Initiating Coverage

Viceroy Hotels (PALHEI)

Current price	Target price
Rs 58	Rs 116
Potential upside	Time Frame
100%	18 months

Many More Marriotts

OUTPERFORMER

Himani Singh
himani.singh@icicidirect.com

Viceroy Hotels, which currently owns a single property in Hyderabad, Hyderabad Marriott, plans to quadruple its room count from the current 355 to 1,405, by FY10. Apart from increasing its room base in Hyderabad, it also plans to expand its reach to Chennai and Bangalore under the Marriott brand. With the expansion, we expect the company to clock a 55% CAGR in revenue over FY07-10E.

- **Room base to quadruple by FY10**

Viceroy Hotels' current room base of 355 rooms is set to quadruple to 1,405 by FY10E. Apart from increasing its room base in Hyderabad through the 200-toom four-star Courtyard Marriott by Jan 2009, it plan to expand to Chennai and Bangalore by undertaking projects to add in total 850 rooms by Q2FY10. We expect the company to register a 55% CAGR in top line over FY07-10E on the back of the expansion.

- **Restaurant business to drive incremental revenues**

Having established four strong brands under two of its wholly-owned subsidiaries, Viceroy Hotels plans to expand its F&B (Food & Beverage) business to more cities. It currently operates 11 outlets which it plans to increase to 19 by FY09E and further to 35 by FY10E. We believe this aggressive expansion in the F&B space would be earnings accretive.

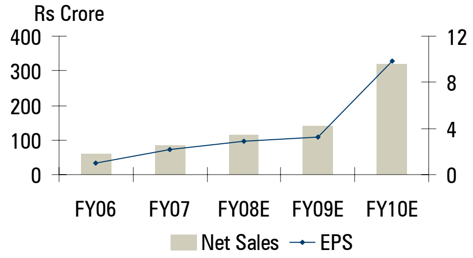
- **Average room rates, occupancy levels to remain firm**

Viceroy Hotels has followed a strategy of keeping its ARR (average room rate) competitive and sustained improvement in occupancy levels year-on-year. We expect the hotel to boost operating margins in FY08 to 31% and further to 35.2% in FY09 on the back of strong ARRs and firm occupancy levels on a higher room base.

Valuations

The number of business travellers to India has witnessed substantial growth. Further, investment interest is high in the cities where Viceroy Hotels plans to expand. The hotel appeals with its robust business with sales growth expected at 56% with bottom line surging at 49% during FY07-10E. We rate the stock an **OUTPERFORMER** and we arrive at a price target of Rs 116 through a DCF valuation.

Sales & EPS trend



Stock metrics

Bloomberg code	PLHH IN
Reuters code	VICE.BO
Face Value (Rs)	10
Promoters holding	35.49%
Market Cap	Rs 220 crore
52 Week H/L	141/ 51
Sensex	16,086
Average volume	57818

Comparative return metrics

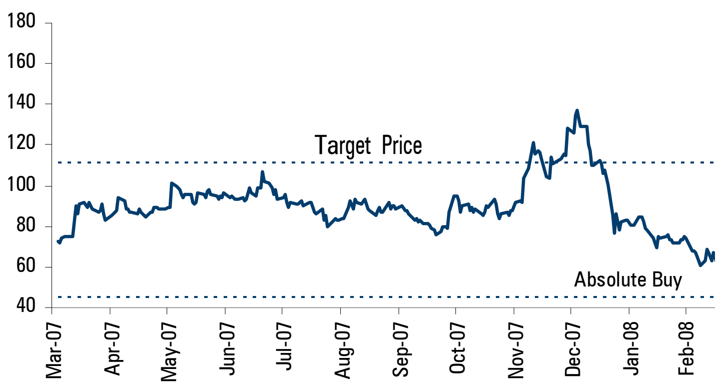
Stock return	3 M	6M	12M
Taj GVK Hotels	-36%	-25%	-41%
EIH Associate	-24%	6%	15%
Kamat Hotel	-39%	-15%	2%
Royal Orchid Hotels	-40%	-40%	-55%
Viceroy Hotels	-50%	-36%	-25%

Exhibit 1: Key Financials

Year to March 31	FY07	FY08E	FY09E	FY10E
Revenue	83.60	115.53	141.38	318.65
Net Profit	6.21	12.11	13.86	41.73
Shares in issue (cr.)	2.87	4.24	4.24	4.24
EPS (Rs)	2.17	2.86	3.27	9.84
% Growth		32%	15%	201%
P/E (x)	34.54	20.03	17.50	5.81
Price/Book (x)	1.27	0.89	0.84	0.72
EV/EBIDTA	23.85	19.19	17.79	8.65
RoNW (%)	3.7%	5.0%	5.4%	14.0%
RoCE (%)	2.2%	3.6%	4.2%	8.1%

Source: ICICIdirect Research

Price Trend



Company Background

Viceroy Hotels, previously known as Palace Heights Hotels (PHHL) was incorporated in 1965. It operates a stately hotel, Hotel Viceroy, which has been renamed as Hyderabad Marriott. The hotel has signed a master franchisee agreement with the global hospitality major Marriott International Inc to become its franchisee hotel. The Hyderabad hotel is a sophisticated new-generation hotel which provides royal luxury to businessmen and tourists. The hotel is an architectural masterpiece with majestic appeal, lush greenery, tranquil fountains and it is bestowed with an enchanting view of the Buddha statue in the Hussain Sagar Lake.

