ASK | RJ
INDIA EQUITY RESEARCH

10 October 2006

Gujarat State Petronet

Initiating Coverage **Rs40; Hold**

Sector: Oil & Gas

Target Price	**Rs45**
Market cap (bn)	Rs21.7/US$0.5
52-week range	Rs47/27
Shares in issue (mn)	542
6-mon avg daily vol (no of shares)	1,207,891
6-mon avg daily vol (mn)	Rs48.3/US$1.1
Bloomberg	GUJS IN
Reuters	GSPT.BO
BSE Sensex	12366
Website	www.gujpetronet.com

Shareholding Pattern (%)

Promoters	39.2
FIIs	5.2
Banks/MFs/FIs	22.1
Others	33.6

(As of 30 June 2006)

Price Performance (%)

	1M	3M	12M**
Absolute	(0.4)	19.1	–
Relative*	(4.1)	3.3	–

**To the BSE Sensex, ** Listed in February 2006.*

Relative Performance

(As of 9 October 2006)

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Robust growth priced in

Investment highlights

- **Deeper connectivity within Gujarat:** Gujarat State Petronet (GSPL), the second largest gas transmission player in India after GAIL, currently transmits around 15 mmscmd of gas through its 650 km pipeline infrastructure. The company is ramping up its pipeline network to 1,200 km by December 2006 that would enhance its connectivity to almost all the major industrial clusters in Gujarat. This is positive for the company with regards to its volumes and ensures high entry barriers for a new entrant.
- **Contracts from RIL and Torrent Power:** GSPL has recently bagged a 15-year gas transmission contract from Reliance Industries (RIL) for transmitting 11 mmscmd gas from Bharuch to its Jamnagar refinery (1Q FY09 onwards). GGCL has also bagged a contract from Torrent Power for 20 years to transmit 5 mmscmd of gas (1Q FY08). We believe these contracts to be a key positive, giving GSPL long-tem visibility in revenues
- **Robust demand outlook for industry:** Gujarat being one of the largest energy consuming state, demand for natural gas in the state is expected to increase from around 54 mmscmd in CY05 to around 94.5 mmscmd in 2010E. Power, fertilizer and steel sectors would lead this surge in demand.

Investment concerns

- **Availability of gas:** With limited availability of gas for the next two years (other than that from PMT expansion), gas availability would be a major concern for GSPL, limiting its transmission volumes. However, with both RIL and GSPL's parent Gujarat State Petroleum Corporation (GSPC) planning to get their KG Basin gas into Gujarat, we believe gas availability should not pose a concern from FY09 onwards.

Financials and valuations

- **Demanding valuations:** GSPL trades at 28.4x FY07E earnings and 23.3x FY08E earnings. Despite a robust transmission volume CAGR of 26% over FY06-09 and PAT CAGR of 52% over the same period, we feel that GSPL is fairly valued considering it is under an investment phase that leads to depressed return ratios over the next two years. We are initiating coverage with a Hold rating and a 12-month price target of Rs45 (DCF value at 12.3% WACC and 2% terminal growth rate).

Exhibit 1: Key financials **(Rs mn)**

Y/E March	FY04	FY05	FY06	FY07E	FY08E	FY09E
Net Sales	1,402	2,035	2,635	3,357	4,958	6,846
EBITDA	801	1,293	1,942	2,670	4,215	5,895
EBITDA (%)	57.2	63.6	73.7	79.5	85.0	86.1
PAT	18	160	467	764	932	1,623
NPM (%)	1.3	7.9	17.7	22.8	18.8	23.7
EPS (Rs)	0.0	0.3	0.9	1.4	1.7	3.0
PER (x)	1223.3	135.2	46.5	28.4	23.3	13.4
ROCE (%)	5.9	7.5	7.7	7.6	9.5	13.3
RONW (%)	0.7	4.0	5.1	8.0	9.1	14.2
EV/EBITDA (x)	32.3	19.9	12.9	12.0	8.1	5.5

Source: Company, ASK Raymond James. Note: Valuations as of 9 October 2006.

