |
| Secured Loans | 17 | 16 | 32 | 32 | 20 | 10 | 0 |
| Unsecured Loans | 11 | 11 | 13 | 105 | 105 | 105 | 105 |
| Net Deferred Tax | 9 | 10 | 14 | 15 | 15 | 15 | 15 |
| Other Non current Liabilities | 0 | 0 | 0.0 | 0 | 0 | 0 | 0 |
| Total Debt | 28 | 27 | 45 | 137 | 125 | 115 | 105 |
| Shareholders' Equity | 5 | 10 | 20 | 20 | 20 | 20 | 20 |
| Reserves | 35 | 46 | 66 | 119 | 185 | 277 | 392 |
| Minority Interest | 1.54 | 2.09 | 18.49 | 0.06 | 0.06 | 0.06 | 0.06 |
| Share Holders Funds | 42 | 58 | 105 | 139 | 205 | 297 | 413 |
| Total Liabilities and Equity | 97 | 129 | 292 | 467 | 612 | 724 | 885 |
| Capital Employed | 70 | 85 | 150 | 276 | 330 | 412 | 518 |

Cash Flow Statement (in crores)

| Cash Flow | 2005 | 2006 | 2007 | 2008e | 2009e | 2010e |
|---|---|---|---|---|---|---|
| Profit Before Tax | 20 | 41 | 69 | 88 | 122 | 153 |
| Plus Depreciation | 9 | 12 | 26 | 33 | 46 | 60 |
| Deferred Tax | | - | - | 1 | - | - |
| Interest Income | (2) | (3) | (3) | (3) | (3) | (3) |
| Dividend Income | - | - | - | - | - | - |
| Interest Expenses | 3.91 | 3.13 | 9.57 | 13.75 | 12.60 | 11.55 |
| Decrease (Increase) in A/R | (4) | (37) | (23) | (20) | 4 | (51) |
| Decrease (Increase) in Inventories | - | - | - | - | - | - |
| Decrease(increase) in Loans and advances | 1 | (7) | (19) | (17) | (21) | (20) |
| Decrease (Increase) in Total Liabs | 14 | 90 | 41 | 71 | 19 | 43 |
| Changes in provisions | 1 | 4 | 6 | 21 | 12 | 12 |
| Total Tax paid | (2) | (4) | (18) | (13) | (18) | (23) |
| Changes in working capital | 13 | 50 | 5 | 55 | 14 | (16) |
| Cash Flow from Operations (a) | 42 | 100 | 89 | 174 | 173 | 182 |
| Capital expenditure | (21) | (95) | (50) | (50) | (100) | (100) |
| Proceeds from Asset Sales & Other | - | - | - | - | - | - |
| Chg in investments | 1 | (65) | 25 | (40) | (20) | (20) |
| Interest Received | 2 | 3 | 3 | 3 | 3 | 3 |
| Dividend Income | - | - | - | - | - | - |
| Cash Flow from investing (b) | (18) | (157) | (22) | (88) | (117) | (118) |
| Free Cash Flow from Operations | 24 | (57) | 67 | 87 | 56 | 65 |
| Equity raised/(repaid) | 5 | 10 | - | - | - | - |
| Inc/Dec in Reserves | | - | | | | |
| Debt raised/(repaid) | (0.89) | 18.36 | 91.57 | (11.90) | (10.00) | (10.00) |
| Dividend (incl. tax) paid | (2) | (4) | (6) | (7) | (10) | (13) |
| Other financing activities | | - | - | - | - | - |
| Interest Expenses | (4) | (3) | (10) | (14) | (13) | (12) |
| Cash Flow from Financing | (2) | 21 | 76 | (33) | (33) | (34) |
| Net Cash Flow | 21 | (36) | 143 | 54 | 23 | 30 |
| Beginning Cash Balance | 13 | 32 | (4) | 139 | 193 | 216 |
| Ending Cash Balance | 35 | (4) | 139 | 193 | 216 | 247 |

**Intrinsic Value Analysis-**

| Year | Cash Flow | PV Cashflow | Cum PV Cashflow |
|---|---|---|---|
| 2007 | 67 | 57 | 57 |
| 2008e | 87 | 63 | 120 |
| 2009e | 56 | 35 | 155 |
| 2010e | 65 | 34 | 189 |

