

Telecom

Event Update

Overweight

Return of pricing power; attempt to improve business model

After aggressive tariff wars by telecom players from 2009, Bharti Airtel (Airtel) finally hiked voice tariff rates by 20% for pre-paid customers in a few circles with effect from 22nd July 2011. This is a very strong move by Airtel at a time of mobile number portability (MNP) where customers can choose operators without losing their number. We believe that this move was taken only after gauging competition and Idea Cellular (Idea) & Vodafone are likely to follow suit. The biggest beneficiary of tariff increase among incumbents will be Idea followed by Airtel. Though the stocks have run-up post the announcement on Friday (22nd July'11), we believe there is still a possibility of an upside of 24% and 27% for Airtel and Idea respectively.

- **What led to this move...:** We see the following reasons for this move: 1) Margins for Idea and Airtel have gone down by 500-700bps in the last eight quarters for domestic mobile operations, 2) higher spectrum pricing disrupted the business model; 3) market share of incumbents have gone up despite hyper competition (revenue market share of 67% and minutes market share of 55%); 4) active subscriber rate highest for Idea, Airtel and Vodafone at 92%, 89% and 81% respectively, indicating quality of service; 5) better service offerings compared to new players and 6) tariffs in India had reached rock bottom levels
- **...will benefit incumbents:** We believe others will also follow suit. If such a step is taken by other incumbents, Idea will be the biggest beneficiary as its revenue per minute (RPM) sensitivity on EBITDA is the highest.
- **Change in estimates:** We have changed the estimates to factor in the increased tariff rates. For FY13E, we believe the revision in EBITDA would be 12% and 20% for Airtel and Idea respectively.
- **Upside still left in the stocks:** Based on our revised estimate, Airtel and Idea can still deliver 24% and 27% over one year respectively.

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Price Performance (%)

	1M	6M	1Yr
Bharti Airtel	4.9	21.7	31.0
Idea Cellular	13.9	19.2	24.4
Nifty	3.2	(0.8)	3.6

Source: Bloomberg, Centrum Research
*as on 22 July 2011

Summary valuations

Company	Rating	Mkt Cap		CMP (Rs)	Target Price	Upside/ Downside (%)	P/BV (x)			EV/EBITDA (x)			RoE (%)		
		Rsbn	US\$b				FY11	FY12E	FY13E	FY11	FY12E	FY13E	FY11	FY12E	FY13E
Bharti Airtel	Buy	1,564	35	411	510	24.1	3.2	2.8	2.3	11.4	8.6	6.3	18.4	23.8	28.7
Idea Cellular	Buy	282	6	85	108	26.7	2.3	2.1	1.8	10.5	8.4	5.6	7.6	7.5	15.0

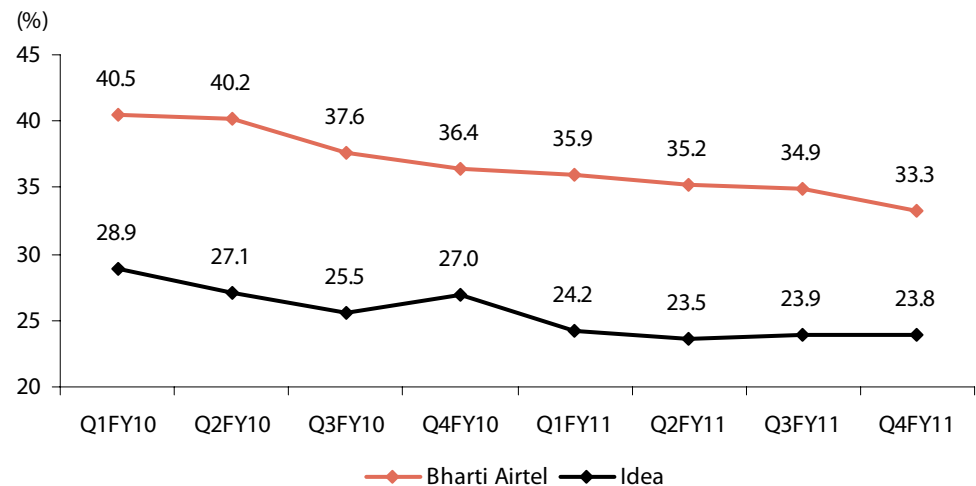
Source: Company, Centrum Research Estimates

What led to this move?