Investment highlights

Currently operating at 42% of its overall transmission capability.

GSPL is a natural gas transmission company and transmission charges forms the main source of revenue. It has the second largest gas transmission network in India after GAIL. Currently it operates around 650 km of pipeline infrastructure that transmits around 15 mmscmd (42% of overall transmission capability of 36 mmscmd) of gas to various industries in Gujarat. Post expansion, GSPL would have a pipeline infrastructure spanning 1,200 km by end of 2006. The company has bagged prestigious contracts from RIL and Torrent Power that would scale up its earnings from FY09 onwards.

Gujarat's leading transmission player

Access to large sources of natural gas and proximity to major demand centers.

- **Unique bi-directional flow pipelines:** GSPL is promoted by GSPC along with Gujarat government and other state corporate entities. Gujarat, as a base, benefits GSPL with easy access to large source of natural gas and proximity to the major demand centers. The gas transmission network has a unique feature, which allows flow of gas in both directions. This bi-directional flow will assist in determining the most efficient route of transporting natural gas through their pipeline based on the available entry and exit points.

Expansion plans on track

Expansion of pipeline network from current 650 km to 1,200 km by FY07.

- **650 km of pipeline commissioned:** Of the total capex of Rs14.5 bn for its new 742 km pipeline infrastructure, the company had raised Rs3.7 bn through its initial public offer in February 2006. The rest of the capital required would be funded through a combination of debt (Rs8.7 bn), private equity placement (Rs1.1 bn) and internal accruals (Rs1.5 bn). GSPL has recently commissioned 650 km of pipeline infrastructure, and the remaining 550 km (including spur lines) would be commissioned by December 2006.

Possible diversification into other areas outside Gujarat.

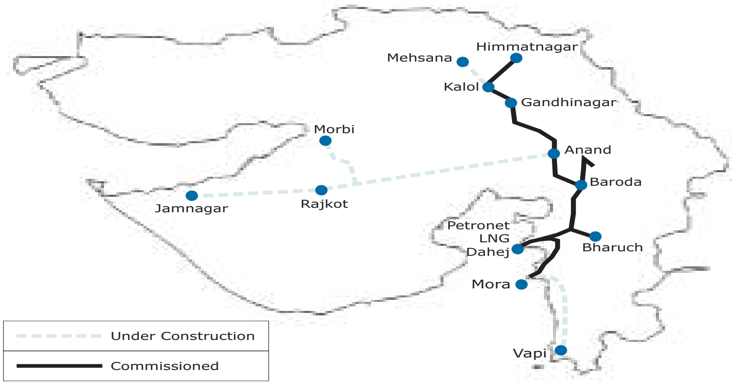
- **Diversification outside Gujarat:** GSPL has recently announced its intention to diversify into areas outside Gujarat like Rajasthan, Andhra Pradesh and Maharashtra. The company management however, did not disclose any details regarding this venture. If this materializes, we believe that it would be a major positive for GSPL with regards to mitigating its risk of operating in a single state like Gujarat, and would also be a key volume trigger for the company going forward.

Exhibit 2: Capacity-volume expansion

Y/E March	FY03	FY04	FY05	FY06	FY07E	FY08E	FY09E
Pipeline length (kms)	125	209	433	550	1,175	1,200	1,450
New markets covered	Hazira, Mora, Utran, Bharuch, Dahej	Baroda	Ahmedabad, Kalol		Vapi, Himmatnagar, Anand, Rajkot, Mehsana	Gana, Mundra, Jafrabad, Morbi, Godhra	Jamnagar
Major customers added	GPEC, GUVN, Videocon, GNFC	GSFC, GIPCL	Essar Power, Essar steel, Arvind mills, IFFCO, GAEL	BPCL	NTPC	Torrent Power	RIL
Volumes transported (mmscmd)	4	8	10	13	16	23	36

Source: Company, ASK Raymond James.