Share holding pattern

Shareholder	Percentage holding
Promoters	31.73
Institutional investors	11.58
Other investors	18.58
General public	38.11

Promoter & Institutional holding trend

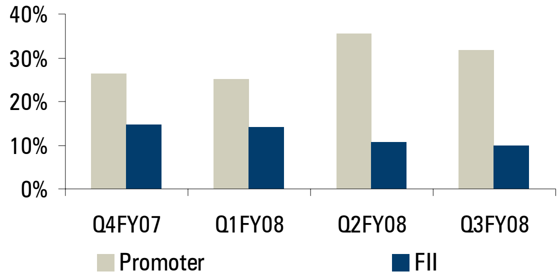


Exhibit 2: Business chart

Viceroy Hotel

Hotel Business

Number of rooms: 355
FY07 revenue: Rs 56.68 crore

Operating margin: 37.5%

Food & Beverage Business

Number of outlets: 11
FY07 revenue: Rs 28.48 crore

Operating margin: 13.2%

Source: Company, ICICIdirect Research

INVESTMENT RATIONALE

- **Room base to quadruple by FY10E focusing business hubs**

  Viceroy Hotels currently owns a five-star hotel, Marriott Hyderabad, with ~ 300 rooms. To capitalise on the emerging opportunities in the premium segment in hospitality industry, the company entered into an agreement with Marriott International to manage the hotels under their brand. Viceroy Hotels is adding multi-dimensional and multi-geographical growth to its hotel portfolio. From one luxury hotel in Hyderabad, it plans to expand to Bangalore, Chennai and Vishakapatnam (in planning phase). It is also foraying into service apartments by setting up a 200-room service apartment in Chennai. By FY10, we expect the room base to grow from the current 355 to 1,405 with a larger geographical spread.

Room base to increase by 296% over FY08-10

Hyderabad

Hyderabad has been one of the major tourist destinations due to its famed princely monuments. In recent years, it has also emerged as a favoured IT/ITES destination in India. The rapid pace of infrastructure development and aggressive promotion by the state government has attracted the interest of national and international companies to the city.

Currently, more than 85% of the clientele in premium hotels in Hyderabad are from corporate sector. Out of this, around 60% are foreign business travellers. The city currently has around seven hotels in the premium segment with an inventory of less than 2,000 rooms. Marriott Hyderabad stands to gain from the increasing demand scenario.

To exploit the available opportunity further and enjoy economics of scale and operating leverage, Viceroy Hotels has acquired land adjacent to the existing Hyderabad Marriott and obtained permission to develop a 200-room business hotel which will be managed by Marriott under the "Courtyard by Marriott" brand. The hotel would be situated opposite the picturesque 'Hussain Sagar' lake. The advantage of this would be two-fold. Firstly, the company will achieve cost efficiencies due to the proximity of the two hotels. Secondly, Courtyard would complement the existing property to cater to a diverse client base especially in times of conferences and seminars being held at the existing convention centre.

Its current room base in Hyderabad (300 at Marriott Hyderabad and 55 rooms at Hotel Minerva), would increase by 200 four star rooms at Courtyard Marriott from January 2009, when the latter is expected to commence operation.

Chennai

Chennai, known for its cultural heritage and temple architecture, is also one of the important commercial and industrial destinations of India. The city is the base of around 40% of India's automobile industry and has also become a major centre for IT services and ITES outsourcing. The diversified base of different industries has resulted in the inflows of large number of business travelers to the city. The city is well connected internationally as well as to other parts of the country through all modes of transport.

To capture this attractive opportunity, Viceroy Hotels has acquired 5.5 acres of sea facing land in Adyar, Chennai, to set up a 385-room five-star hotel under the JW Marriott brand and 165 five-star deluxe category Marriott executive apartments with a total outlay of Rs 462 crore. The necessary approvals have already been obtained for the project and the hotels are expected to commence commercial operations from the second quarter of FY10.