Airtel, the market leader, has sent a very strong message by increasing tariff rates in a few circles for pre-paid customers at the time of mobile number portability. We believe there is a case for other companies to opt for a similar tariff hike:

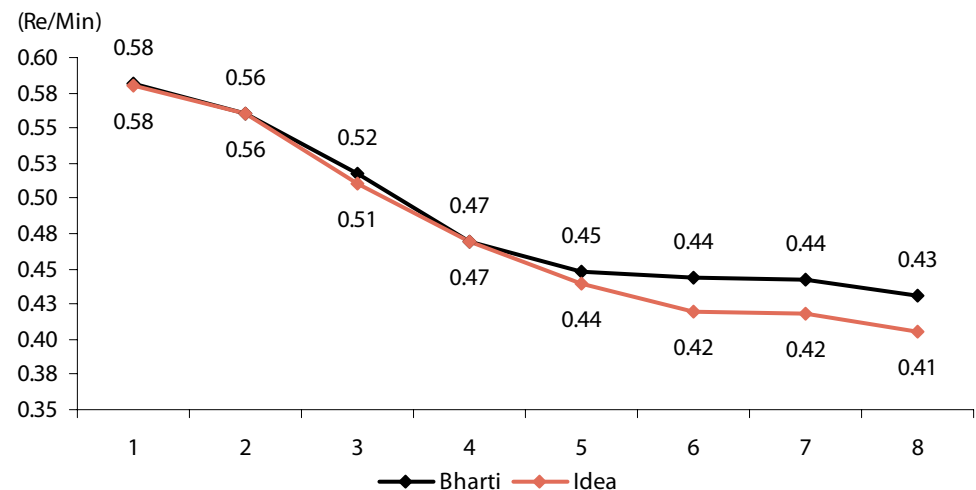
- **Margin pressure visible despite improving network utilization:** Tariff war started with distribution of licenses to new operators in 2008 and the number of players increased to 15. While Reliance and Tata got GSM licenses, Unitech and DB Realty, among others, too were issued licenses to start telecom operations. This heightened the competition leading to a severe tariff war from 2009 onwards.

Exhibit 1: Incumbents facing margin pressure due to severe tariff war in the domestic mobile operation



Source: Company, Centrum Research

Exhibit 2: RPM movement since Q1FY10

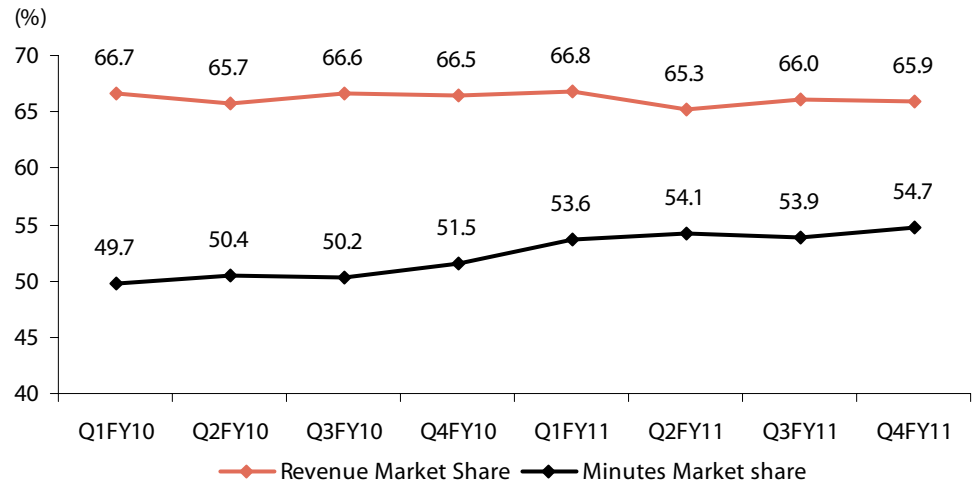


Source: Company, Centrum Research

- **Spectrum pricing issues:** With the increase in volumes, the company started facing capacity constraints. This, together with competitive pressure, led to aggressive bidding for 3G and BWA spectrums. The impact of this aggressive bidding got severe when regulators recommended 2G spectrum charges taking cues from the result of 3G and BWA spectrum cost per MHz by companies. This resulted in higher amortization expenses for incumbents denting their PBT margins. One-time spectrum and renewal charges were recommended by the regulator similar to 3G spectrum charges on per MHz basis which once finalized would lead to another payout by players. We expect the impact of one-time excess spectrum charges for Airtel and Idea to be Rs40bn and Rs17bn respectively.