Exhibit 3: GSPL's transmission network



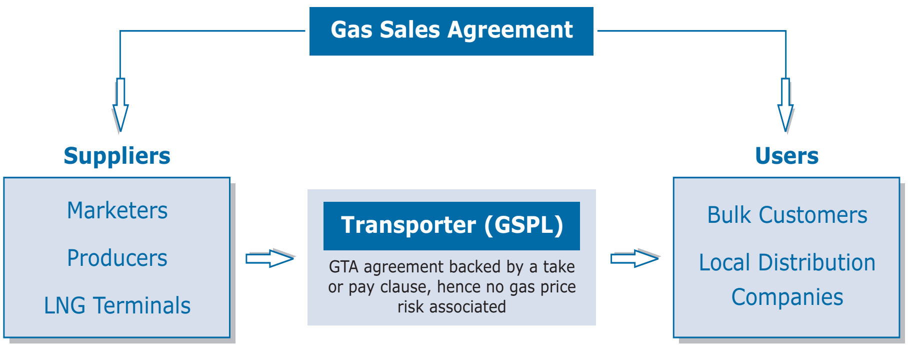
Source: Company, ASK Raymond James.

Low risk business model

Deep pipeline connectivity in Gujarat a major entry barrier for any new entrant.

- **Well-connected pipeline network:** GSPL currently transmits around 15 mmscmd of gas, whereas the total consumption in Gujarat is around 35 mmscmd. GSPL's location in Gujarat provides access to a large source of natural gas supply. Post expansion, any gas entering India through western shores of Gujarat has to pass through GSPL's pipeline infrastructure for being transmitted anywhere in the country. The company's gas transmission network is connected to all key gas supply sources in Gujarat including designated collection points near the gas fields of Cairn Energy, GSPC and GSPC-Niko field. It is also connected to the country's only two operating LNG terminals located at Dahej (Petronet) and Hazira (Shell) in Gujarat.

Exhibit 4: GSPL's business model



Source: Company, ASK Raymond James.

Tariffs determined on the basis of a combination of distance and volume of gas transmitted.

- **Good pricing power:** GSPL operates in a competitive environment in Gujarat, with GAIL and Gujarat Gas being its key competitors. However, GAIL and GGCL have infrastructure restricted only to the few areas against GSPL's comprehensive infrastructure providing the last mile connectivity to its customers. GSPL also enjoys significant pricing power with respect to transmission tariffs that are determined based on a combination of distance and volume of gas to be transmitted. Post expansion, we expect company's average tariff to increase marginally as incremental volume additions would result from longer distance pipelines.

No risk associated with volatility in price of gas.

- **Carrier of Gas:** GSPL transmits gas to around 18 companies operating in Gujarat like Torrent Power, Essar Power, Essar Steel, Arvind Mills, Gujarat Adani Enery, GNFC, etc. The company is just a carrier of gas, and has no say in pricing or marketing of gas. The gas purchase or sales agreement is between the buyers and sellers, wherein either of them enters into a gas transmission agreement with GSPL. Hence, the company is free from any risk associated with the volatility in price of gas.

Take or pay agreement reduces risk.

- **Agreement backed by take or pay clause:** Before entering into a transmission deal, GSPL enters into a Gas transmission agreement (GTA) with its customers. This GTA operates on take or pay basis, which requires the customers to pay capacity charges (fixed element) regardless of the amount of gas they transport in the future. These capacity charges form nearly 90% of their tariff revenue and are backed by take or pay clause, which prevents the company from temporary changes in demand due to pr ice volatility. This take or pay clause gives strong visibility and sustainability to GSPL's revenues.

Contract from RIL and Torrent power

RIL and Torrent Power contracts provide good long-term visibility of revenues.