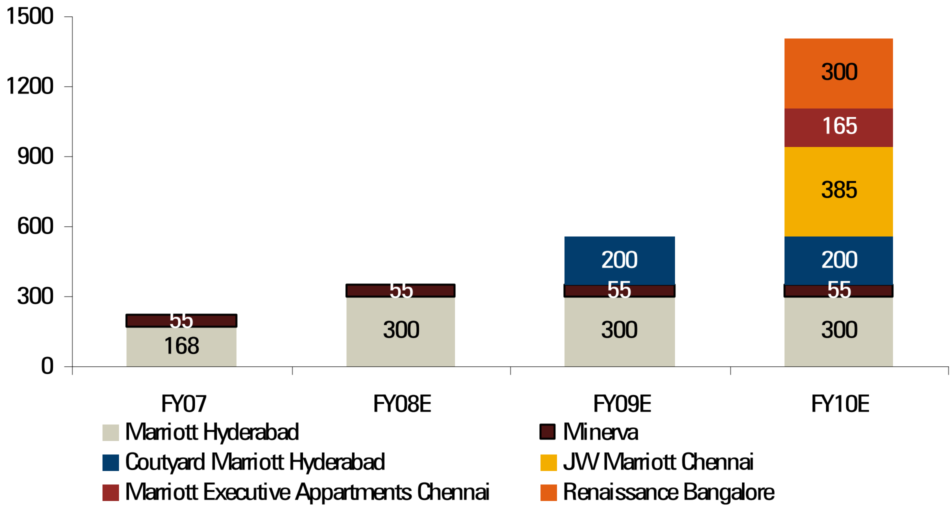
Bangalore

Bangalore is the fifth largest city in India (population-wise) and the fastest growing cosmopolitan city in Asia. It is the nerve centre of the IT industry in India and is the world's fourth largest technology hub. Bangalore has fairly diverse portfolio of activities with firms manufacturing machine tools, auto-components and electronic goods, besides IT sector. All these varied business activities have led to a phenomenal demand in the hospitality sector.

Bangalore accounts for over 50% of foreign business travellers visiting India annually. International corporate travellers account for nearly 90% of occupancies in premium hotel rooms. It is estimated that hotel room rates in Bangalore are third highest in the world and highest in India due to acute shortage of rooms. The city has around 3,000 rooms in the premium category, which is abysmally low to cater to the growing demand.

Viceroy Hotels, with its expertise and experience in the hospitality sector, is well poised to avail this opportunity. The company is setting up a 250-rooms five star Renaissance Hotel at Old Race Course Road at a planned capex of Rs 160 crore. The land for this project has been taken on a 53 year long lease. The necessary approvals for the project have already been obtained and the hotel is expected to commence commercial operations from the second quarter of FY10.

Exhibit 3: Room base gets diversified (number of rooms)



Source: Company, ICICIdirect Research

This expansion is expected to result in an almost 296% growth in room base from the current 355 to 1,405 by FY10. We expect the company to register a 55% CAGR in top line over FY07-10E on the back of this expansion.

- **Restaurant business to drive incremental revenues**

The F&B space offers huge opportunities for Viceroy Hotels to boost revenues. The company has established four strong brands under two of its wholly owned subsidiaries – Café d Lake and Crustom Products viz. Minerva Coffee Shop, a chain of vegetarian restaurants; Blue Fox Bar & Restaurant, a fashionable chain of multi cuisine outlets; Waterfront and Eat Street; Bread Talk. Viceroy Hotels feels confident to spread their F&B experience successfully to more cities.

Café d Lake

Minerve Coffee Shop is a popular chain of vegetarian restaurants that has been in the F&B business for the past two decades. The chain currently has two outlets in Hyderabad and one in Vijayawada. Viceroy Hotels plans to take this chain to cities like Mumbai, Delhi, Bangalore and Chennai in the future.

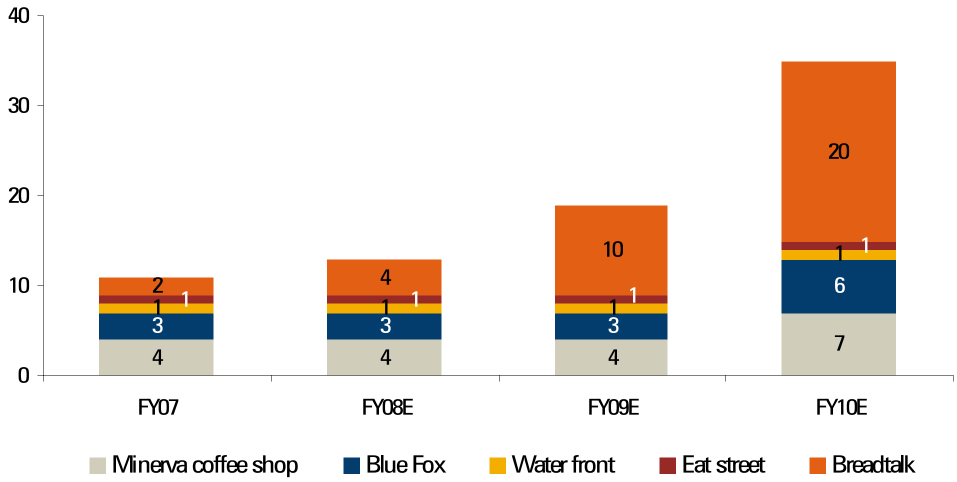
Blue Fox Bar & Restaurant is a fashionable chain of multi cuisine outlets. Blue Fox has two outlets in Hyderabad and one in VIjayawada. Going forward, the company plans to expand it into a national chain.