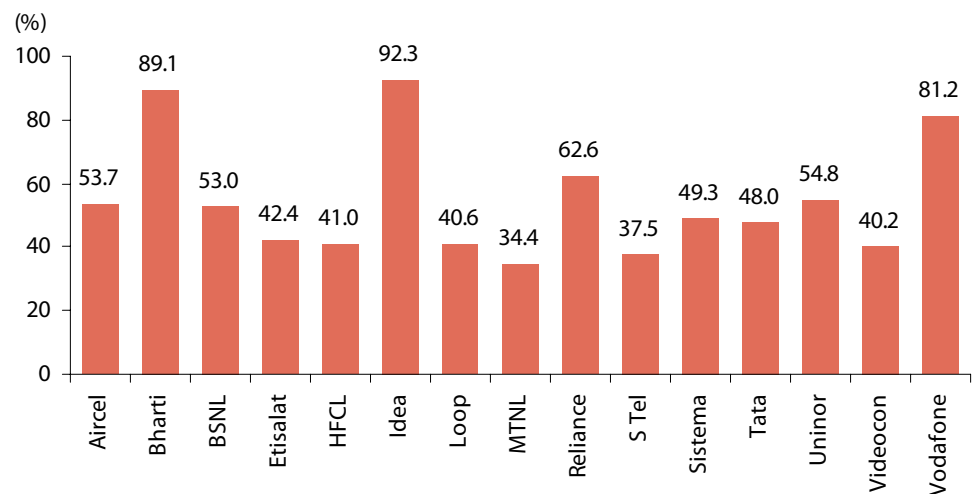
- **Incumbents' market share intact:** Incumbents maintained their revenue market share position. With the fall in tariff, volume growth picked up on their networks that clearly showed 1) consumer preference for incumbents in similar tariff environments and 2) better network/service quality. Now with 3G service rollout and initial response from MNP (10mn or 1.7% of total subscribers opted for MNP as of May 2011), we believe the incumbents' position have further strengthened in terms of customer preference and service offerings. Vodafone, Idea and Airtel have entered into an arrangement to offer 3G services across the country.

Exhibit 3: Incumbents market share intact despite hyper competition



Source: Company, TRAI, Centrum Research

Exhibit 4: Idea, Airtel and Vodafone enjoys highest active subscriber base



Source: TRAI, Centrum Research, VLR data

Tariff hike by Airtel in few circles – a strong step

We believe that Airtel has taken a strong step. This, we believe is likely to be adopted by Idea and Vodafone. While media reports attribute this step to inflation, we believe that this signals the confidence of incumbents on consumers' willingness to absorb the tariff hike. Also, we believe that 3G and BWA auctions have resulted in a clear demarcation among operators in terms of service offerings and customer preferences. Even initial response from MNP validates our hypothesis that customers would choose incumbents for their reach, network quality and wider service offerings (voice and data).

Impact Analysis for Airtel due to tariff hike:

As per media reports, the company has hiked tariff by 20-50% for pre-paid customers in some circles including Andhra Pradesh, Gujarat, Delhi NCR, Madhya Pradesh and Chhattisgarh, Kerala and Rajasthan. In these circles, Airtel, Idea and Vodafone are top players. We observed that the base tariff for local and STD in these circles have become 1.2p/sec and 1.5p/sec respectively from 1p/sec level. Moreover, calls to landlines have become 1.5p/sec and SMS local/national rate is Re1/Rs1.5 (source: www.airtel.in).

Our assumptions: The above mentioned circles contribute nearly one-third to the revenue and subscriber base. Hence, our calculation suggests that 20% change in tariff would result in 5-6% change in RPM at the blended level considering Q4FY11 as base. Since FY12E would witness three quarters' impact, we have assumed a marginally positive RPM in FY12E to 43p and 5% increase in RPM for FY13E. Based on overall calculation, the benefit would be more visible in FY13E. We believe that EBITDA for FY13E would be in the range of Rs300-320bn for Airtel.