- **Long-term visibility of revenues:** GSPL has been recently awarded a contract from RIL for transmission of 11 mmscmd (can be scaled up to 20 mmscmd) of Gas from Bharuch to Jamnagar. This contract is a part of RIL's mega plan of transmitting gas from its KG Basin field on the east coast to its Jamnagar refinery on the west coast. Assuming this contract is operational for 9 months, it is expected to contribute Rs1.2bn (18% of FY09E revenues) and Rs0.5 (17% of FY09E EPS). From FY10 onwards, this contract is expected to contribute Rs1.7 bn to the revenues. GSPL would be incurring a capex of Rs7 bn for the pipeline infrastructure (250 km) for this project.

  GSPL was also awarded a contract by Torrent Power for transmission of 5 mmscmd of gas from FY08 onwards (for 20 years) for its upcoming power plant in Gujarat. This contracted quantity is for partly commissioned (600 MW) capacity of its power plant in Gujarat. On the commissioning of complete 1100 MW capacity (over next 3 years), GSPL will be supplying around 10 mmscmd to Torrent Power. We believe these contracts from RIL and Torrent Power to be positive for the company going forward giving a good long-term revenue visibility.

Robust demand outlook

Preferred fuel due to economical and environmental advantages.

- **Natural Gas - the fuel of the future:** Gas, as an alternative source of fuel, is being increasingly preferred over conventional fuels due to its inherent economical and environmental advantages. In the last 20 years, natural gas has emerged as one of the major sources of fuel in India and its share in the Indian energy basket has increased from 2% in 1984 to 8% currently. As per Hydrocarbon Vision 2025, natural gas is expected to emerge as a major source of fuel and its share is expected to increase from the current 8% to 20% by 2025.

Power and fertilizer sectors to lead the surge in demand for natural gas.

- **Robust demand outlook within Gujarat:** The demand of natural gas in Gujarat is expected to increase from around 54 mmscmd in CY05 to around 94.5 mmscmd in 2010E at a CAGR of 12%. Industrialization, proximity to supply sources and developed natural gas transportation infrastructure have resulted in Gujarat emerging as the largest gas consuming state in the country. Power, fertilizer, chemical and steel sectors in Gujarat would lead this surge in demand in Gujarat.

Investment concerns

Tariffs if regulated, would affect GSPL's profitability.

- **Regulation of pipeline tariffs:** Currently GSPL's pipeline tariffs are not regulated. However, with the appointment of the Oil and Gas regulator, there is a probability going forward that GSPL's tariffs could be regulated on the similar lines of GAIL's HBJ pipeline tariff structure. However, unlike GAIL, GSPL does not have any say in the pricing of Gas transmitted through its pipelines, with transmission tariffs being its only source of income.

Gas availability a concern till FY09.

- **Availability of gas:** With limited availability of gas in Gujarat for the next two years (other than that from PMT expansion), gas availability would be a major concern for GSPL, limiting its transmission volumes. However, with RIL planning to transport its KG Basin gas into Gujarat and GSPL's parent GSPC also planning on similar lines, we believe gas availability would not be a concern from FY09 onwards.

Petronet LNG and Shell to contribute significantly to gas supply over the next 2-3 years.

Regasification players within Gujarat like Petronet LNG (currently 36% of GSPL's volumes) and Shell Hazira are doubling their capacities over the next 2-3 years. These terminals have recently started procuring spot cargos to cater to the increased demand for gas within the state. We therefore expect a good supply of gas coming into Gujarat, eventually benefiting GSPL.

Financials

Revenue CAGR of 38% and PAT CAGR of 52% over FY06-09.

With the demand for gas in Gujarat expected to increase going forward, particularly from the power, chemical and fertilizer sectors, we believe that GSPL is attractively poised to take advantage of an expected surge in gas transmission volumes. We expect GSPL's net sales to grow at a CAGR of 38% over FY06-09 and PAT to grow at a CAGR of 52% over the same period.

Aggressive depreciation policy under review

Change in depreciation policy would significantly impact earnings.