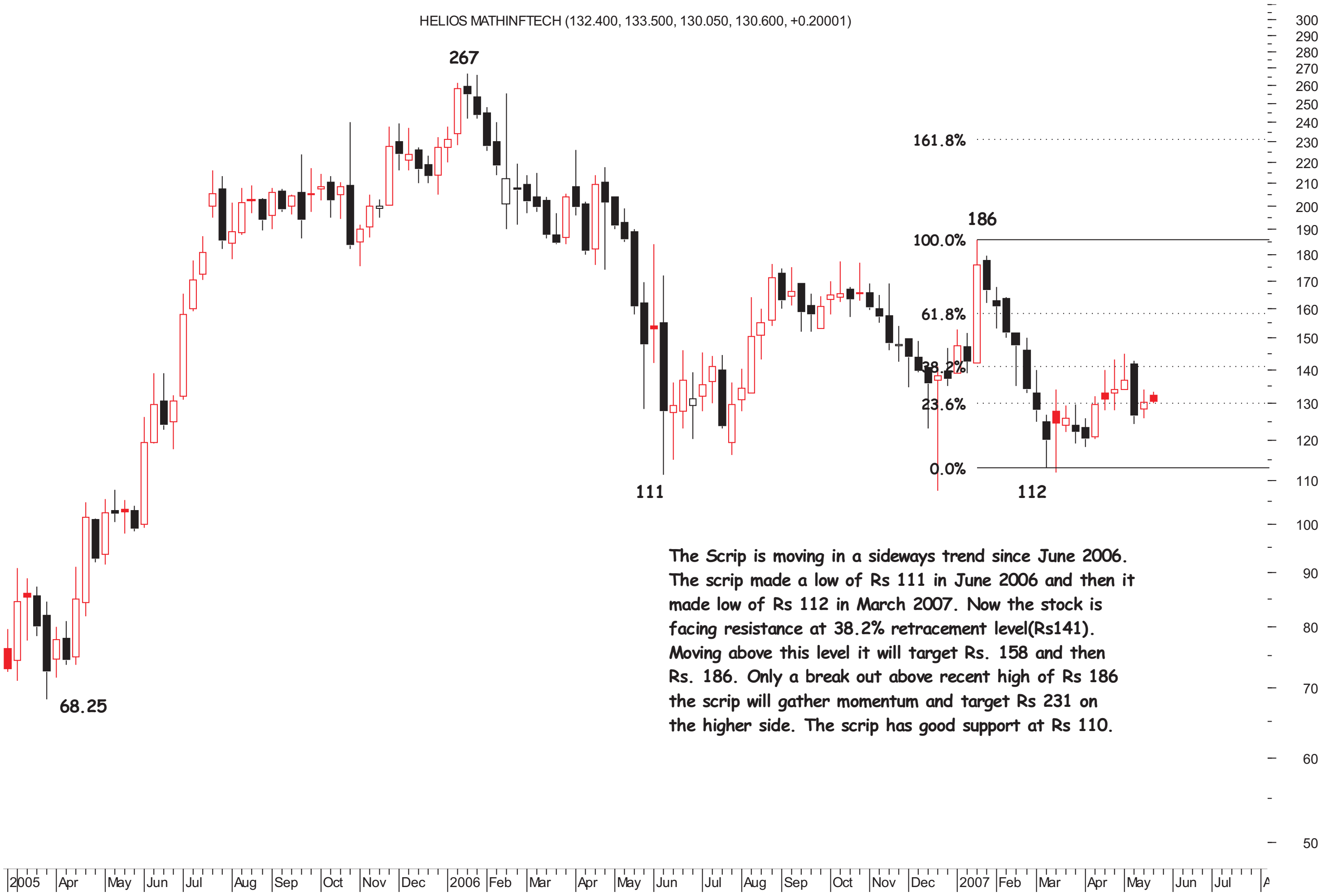
| | |
|---|---|
| Residual Value | 509 |
| PV of Residual Value | 316 |
| Cum. PV of Cash Flows and Residual Value | 505 |
| Cash | 36 |
| Investments in Stocks and Bonds | 65 |
| Corporate Value | 607 |
| Market Value of Debt | 137 |
| Shareholder Value | 470 |
| Divided by Shares o/s | 2.00 |
| Shareholder Value per Share (PV) | **235** |
| Current Stock Price | **128** |
| Premium/Discount to Current Price | 83.6% |