Exhibit 5: Change in estimates for Airtel

(Rsmn)	FY12E			FY13E		
	Revised	Old	Variation (%)	Revised	Old	Variation (%)
Net sales	701,466	691,664	1.4	810,037	765,985	5.8
EBITDA	251,500	243,367	3.3	318,270	284,194	12.0
EBITDA (%)	35.9	35.2	67 bp	39.3	37.1	219 bp
PAT	82,698	75,766	9.1	129,114	100,564	28.4
NPM (%)	11.8	11.0	84 bp	15.9	13.1	281 bp

Source: Company, Centrum Research Estimates

Exhibit 6: Sensitivity of RPM is high on EBITDA for Airtel

		RPM (% change from base case)				
		5%	3%	0%	-3%	-5%
MoU (% change from base case)	10.0%	365,519	348,843	332,542	316,614	301,061
	5.0%	356,989	341,019	325,406	310,150	295,251
	0.0%	348,460	333,195	318,270	303,686	289,441
	-5.0%	339,931	325,372	311,136	297,222	283,632
	-10.0%	331,403	317,549	304,001	290,760	277,824

Observation: Valuation is more sensitive to RPM change compared to % change in MoU (table shows consolidated EBITDA for FY13E)

Source: Centrum Research Estimates

Similar calculations for Idea suggest that its sensitivity is higher than for Airtel. If Idea aligned its tariff rates in similar circles, we believe it would fundamentally be more beneficial. These circles account for 45% of the revenue (Adjusted gross revenue) and there is higher scope of scale benefit in the case of Idea. Hence, better RPM, together with scale benefit, would result in higher margin expansion compared to Airtel.

Exhibit 7: Change in estimates for Idea

(Rsmn)	FY12E			FY13E		
	Old	Revised	Variation (%)	Old	Revised	Variation (%)
Net sales	185,901	190,577	2.5	217,869	234,973	7.9
EBITDA	44,964	49,067	9.1	57,066	68,645	20.3
EBITDA margin (%)	24.2	25.7	156 bp	26.2	29.2	302 bp
Adj. PAT	6,608	9,686	46.6	13,039	21,724	66.6
PAT Margin (%)	3.6	5.1	153 bp	6.0	9.2	326 bp

Source: Centrum Research Estimates

Exhibit 8: Sensitivity of RPM is high on EBITDA for Idea

		RPM (% change from base case)				
		-5.0%	-2.5%	0.0%	2.5%	5.0%
MoU (% change from base case)	10.0%	53,618	65,449	77,878	90,919	104,588
	5.0%	50,020	61,355	73,261	85,754	98,847
	0.0%	46,423	57,261	68,645	80,589	93,105
	-5.0%	42,825	53,167	64,029	75,424	87,364
	-10.0%	39,227	49,073	59,413	70,259	81,622

Observation: Valuation is more sensitive to RPM change compared to % change in MoU (table shows consolidated EBITDA for FY13E)

Source: Centrum Research Estimates

Valuations: Upside potential still remains for Airtel and Idea

On the basis of higher sensitivity of RPM on EBITDA, we believe Idea should be the most preferred stock in the telecom space. The company operates only in the domestic market and has been steadily gaining revenue and minutes market share. Along with higher sensitivity of RPM on EBITDA, the improvement in network utilization due to scale is another factor which works well for Idea. Lastly, the recent tie-up between Idea, Airtel and Vodafone for 3G services at pan-India level further strengthens the market position of the company. Hence, Idea would be our best pick in the rising tariff rate scenario. Key upside triggers would be data revenue growth and higher dividend payout once the capex stabilizes going forward.

As we revise our revenue and EBITDA assumptions for Idea, the target price increases to Rs108 (from Rs89 earlier), implying 6.6x FY13E EV/EBITDA.

Based on our revised estimates for Airtel, we upgrade our target price to Rs510 (from Rs424 earlier which was based on September 2012 EBITDA), implying 7.5x FY13E EV/EBITDA. While the company has taken a strong step towards increasing tariff rates, we believe the higher base together with non-voice business and its African presence would not lead to significant growth in EBITDA compared to Idea. However, we maintain that Airtel is a safe long term pick with low risk compared to other players due to its diversified revenue stream and the ability to expand margins in its Africa business. Also, its strong balance sheet size reduces the impact of regulatory charges compared to other operators.

Risk to our call would be 1) no hike in tariff/no improvement in RPM which we have assumed in our model in which case our old target price of Rs89 (based on FY13E EV/EBITDA) would hold for Idea and Rs431 for Airtel with the rollover of valuation to FY13E EBITDA.