- **Significant impact on earnings:** GSPL depreciates its pipeline assets at 8.3% assuming a useful life of 12 years, unlike GAIL's policy of depreciating its pipeline assets at 3.17% (assuming a useful life of 30 years). The company is contemplating the possibility of adopting a 3.17% depreciation rate, however there is still no clarity from GSPL management regarding this. Based on our calculations, the new depreciation policy if adopted, would increase our FY08E EPS by 86.7% at Rs3.2 and our FY09E EPS by 75.9% at Rs5.3. At the CMP of Rs40, GSPL would then be attractively valued at 12.5x FY08E earnings and 7.5x FY09E earnings.

FY09 is the year to watch-out for

Incremental RONW of 58.1% and ROCE of 511% in FY09E.

- **Impressive returns from FY09:** GSPL is incurring a total capex of Rs16 bn over FY07-09. At the end of this capex cycle in FY09, the company generates impressive incremental returns as depicted in Exhibit 5 below. The company generates an incremental RONW of 58.1% in FY09 and incremental ROCE of 19% and 511% in FY08 and FY09 respectively.

Exhibit 5: Marginal analysis **(Rs mn)**

Y/E March	FY07E	FY08E	FY09E	CAGR
Incremental sales	722	1,601	1,889	61.7
Incremental EBITDA	728	1,545	1,680	51.9
Incremental OPM (%)	100.8	96.5	89.0	
Incremental ROCE (%)	7.1	19.0	511.8	
Incremental PAT	298	167	691	52.4
Incremental RONW (%)	57.6	24.4	58.1	
Capex	9,000	5,400	1,600	

Source: ASK Raymond James.

Volume growth to expand operating margins

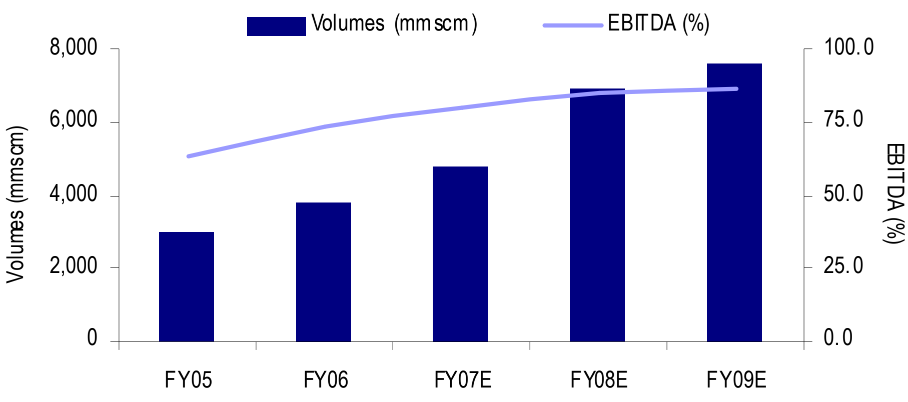
- **1,200 km pipeline infrastructure:** GSPL's pipelines are connected to all major sources of gas supply as well as most of the major users and demand centers in Gujarat. Post-expansion, the company would be having a 1,200 km pipeline infrastructure, and hence would be able to supply to majority of companies within the various industrial clusters in Gujarat.

- **Reduction in transportation charges:** GSPL pays transportation charges to Gujarat Gas (GGCL) as part of its agreement for using the its pipeline for transmitting gas from Hazira to Ankleshwar. With GSPL's own infrastructure being set-up in this corridor, there would be a significant reduction in transportation charges going forward. However, GSPL is bound to pay certain fixed portion of these transportation charges till FY12 as part of the agreement.

Surge in operating margins due to reduction in transportation charges.

- **Significant margin expansion:** We expect GSPL's operating margins to improve from current levels of 74% to 86.1% for FY09E. This would be led by a significant reduction in gas transportation charges paid to GGCL (43% of total expenditure in FY06) and improvement in per unit gas transmission charges (Rs0.74/SCM for FY09E). However, the company's net profits would be under pressure due to high depreciation and high interest cost during its expansion phase till the end of FY07. From FY08 onwards, we expect company's profitability to improve as volumes expand.