| **KEY FINANCIALS** | 200503 | 200603 | **200703** | **200803E** | **200903E** | **201003E** |
|---|---|---|---|---|---|---|
| Year to 31 March (Rs Crs) | 134% | 104% | 66% | 29% | 37% | 24% |
| Net Profit (Rs Crs) | 18.6 | 38.0 | 63.0 | 81.2 | 111.2 | 137.9 |
| Shares in issue (Crs) | 1.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 |
| **EPS (Rs)** | 18.6 | 19.0 | 31.5 | 40.6 | 55.6 | 68.9 |
| **EPS growth (%)** | 17% | 2% | 66% | 29% | 37% | 24% |
| PER (x) | 6.9 | 6.7 | 4.1 | 3.2 | 2.3 | 1.9 |
| Cash EPS (Rs) | 27.5 | 25.2 | 44.5 | 56.8 | 78.3 | 98.7 |
| Price/book value (x) | 2.3 | 3.0 | 1.8 | 1.2 | 0.8 | 0.6 |
| Price/sales (x) | 1.1 | 1.2 | 0.6 | 0.5 | 0.3 | 0.3 |
| ROCE (%) | 32% | 42% | 49% | 46.6% | 47.1% | 43% |
| RONW (%) | 39% | 54% | 55% | 45.2% | 41.8% | 36% |
| Firm Value to EBITDA (x) | 3.7 | 0.1 | 2.3 | 1.1 | 0.6 | 0.2 |
| Dividend yield | 1.88% | 1.53% | 2.46% | 3.17% | 4.34% | 5.38% |
| FV/Sales | 1.03 | 0.03 | 0.60 | 0.26 | 0.16 | 0.05 |
| PEG (x) | 0.28 | 0.27 | 0.16 | 0.11 | 0.06 | 0.08 |

| **EARNINGS OUTLOOK** | 200503 | 200603 | 200703 | 200803E | 200903E | 201003E |
|---|---|---|---|---|---|---|
| Year to 31 March (Rs Crs) | 60.6% | 82.4% | 81.0% | 40.0% | 35.0% | 25.0% |
| Sales Gross | 119.9 | 218.8 | 395.9 | 554.2 | 748.2 | 935.2 |
| Operating profit | 31.0 | 54.4 | 101.7 | 131.3 | 177.3 | 221.6 |
| Non-op income (incl. extra items) | 2.4 | 2.6 | 2.5 | 2.5 | 3.0 | 2.5 |
| Interest | 3.9 | 3.1 | 4.8 | 4.0 | 2.1 | 0.5 |
| Depreciation | 9.0 | 12.3 | 26.1 | 32.6 | 45.6 | 59.6 |
| Tax | 1.9 | 3.4 | 10.4 | 16.2 | 21.5 | 26.2 |
| Net profit | 18.6 | 38.0 | 63.0 | 81.2 | 111.2 | 137.9 |
| | | | | | | |
| Operating Margin (%) | 25.8% | 24.8% | 25.7% | 23.7% | 23.7% | 23.7% |
| Non-op to PBT | 12% | 6% | 3% | 3% | 2% | 2% |

| **BALANCE SHEET DATA** | 200503 | 200603 | 200703 | 200803E | 200903E | 201003E |
|---|---|---|---|---|---|---|
| Year to 31 March (Rs Crs) | | | | | | |
| Net fixed assets | 50.5 | 99.9 | 123.8 | 141.3 | 195.7 | 236.2 |
| Net current assets | 41.2 | -4.6 | 5.7 | 8.5 | 15.7 | 71.0 |
| Shareholders' funds | 55.6 | 86.3 | 143.0 | 216.0 | 316.1 | 440.2 |
| Debt | 27.0 | 45.3 | 45.3 | 30.0 | 10.0 | 0.0 |
| Gearing (%) | 48% | 53% | 32% | 14% | 3% | 0% |
| Book Value | 55.6 | 43.1 | 71.5 | 108.0 | 158.0 | 220.0 |
| Interest Cover (x) | 8.5 | 18.2 | 8.5 | 5.5 | 4.7 | 3,245.0 |

# TECHNICAL VIEW




The Scrip is moving in a sideways trend since June 2006. The scrip made a low of Rs 111 in June 2006 and then it made low of Rs 112 in March 2007. Now the stock is facing resistance at 38.2% retracement level(Rs141). Moving above this level it will target Rs. 158 and then Rs. 186. Only a break out above recent high of Rs 186 the scrip will gather momentum and target Rs 231 on the higher side. The scrip has good support at Rs 110.