Exhibit 9: Our new SOTP valuation for Bharti

	Multiple	Parameter	EBITDA	EV (Rsmn)
Base Business	7.5	EV/EBITDA	220,021	1,650,157
Zain Value	5.5	EV/EBITDA	57,567	316,619
Tower Value	6	EV/Tower (in mn)		548,509
Total EV				2,515,284
Less: Net Debt and MI				525,615
Market Value (Rs mn)				1,947,222
Fair Value				510

Source: Centrum Research Estimates

Exhibit 10: Sensitivity of RPM on valuation is high on target price (Airtel)

		RPM (% change from base case)				
		5.0%	2.5%	0.0%	-2.5%	-5.0%
MoU (% change from base case)	10.0%	584	548	512	477	444
	5.0%	564	529	495	462	430
	0.0%	544	511	478	447	416
	-5.0%	524	493	462	431	402
	-10.0%	504	474	445	416	388

Source: Centrum Research Estimates

Exhibit 11: Sensitivity of RPM on valuation is higher on target price in case Idea Cellular vs Airtel

		RPM (% change from base case)				
		5.0%	2.5%	0.0%	-2.5%	-5.0%
MoU (% change from base case)	10.0%	191	158	127	97	69
	5.0%	179	147	118	89	62
	0.0%	167	137	108	81	55
	-5.0%	155	126	99	73	48
	-10.0%	143	115	90	65	41

Source: Centrum Research Estimates

Financial – Bharti Airtel (Consolidated)

Exhibit 12: Income Statement

Y/E March (Rsmn)	FY09	FY10	FY11	FY12E	FY13E
Revenue	369,616	418,472	594,672	701,466	810,037
YoY growth (%)	36.8	13.2	42.1	18.0	15.5
Access charges	52,903	44,806	74,718	86,495	92,630
% of Sales	14.3	10.7	12.6	12.3	11.4
License and spectrum charges	38,266	40,875	52,600	57,404	65,062
% of Sales	10.4	9.8	8.8	8.2	8.0
Network operations cost	59,355	89,316	127,163	149,582	167,144
% of Sales	16.1	21.3	21.4	21.3	20.6
Personnel expenses	16,992	19,028	32,784	42,044	43,041
% of Sales	4.6	4.5	5.5	6.0	5.3
Mktg, Distn, Admin & other exp.	50,421	56,814	107,743	114,441	123,890
% of Sales	13.6	13.6	18.1	16.3	15.3
EBITDA	151,678	167,633	199,664	251,500	318,270
EBITDA Margin (%)	41.0	40.1	33.6	35.9	39.3
Depreciation	47,581	62,832	102,066	127,629	139,314
PBIT	104,097	104,801	97,598	123,872	178,957
Interest expenses	3,479	17,559	25,349	20,155	17,655
Share of Pro. / (losses) in JVs & assoc.	(713)	(48)	(57)	-	-
PBT from operations	99,905	87,194	72,192	103,717	161,302
Other non operating income	(6,832)	17,897	4,590	1,919	1,972
PBT before extra-ordinary items	93,073	105,091	76,782	105,636	163,274
Extra-ordinary income/ (expenses)	-	(1,028)	12,681	-	-
PBT	93,073	104,063	89,463	105,636	163,274
Provision for tax	6,615	13,453	17,790	21,491	30,220
Effective tax rate	7.1	12.9	19.9	20.3	18.5
Minority Interest	1,759	1,870	(1,475)	1,447	3,939
PAT	84,699	88,740	73,148	82,698	129,114
PAT (adjusted)	92,571	89,635	62,987	82,698	129,114
YoY growth (%)	39.6	(3.2)	(29.7)	31.3	56.1
PAT margin	25.0	21.4	10.6	11.8	15.9