Waterfront is a standalone property on the banks of Hussein Sagar Lake in Hyderabad. It is a very popular fine-dining restaurant in the city. Eat Street is a food mall which is adjacent to Waterfront. Many popular international F&B brands are positioned in Eat Street food mall.

Crustum Products

BreadTalk – Crustum Products, a wholly owned subsidiary of Viceroy Hotels, is an exclusive national franchise for BreadTalk, Singapore. BreadTalk is a boutique bakery chain based out of Singapore and the Company plans to open over 40 outlets in country over the next five years. Currently there are three outlets in Mumbai and one in Hyderabad.

Exhibit 4: Expansion in F&B space (number of outlets)



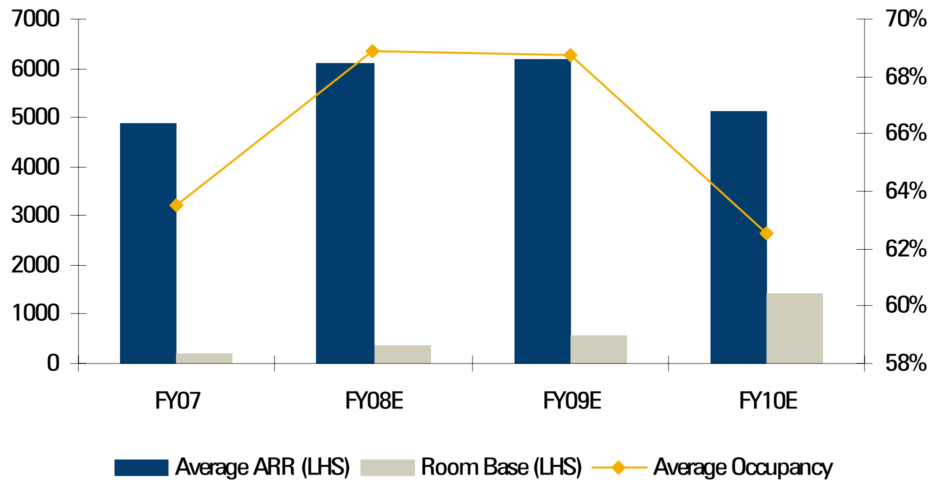
Source: Company, ICICIdirect Research

We expect the aggressive expansion by Viceroy Hotels in the F&B space would be earnings accretive. The hotel plans to expand the number of outlets from the current 11 to 19 by FY09E and further to 35 by FY10E. We expect revenues from F&B outlets to grow by 86% during FY07-10E.

- **Average room rates, occupancy levels to remain firm**

  Viceroy Hotels has followed a strategy of keeping its ARR (average room rate) competitive and sustained improvement in occupancy levels year-on-year. It registered operating margins of 29% in FY07. We expect it to rise by 177 bps to 31% in FY08 to 31% and further by 412 bps to 35.2% in FY09 on the back of strong ARRs and firm occupancy levels on a higher room base.