Exhibit 6: Margin improvement going forward **(Rs mn)**



Source: Company, ASK Raymond James.

- **Uptrend in return ratios:** Inspite of a high capex of Rs16 bn, the company is expected to maintain a healthy debt-equity of 1.4x for FY08E. GSPL's business currently generates RoE of 5.1% and RoCE of 7.7% for FY06 due to lower capacity utilization (~42%) and rising depreciation and interest cost. These when compared with GAIL's gas transmission business (Exhibit 7), which generates a ROCE of 43%, appears lackluster. However, GAIL is a matured player transmitting around 80% of country's natural gas requirement through well-developed 3,678 km pipeline network. Usually, these kinds of utility businesses initially have lower return ratios during the expansion phase. On similar lines, we believe once GSPL's volumes expand, there would be improvement in its returns from FY09 onwards (14.2% RoE and 13.3% RoCE in FY09E).

Exhibit 7: Comparison with GAIL's transmission business (FY06)

Particulars	GAIL's gas transmission business	GSPL
Revenues (Rs mn)	**20,631**	**2,635**
PBIT	11,935	1,152
PBIT (%)	57.9	43.7
Capital employed (Rs mn)	27,568	14,861
ROCE (%)	**43.3**	**7.7**
Volumes transmitted (mmscmd)	78	15
Pipeline network (kms)	3678	650
Volumes per km (mmscm)	7.7	8.4

Source: Company, ASK Raymond James.

Value unlocking of GGAS investment

GGAS to complete the value chain through last mile connectivity for GSPC group as a whole.

- **Unlocking within the next three years:** Recently, GSPL's parent company GSPC has launched a city gas distribution company by the name of GSPC Gas Company (GGAS), which is initially operating in Gandhinagar. It has received a phenomenal response with around 10,000 customers signing up for their service within a year of its launch. GSPL has initially invested around Rs100 mn as a strategic investment in GGAS, wherein it is responsible for laying the necessary pipeline infrastructure. According to GSPL management, the company would eventually hold around 15-20% stake in GGAS. GGAS would be eventually listed (probably within next three years) on the lines of Gujarat Gas and Indraprastha Gas, leading to value unlocking for GSPL.

Valuations

Fair value of Rs45 based on DCF calculation

We recommend a Hold based on our DCF value of Rs45.

- We prefer DCF based valuation for GSPL considering the long-term visibility of revenues. Based on our fair value of Rs45, GSPL offers limited upside (12.5%) from these levels. We have arrived at a DCF value of Rs45 based on the following:

  (I) WACC of 12.3% and terminal growth rate of 2%.

  (II) RIL contract is operational for 9 months in FY09.

Exhibit 8: DCF calculation indicates a fair value of Rs45 (Rs mn)

PV of FCFF during the explicit forecast period (WACC of 12.3%)	9,620
PV of Terminal value (Terminal growth rate of 2%)	18,453
Enterprise value	**28,072**
Debt	5,786
Cash	2,372
DCF value	**24,658**
No of Shares (Mn)	542.0
DCF value per share (Rs)	**45**

Source: Company, ASK Raymond James.

Exhibit 9: Sensitivity of fair value to WACC and terminal growth

Terminal growth (%)	**1**	**2**	**3**
WACC (%)			
11.0	52	57	62
11.5	48	52	57
12.0	45	48	52
12.3	42	**45**	49
13.0	38	41	44
13.5	35	38	40
14.0	33	35	37

Source: Company, ASK Raymond James.

- **Attractive outlook from FY09 onwards:** GSPL's cash flows look attractive from FY09 onwards, as the contracts from RIL and Torrent Power start contributing to the revenues. The company's return ratios also improve significantly from FY09 as the company's volumes expand and its asset turnover improves (from 0.15x in FY06 to 0.23x in FY09E). We expect this trend to continue going forward, with the company indicating its plans to diversify into states other than Gujarat and GSPC's proposed plans to transport its KG Basin gas to Gujarat.