Source: Company; Centrum Research Estimates

Exhibit 13: Balance Sheet

Y/E March (Rsmn)	FY09	FY10	FY11	FY12E	FY13E
Share Capital	18,982	18,988	19,003	19,025	19,047
Share Warrants Account	-	-	-	-	-
Reserves	284,963	394,709	465,575	545,832	670,487
Net worth	303,945	413,697	484,577	564,857	689,534
Debt	118,800	64,619	745,000	645,000	532,000
Minority Interest	10,704	28,489	27,014	28,461	32,400
Deferred Tax Liability	(1,254)	(9,442)	(9,442)	(9,442)	(9,442)
Total Capital Employed	432,195	497,363	1,247,149	1,228,876	1,244,492
Gross Block	564,575	675,529	1,590,946	1,698,583	1,816,657
Accumulated depreciation	150,214	213,046	315,112	442,741	582,054
Net Block	414,361	462,483	1,275,834	1,255,842	1,234,603
Capital WIP	35,138	34,000	46,094	30,346	26,163
Total Fixed Assets	449,499	496,483	1,321,928	1,286,188	1,260,766
Investments	38,053	63,303	84,354	84,354	85,854
Inventories	963	484	3,178	4,091	4,209
Debtors	18,262	13,757	36,374	45,799	50,701
Cash and cash equivalent	11,241	14,295	42,384	55,448	103,421
Loans and Advances	45,078	23,796	46,621	51,561	57,610
Other current asset	10,266	10,578	11,859	12,696	14,548
Total current assets	85,810	62,910	140,417	169,594	230,489
Current liabilities and provisions	152,377	130,280	305,239	317,854	340,200
Net current assets	(66,567)	(67,370)	(164,822)	(148,259)	(109,711)
Other non-current assets	21,775	13,592	14,679	15,854	17,122
Other non-current liabilities	10,565	8,645	8,991	9,261	9,538
Miscellaneous expenditure	-	-	-	-	-
Total Assets	432,195	497,363	1,247,149	1,228,876	1,244,492

Source: Company; Centrum Research Estimates

Exhibit 14: Cash Flow Statement

Y/E March (Rsmn)	FY09	FY10	FY11	FY12E	FY13E
Cash flow from operating					
Profit before tax	91,314	104,479	90,938	104,189	159,334
Depreciation	46,684	59,066	102,066	127,629	139,314
Other	6,339	4,262	(6,008)	(472)	1,968
Interest expenses	3,479	17,559	25,349	20,155	17,655
Cash before WC change	147,816	185,366	212,345	251,500	318,270
Working capital adjustment	(10,125)	16,892	98,712	32,426	3,345
Cash flow from operations	137,691	202,258	311,057	283,926	321,615
Direct taxes paid	6,615	13,453	17,790	21,491	30,220
Cash from operations	131,076	188,805	293,267	262,435	291,395
Cash flow from investing					
Capex	(144,313)	(102,047)	(972,475)	(128,718)	(108,801)
Invest & income for invest	13,854	(22,776)	54,533	1,919	472
Cash flow from investing	(130,459)	(124,823)	(917,942)	(126,799)	(108,330)
Cash flow from financing					
Proceeds from sh cap & premium	198	194	215	22	22
Borrowings/ (Repayments)	7,031	(23,069)	680,381	(100,000)	(113,000)
Interest paid	(3,479)	(17,559)	(25,349)	(20,155)	(17,655)
Dividend paid	-	(4,442)	(2,482)	(2,440)	(4,459)
Cash flow from financing	3,751	(44,876)	652,764	(122,573)	(135,092)
Net cash increase/ (decrease)	4,368	19,106	28,089	13,064	47,973
Free cash flow to firm (FCFF)	(19,255)	83,164	(679,713)	131,536	181,298
FCFF per share	(5.1)	21.9	(178.8)	34.6	47.6