Exhibit 5: Firm ARRs (in Rs) and occupancy levels would maintain revenue growth

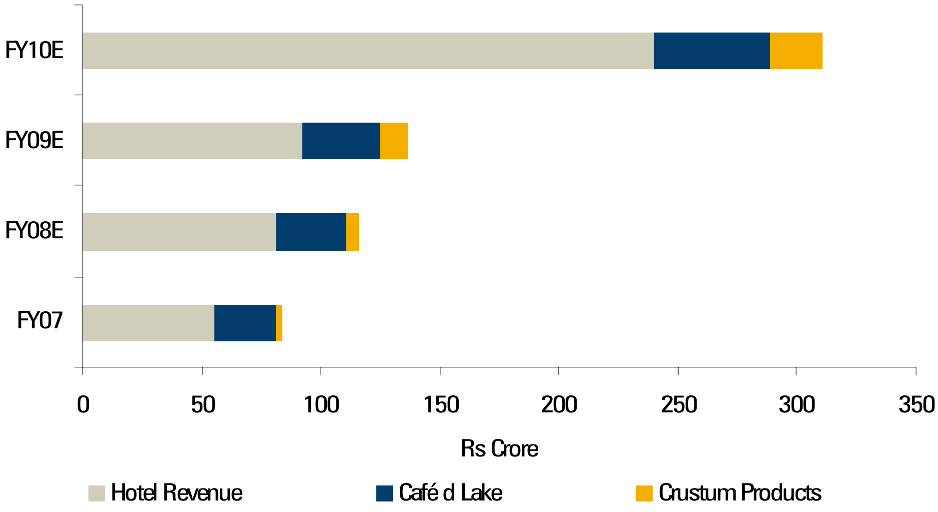


Source: Company, ICICIdirect Research

Occupancy rates expected to dip in FY10 on account of new room additions

With properties getting diversified and revenues streaming from cities other than Hyderabad, we feel the business would be more stable and de-risked. We expect dependence on Hyderabad Marriott to reduce. Currently, Hyderabad Marriott contributes 90% to revenues. This figure is expected to decline to 82% in FY09E post the commencement of Courtyard in Hyderabad, which is expected to contribute 12% to revenues. However, the hotel's dependence on Hyderabad would ease out only by Q2FY10. We expect around 56% of FY10 revenues would be from the Hyderabad properties. About 28% would be coming from Chennai and the rest 16% from the Bangalore property. Since these properties would not be operational for entire FY10, we expect them to start contributing in a bigger way post FY10.

Exhibit 6: Revenue streams to increase



Source: Company, ICICIdirect Research

The F&B outlets, Cafe d Lake and Crustum Products, which would be expanded to more cities, are expected to contribute Rs 34.2 crore in revenue in FY08, which would constitute around 30% of top line. Going forward, we expect contribution from F&B business to top line doubling to Rs 70.15 crore by FY10E. We believe this initiative could turn out to be a major money spinner in long run.

RISKS & CONCERNS

- **Execution risks**
  Any delay in the development of the upcoming properties would shift the revenue estimates downwards thereby affect the profitability negatively. The expansion plans of F&B outlets to newer geographies would also test Viceroy Hotels' expertise in handling much diverse business.

- **Tourist inflows to India**
  Tourist inflows into India have been growing at a robust 16% CAGR over 2003-07. In 2007, tourist arrivals were record 4.97 million. For the two months in 2008, tourist arrivals have shown a healthy growth of 11.1% over the 2007 numbers for the same period. Although we expect a continued growth in the tourist inflows driven by economic attractiveness, any slowdown would bring a deceleration to the Indian hospitality dream run. We believe this scenario to be unlikely in the current frame of events.

- **Further funding pressures**
  The ongoing capex is being been funded by a combination of equity and debt. Viceroy Hotels issued warrants in FY06 and FY07, which have now been converted into equity shares. Between FY05 and FY07, the company's paid-up equity increased from Rs 17.86 crore to Rs 33.45 crore and in FY08 it would stand at Rs 42.41 crore post-dilution. During this period, the gearing has been flat in the range of 2.5-2.6. Any further dilution of equity or increase in debt would increase pressures on earnings and return ratios as well. The funding for current projects is tied up. We don't foresee any near term equity dilution thereby are positive on earnings remaining intact.

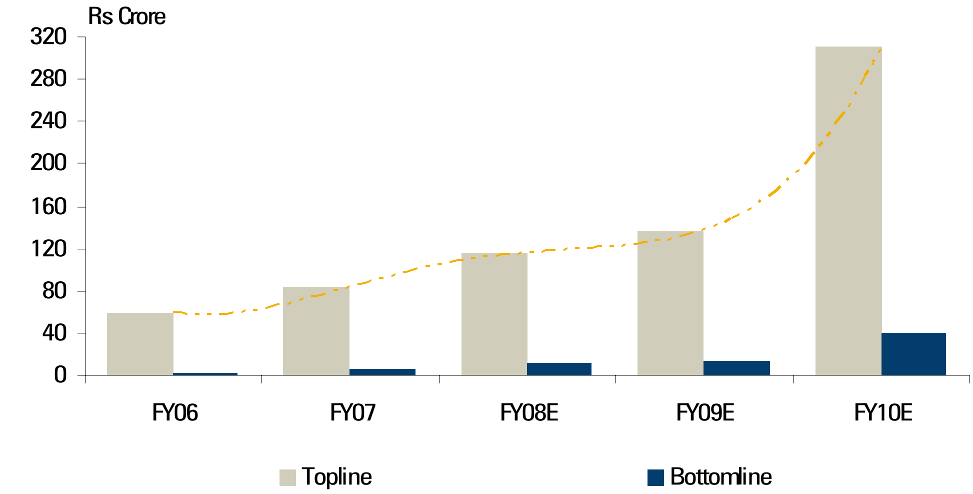
FINANCIALS

- **Impressive top and bottom line growth to continue**

  Viceroy Hotels has shown a consistent growth in top and bottom line. During FY05-07, when the Indian hospitality sector started to look upbeat, Viceroy Hotels' top line grew at an impressive CAGR of 64% from Rs 31 crore to Rs 84 crore, while bottom line swelled 73% from Rs 2 crore to Rs 6 crore. Going forward, we expect demand and supply of hotel rooms to remain in the favor of hoteliers and Viceroy Hotel would witness a 55% growth in top line during FY07-10E (Rs 115.5 crore in FY08E, Rs 137 crore in FY09E and Rs 310 crore in FY10E) and 49% growth in bottom line during the same period (Rs 12 crore in FY08E, Rs 12.3 crore in FY09E and Rs 38.8 crore in FY10E). This growth is expected to be driven by the expansion in room supplies in cities in addition to Hyderabad and the aggressive foray in the F&B outlet business.