- **Initiating coverage with a Hold rating:** At DCF price target of Rs45, the company would be trading at 32.1x our FY07E EPS of Rs1.4 and 26.4x our FY08E EPS of Rs1.7. We believe all the positives are factored in the current price, and hence we recommend a Hold on GSPL. Any new contract of significant size would act as a trigger to our fair value. However, based on its strong parentage, low-risk business model and long-term visibility of revenues, we believe it is an attractive play at lower levels.

Exhibit 10: Financials

O&M expenses will form a major chunk of expenditure as GSPL's pipeline network expands.

GSPL depreciates its pipeline assets at 8.3%.

Profit & Loss Statement (Rs mn)

Y/E March	FY05	FY06	FY07E	FY08E	FY09E
Net Sales	**2,035**	**2,635**	**3,357**	**4,958**	**6,846**
Gas transportation charges	454	192	120	50	50
Operating and maintenance expenses	77	139	168	248	342
Employee cost	26	27	40	46	69
Admin and other expenses	72	112	134	174	240
Connectivity charges	113	222	225	225	250
EBITDA	**1,293**	**1,942**	**2,670**	**4,215**	**5,895**
EBITDA (%)	**63.6**	**73.7**	**79.5**	**85.0**	**86.1**
Other income	20	45	35	30	100
Depreciation	656	791	1,111	1,862	2,570
EBIT	637	1,152	1,559	2,353	3,325
Interest	363	413	502	1,052	1,107
PBT	**293**	**784**	**1,092**	**1,331**	**2,318**
Tax	133	317	328	399	695
Tax rate %	45.4	40.5	30.0	30.0	30.0
PAT	**160**	**467**	**764**	**932**	**1,623**
NPM (%)	**7.9**	**17.7**	**22.8**	**18.8**	**23.7**
Shares (mn)	542.0	542.0	542.0	542.0	542.0
EPS (Rs)	**0.3**	**0.9**	**1.4**	**1.7**	**3.0**

Source: Company data, ASK Raymond James.

GSPL raised Rs3,726 mn through its IPO in February 2006.

Capex to be funded in 70:30 debt-equity ratio.

Rs9 bn capex in FY07 and Rs7 bn capex for the RIL contract.

Balance sheet (Rs mn)

Y/E March	FY05	FY06	FY07E	FY08E	FY09E
Equity share capital	3,500	5,422	5,422	5,422	5,422
Share application money	54	-	-	-	-
Share premium account	262	3,119	3,119	3,119	3,119
Reserves and surplus	222	534	1,051	1,735	2,925
Networth	**4,037**	**9,075**	**9,592**	**10,277**	**11,466**
Total Debt	**4,436**	**5,786**	**11,000**	**14,500**	**13,500**
Liabilities	472	1,554	1,680	2,202	2,326
Provisions	99	217	585	677	1,178
Current liabilities	**571**	**1,771**	**2,264**	**2,878**	**3,504**
Deferred tax liability	719	784	533	735	743
Total liabilities	**9,763**	**17,416**	**23,390**	**28,390**	**29,213**
Gross Block	8,728	9,805	21,856	23,856	30,856
Less:Depreciation	1,417	2,205	3,316	5,178	7,749
Net Block	7,311	7,600	18,540	18,677	23,107
CWIP	1,081	6,051	3,000	6,400	1,000
Investments	0	0	0	0	0
Deferred tax asset	525	276	276	276	276
Others	84	149	150	150	150
Stores and spare parts	116	362	469	693	957
Sundry Debtors	107	137	184	285	431
Cash and bank	426	2,372	673	1,849	2,935
Loans and advances	101	347	98	59	357
Total current assets	**834**	**3,367**	**1,574**	**3,036**	**4,830**
Misc exp	**11**	**123**	**-**	**-**	**-**
Total assets	**9,763**	**17,416**	**23,390**	**28,390**	**29,213**

Source: Company data, ASK Raymond James.