Source: Company; Centrum Research Estimates

Exhibit 15: Ratio Analysis

Y/E March	FY09	FY10	FY11	FY12E	FY13E
Margin Ratios (%)					
EBITDA Margin	41.0	40.1	33.6	35.9	39.3
PBIT Margin	28.2	25.0	16.4	17.7	22.1
PBT Margin	25.2	25.1	12.9	15.1	20.2
PAT Margin	25.0	21.4	10.6	11.8	15.9
Return Ratios (%)					
ROCE	25.8	23.0	9.4	8.1	11.9
ROIC	29.4	22.7	9.7	8.4	12.8
ROE	35.5	24.6	18.4	23.8	28.7
Turnover Ratios					
Assets Turover Ratio (x)	0.98	0.90	0.68	0.57	0.66
Working capital cycle (days)	(89.9)	(94.6)	(164.2)	(176.3)	(169.0)
Average collection period (days)	72.7	44.3	73.1	78.3	76.5
Average payment period (days)	163.5	139.4	239.2	256.7	247.4
Inventory holding (days)	1.0	0.4	2.0	2.1	1.9
Per share (Rs)					
Basic EPS	24.4	23.4	19.3	21.8	34.0
Fully diluted EPS	24.4	23.6	16.6	21.7	33.9
CEPS	36.9	40.1	43.4	55.3	70.5
Book Value	80.1	108.9	127.5	148.5	181.0
Solvency ratios (%)					
Debt/ Equity	0.4	0.1	1.5	1.1	0.8
Interest Coverage	29.9	6.0	3.9	6.1	10.1
Valuation parameters (x)					
P/E	16.9	17.4	24.8	18.9	12.1
P/BV	5.1	3.8	3.2	2.8	2.3
EV/ EBITDA	10.8	9.3	11.4	8.6	6.3
EV/ Sales	4.4	3.7	3.8	3.1	2.5
M-Cap/ Sales	4.2	3.7	2.6	2.2	1.9

Source: Company; Centrum Research Estimates

Financial – Idea Cellular (Consolidated)

Exhibit 16: Income Statement

Y/E March (Rsmn)	FY09	FY10	FY11	FY12E	FY13E
Revenue	101,252	123,979	154,384	190,577	234,973
YoY growth (%)	50.7	22.4	24.5	23.4	23.3
Romaing and Access charges	18,442	18,001	24,755	29,953	34,054
% of Sales	18.2	14.5	16.0	15.7	14.5
License and spectrum charges	11,239	13,468	17,728	21,779	26,862
% of Sales	11.1	10.9	11.5	11.4	11.4
Network operations cost	21,078	31,270	40,131	49,560	60,813
% of Sales	20.8	25.2	26.0	26.0	25.9
Personnel expenses	5,245	6,451	8,056	10,433	11,217
% of Sales	5.2	5.2	5.2	5.5	4.8
SG & Admin. and other expenes	17,175	21,210	26,457	29,783	33,382
% of Sales	17.0	17.1	17.1	15.6	14.2
EBITDA	28,073	33,580	37,258	49,067	68,645
EBITDA Margin	27.7	27.1	24.1	25.7	29.2
Depreciation	14,028	20,149	23,973	31,926	35,040
PBIT	14,045	13,430	13,285	17,141	33,605
Interest expenses	9,212	4,005	3,965	6,256	6,655
PBT from operations	4,833	9,425	9,320	10,886	26,950
Other non operating income	4,498	1,328	648	391	431
PBT before extra-ordinary items	9,330	10,754	9,969	11,277	27,382
Extra-ordinary income/ (expenses)	-	-	-	-	-
PBT	9,330	10,754	9,969	11,277	27,382
Provision for tax	576	1,214	982	1,591	5,658
Effective tax rate	6.1	11.3	9.8	14.1	20.7
Minority Interest	-	-	-	-	-
PAT	8,755	9,539	8,987	9,686	21,724
PAT (adjusted)	8,804	9,535	8,987	9,686	21,724
YoY growth (%)	(10.5)	8.3	(5.7)	7.8	124.3
PAT margin	8.7	7.7	5.8	5.1	9.2

Source: Company; Centrum Research Estimates

Exhibit 17: Balance Sheet

Y/E March (Rsmn)	FY09	FY10	FY11	FY12E	FY13E
Share Capital	31,001	32,998	33,033	33,195	33,195
Reserves	101,652	80,725	89,966	101,153	122,877
Net worth	132,653	113,724	122,999	134,348	156,072
Debt	89,122	78,593	120,228	130,000	112,000
Minority Interest	-	-	-	-	-
Deferred Tax Liability	1,130	2,142	3,099	3,099	3,099
Total Capital Employed	222,905	194,459	246,326	267,447	271,171
Gross Block	178,313	270,585	336,977	394,118	426,550
Accumulated depreciation	45,236	88,907	112,880	144,806	179,846
Net Block	133,076	181,678	224,097	249,312	246,704
Capital WIP	21,409	5,465	36,467	18,234	12,763
Intangible assets (net)	12,187	-	-	-	-
Total Fixed Assets	166,672	187,143	260,564	267,545	259,467
Goodwill	22,457	61	61	61	61
Investments (mkt securities)	20,452	11,304	12,277	-	-
Inventories	521	536	459	554	657
Debtors	3,618	4,656	4,720	6,317	7,441
Cash and cash equivalent	30,864	2,900	2,500	4,555	17,471
Loans and Advances	16,821	25,559	22,917	25,276	28,838
Other current asset	1,861	2,979	2,951	3,559	4,223
Total current assets	53,685	36,630	33,547	40,260	58,630
Current liabilities and provisions	40,361	40,680	60,123	40,419	46,987
Net current assets	13,324	(4,050)	(26,576)	(159)	11,643
Miscellaneous expenditure	-	-	-	-	-
Total Assets	222,905	194,458	246,326	267,447	271,171