Revenues grow due to well timed expansion plans in diversified business

Exhibit 7: Robust growth in top line and bottom line

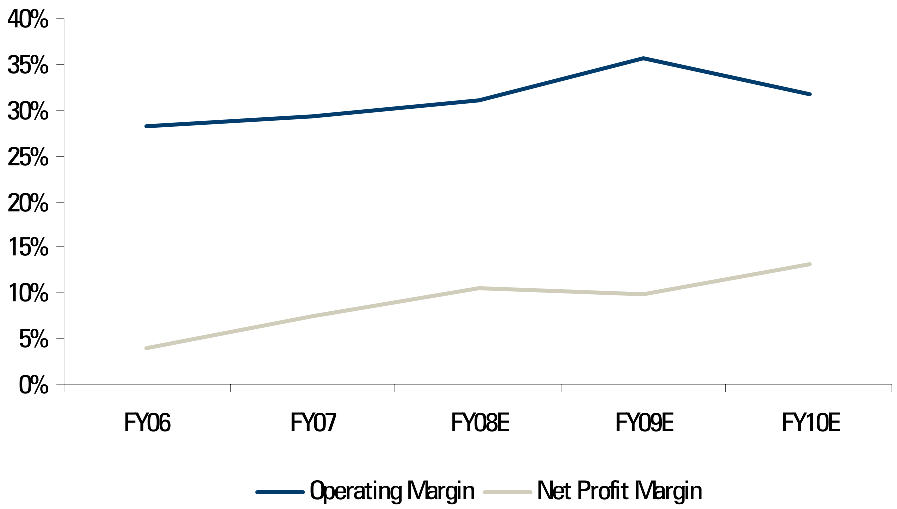


Source: Company, ICICIdirect Research

- **Margins to remain strong**

  Viceroy Hotels has been posting a steady increase in its operating margins, and we expect this trend to continue in wake of growing number of business travellers, demand-supply mismatch and expansion in room base. We expect the company to improve its operating margins by 177 bps in FY08E from the current 29.3% and by a further 464 bps to 35.7% in FY09E. In FY10E, however Viceroy Hotel, would experience some cooling off in the operating margins on the back of fresh capacity additions leading to increased cost pressures. Net profit margins have also been steadily increasing from 3.9% in FY06 to 7.4% in FY07. We expect the trend to continue and the company to post around 305 bps increase in net profit margins in FY08E to 10.5% and further to rebound post a flat FY09 to 13.1% in FY10E when its planned expansion becomes operational.

Exhibit 8: Margins to remain strong

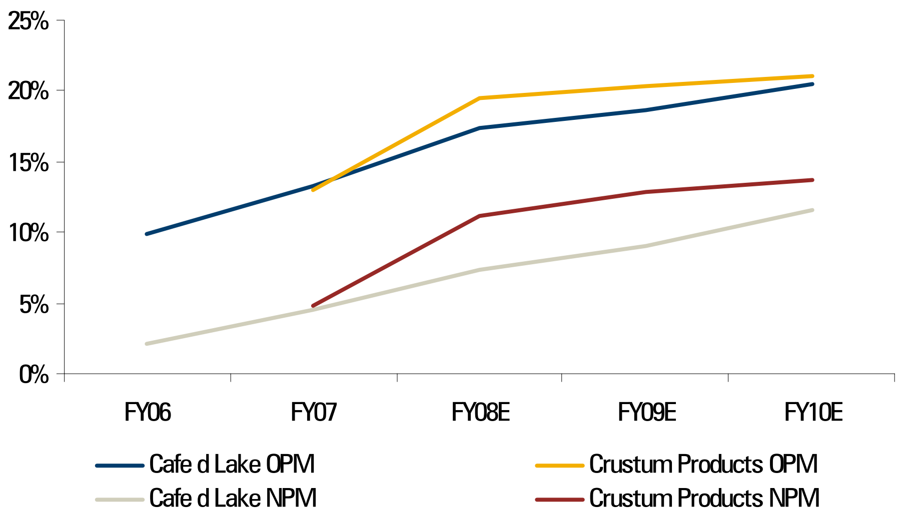


Source: Company, ICICIdirect Research

Margins remain strong on the back of firm room rates, occupancy and added supplies

We expect the F&B business under its wholly owned subsidiaries Cafe d Lake and Crustum Products would contribute significantly in the improvement in operating and net margins. Cafe d Lake is expected to turnaround this financial year and going further post operating margins in the range of 18.5% - 20% in FY09E-10E from 13.2% in FY07. Similarly net margins can be expected to double by FY09 to 9% from 4.5% in FY07 and further increase to 11.5% in FY10E for Cafe d Lake. Crustum Products on the other hand is expected to be the revenue driver in the future which would lead to significant improvement in margins. By FY10E, we expect the operating margins to rise to 21% from 13% levels in FY07, while net margins would surge from 4.8% to 13.7% in FY0E, a jump of 89 basis points.