Significant improvement in cash flows from FY09 onwards.

Rs10 bn debt to be raised by the company over FY06-09.

Cash flow statement (Rs mn)

Y/E March	FY05	FY06	FY07E	FY08E	FY09E
PBT	293	784	1,092	1,331	2,318
Add					
Depreciation	656	791	1,111	1,862	2,570
Ineterest	363	413	502	1,052	1,107
Less					
Other income	20	45	35	30	100
Change in working capital	(427)	(496)	(219)	(236)	584
Tax	15	2	87	106	185
Others	(85)	10	-	-	-
Net cash from operations (a)	**1,620**	**2,446**	**2,801**	**4,345**	**5,126**
Capex	(2,313)	(6,046)	(9,000)	(5,400)	(1,600)
Other income	-	-	35	30	100
Others	(31)	(4)	-	-	-
Cash flow from investments (b)	**(2,344)**	**(6,050)**	**(8,965)**	**(5,370)**	**(1,500)**
Change in share capital	1,398	1,923	-	-	-
Change in share premium a/c	262	2,857	-	-	-
Change in share app. Money	(296)	(54)	-	-	-
Dividends + Div. Tax	(80)	(155)	(247)	(247)	(433)
Inc/Dec in loans	137	1,350	5,214	3,500	(1,000)
Interest	(363)	(413)	(502)	(1,052)	(1,107)
Others	18	41	-	-	-
Financial cash flow (c)	**1,076**	**5,550**	**4,464**	**2,201**	**(2,540)**
Net inc/dec in cash (a+b+c)	**352**	**1,946**	**(1,699)**	**1,176**	**1,086**
Opening cash balance	74	426	2,372	673	1,849
Closing cash balance	426	2,372	673	1,849	2,935

Source: Company data, ASK Raymond James.

Key ratios

Y/E March	FY05	FY06	FY07E	FY08E	FY09E
NPM (%)	7.9	17.7	22.8	18.8	23.7
Cash Margins (%)	40.1	47.7	55.9	56.4	61.2
PBV (x)	5.4	2.4	2.3	2.1	1.9
CEPS (Rs)	1.5	2.3	3.5	5.2	7.7
P/CEPS (x)	26.6	17.3	11.6	7.8	5.2
ROCE (%)	7.5	7.7	7.6	9.5	13.3
RONW (%)	4.0	5.1	8.0	9.1	14.2
Asset Turnover (x)	0.21	0.15	0.14	0.17	0.23
EV/EBITDA (x)	19.9	12.9	12.0	8.1	5.5
Debt/Equity (x)	1.1	0.6	1.1	1.4	1.2

Source: Company data, ASK Raymond James.

Rating Structure

Our Equity Rating Structure is based on Absolute Valuations–based on a Discounted Cash-Flow (DCF) Model, though we also look at PE, EV/EBITDA and other related valuation metrics. Our implicit belief is that stock prices tend to approximate, at one time or another, their true value based on future cash flows, if these estimates materialize.

Our Rating Structure is based on the following levels of expected Absolute Returns:

Rating	**Target Price** *(if the value exceeds the Current Market Price)*
Buy	by more than 14%
Hold	by 6% to 14%
Sell	is below 6%

The Percentage Bands are based on the current Risk-free Rate (RFR) of 6% and the Equity Risk Premium of 8% which are empirically observed in India's Debt and Equity markets. Therefore, for a **'BUY'** recommendation on Indian equities, the minimum under-valuation or expected return in absolute terms must be greater than 14% to compensate for the market risk of equities. Similarly, we think that for a **'HOLD'** recommendation, the minimum under-valuation or expected return must be at least equivalent to the risk-free rate and, ideally, much higher. But if the expected return is below even the risk-free rate or if the stock is over-valued, implying a negative absolute return, then the stock under consideration is a clear **'SELL'.**

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