Source: Company; Centrum Research Estimates

Exhibit 18: Cash Flow Statement

Y/E March (Rsmn)	FY09	FY10	FY11	FY12E	FY13E
Cash flow from operating					
Profit before tax	9,391	10,754	9,969	11,277	27,382
Depreciation	14,028	20,149	23,973	31,926	35,040
Other	5,386	2,677	3,316	5,864	6,224
Cash before WC change	28,806	33,580	37,258	49,067	68,645
Working capital adjustment	(4,133)	(10,591)	22,126	(23,405)	1,114
Gross cash flow from operations	24,673	22,989	59,385	25,663	69,760
Direct taxes paid	576	1,214	982	1,591	5,658
Cash generated from operations	24,097	21,775	58,403	24,072	64,102
Cash flow from investing					
Capex	(62,053)	(41,746)	(97,394)	(38,908)	(26,962)
Investments and income for investments	(38,182)	10,476	(325)	12,668	431
Cash flow from investing	(100,235)	(31,269)	(97,719)	(26,239)	(26,531)
Cash flow from financing					
Proceeds from share capital	72,945	(3,935)	289	1,663	-
Borrowings/ (Repayments)	15,974	(10,529)	41,635	9,772	(18,000)
Interest paid	13,109	(4,005)	(3,965)	(6,256)	(6,655)
Cash flow from financing	102,027	(18,469)	37,959	5,180	(24,655)
Net cash increase/ (decrease)	25,890	(27,964)	(1,357)	3,012	12,917
Free cash flow to firm (FCFF)	(39,078)	(19,936)	(38,733)	(15,727)	35,857
FCFF per share	(12.6)	(6.0)	(11.7)	(4.7)	10.8

Source: Company; Centrum Research Estimates

Exhibit 19: Ratio Analysis

Y/E March	FY09	FY10	FY11	FY12E	FY13E
Margin Ratios (%)					
EBITDA Margin	27.8	27.1	24.1	25.7	29.2
PBIT Margin	13.9	10.8	8.6	9.0	14.3
PBT Margin	9.3	8.7	6.5	5.9	11.7
PAT Margin	8.7	7.7	5.8	5.1	9.2
Return Ratios (%)					
ROCE	10.8	6.3	5.7	5.9	10.0
ROIC	19.5	17.5	17.1	19.4	26.6
ROE	12.1	8.5	7.6	7.5	15.0
Turnover Ratios					
Assets Turover Ratio (x)	0.5	0.6	0.6	0.7	0.9
Working capital cycle (days)	(201.9)	(161.6)	(189.0)	(99.4)	(98.0)
Average collection period (days)	13.0	13.7	11.2	12.1	11.6
Average payment period (days)	216.9	176.9	201.2	112.6	110.6
Inventory holding (days)	1.9	1.6	1.1	1.1	1.0
Per share (Rs)					
Basic EPS	2.8	2.9	2.7	2.9	6.5
Fully diluted EPS	2.8	2.9	2.7	2.9	6.5
CEPS	7.4	9.0	10.0	12.5	17.1
Book Value	42.8	34.5	37.2	40.5	47.0
Solvency ratios					
Debt/ Equity	0.8	0.7	1.0	1.0	0.7
Interest Coverage	3.1	8.4	9.4	7.8	10.3
Valuation parameters (x)					
P/E	30.1	29.6	31.4	29.3	13.0
P/BV	2.0	2.5	2.3	2.1	1.8
EV/ EBITDA	10.8	10.4	10.5	8.4	5.6
EV/ Sales	3.0	2.8	2.5	2.2	1.6
M-Cap/ Sales	2.6	2.3	1.8	1.5	1.2

Source: Company; Centrum Research Estimates

Appendix A

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