Exhibit 9: Café d Lake & Crustum Products to push margins

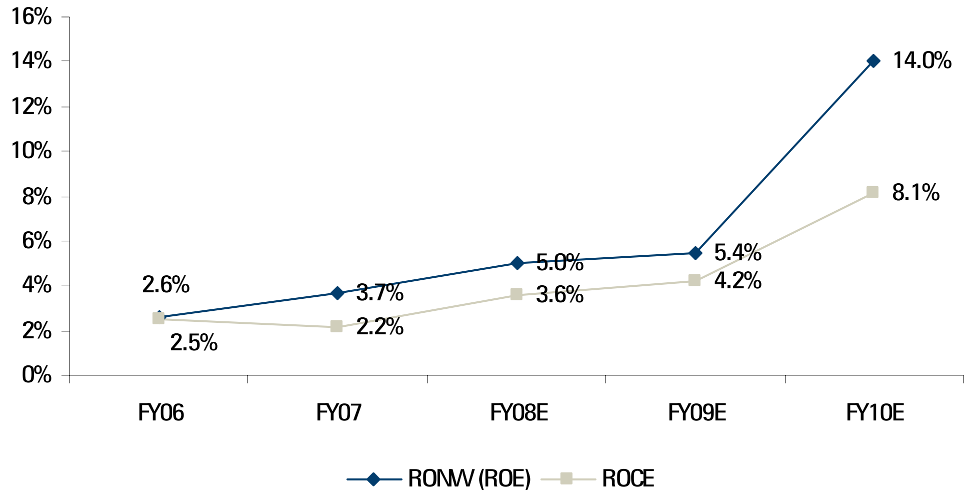


Source: Company, ICICIdirect Research

- **Returns to remain muted till FY09E**

  As we have estimated a full conversion of equity warrants, therefore going forward we don't expect Viceroy Hotels to encounter the growth in returns in line with the improvement in revenues. ROCE would remain under pressure due to the ongoing capex. Although the consistent robust performance would keep ROCE and RONW on growth path during FY07-09E, significant improvement in returns can be expected only by FY10E when the ongoing projects would get commissioned leading to a 125% year on year growth in top line. We foresee RONW to remain in the range of 5% - 5.5% during FY08E-09E post which we see a jump to 14% levels in FY10E. With strong room rates and business outlook to be robust in medium term, we foresee the return on capital employed to head northwards from 2.2% in FY07 to 3.6% in FY08E and post 4.2% in FY09 before surging to 8.1% in FY10E.

Exhibit 10: Returns improve



Source: Company, ICICIdirect Research

Revenue Model

Number of Rooms	FY07	FY08E	FY09E	FY10E
Marriott Hyderabad	168	300	300	300
Coutyard Marriott Hyderabad			200	200
JW Marriott Chennai				385
Marriott Executive Appartments Chennai				165
Renaissance Bangalore				300
Minerva	55	55	55	55
Total Rooms	**223**	**355**	**555**	**1405**

Total room base quadruples

Food & Beverage Outlets				
Café d Lake				
Minerva coffee shop	4	4	4	7
Blue Fox	3	3	3	6
Water front	1	1	1	1
Eat street	1	1	1	1
Crustum Products				
Breadtalk	2	4	10	20
Total Number of Outlets	**11**	**13**	**19**	**35**

Occupancy	FY07	FY08E	FY09E	FY10E
Marriott Hyderabad	59%	66%	66%	68%
Coutyard Marriott Hyderabad			65%	69%
JW Marriott Chennai				45%
Marriott Executive Appartments Chennai				38%
Renaissance Bangalore				45%
Minerva	79%	87%	87%	87%

Average Room Rate (Rs.)	FY07	FY08E	FY09E	FY10E
Marriott Hyderabad	5983	6832	6925	7038
Coutyard Marriott Hyderabad			6300	6325
JW Marriott Chennai				4075
Marriott Executive Appartments Chennai				3575
Renaissance Bangalore				5100
Minerva	1563	2025	2188	2400

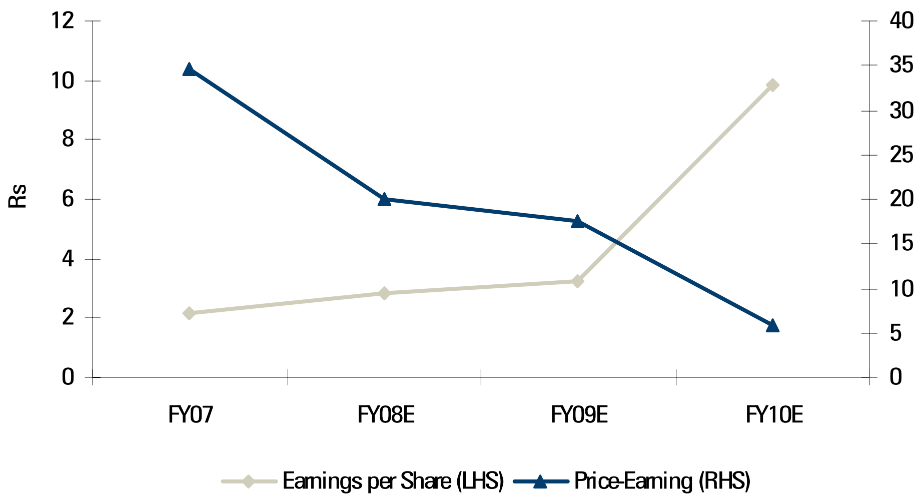
Source: Company, ICICIdirect Research

VALUATIONS

Given the robust growth in the number of business traveller to India and the investment interest being high in cities where Viceroy Hotel has expansion plans, we expect it to improve its margins and return ratios in the medium term. Viceroy Hotel appeals as a robust business with sales growth expected at 56% with bottom line surging at 49% during FY07-10E. Viceroy Hotel valuations are one of the cheapest in the hospitality sector as it is trading below the FY09 book value of Rs 68 and at 0.72x FY10 book value of Rs 79 makes it further more attractive at current levels. At the current rice of Rs 58, the stock trades at a P/E of 17.5x FY09E diluted EPS of Rs 3.27 and 5.81x FY10E EPS of Rs 9.84. We rate the stock as an OUTPERFORMER and we arrive at a price target of Rs 116 through DCF valuation.

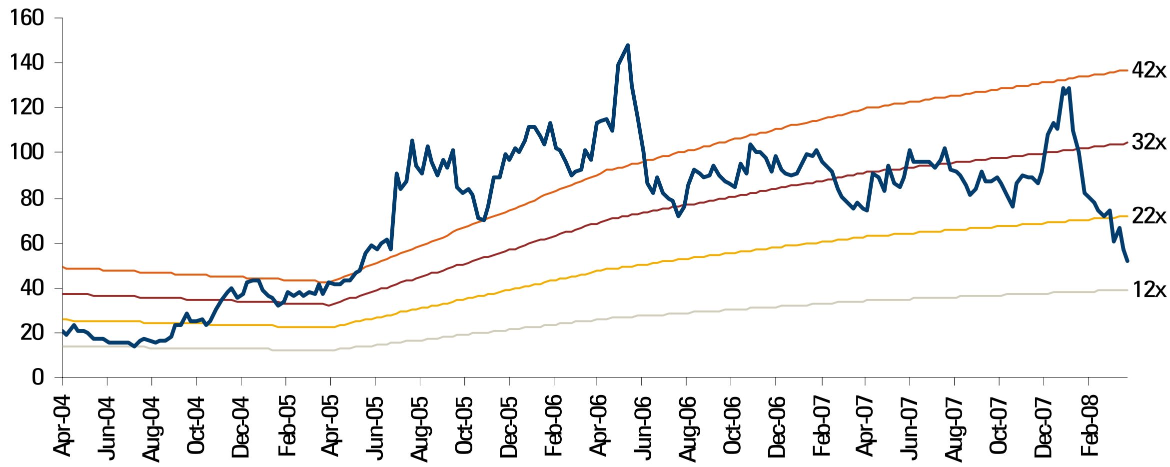
Valuation gap looks attractive

Exhibit 10: Valuations attractive



Source: Company, ICICIdirect Research

Exhibit 11: One year forward rolling P/E Band



Source: Company, ICICIdirect Research

On an EV/EBIDTA valuation, the stock looks fairly valued at 19.19x its FY08E. Going forward, an EV/EBIDTA of 8.65x in FY10E is attractive for a hotel.

Our DCF (discounted cash flow) valuation gives a value of Rs 116 to the stock. We have assumed terminal growth rate at 2.5%. Risk free rate of return is 7.92% while market rate of return is taken as 15%. WACC works out to be 10.2%.

Exhibit 12: Discounted Cash Flow

Year Ending 31 March	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Number of Rooms	555	1405	1555	1555	1555	1555	1555	1555	1555	1555
Number of Outlets	19	35	46	51	56	61	66	66	71	76
Revenue	141.38	318.65	405.81	433.00	460.52	488.39	516.59	533.39	562.28	595.37
EBIDTA	50.44	100.93	144.83	157.97	166.80	180.23	191.31	198.45	206.61	216.48
Interest	21.88	24.28	46.97	39.97	32.97	25.97	18.97	11.97	4.97	0.00
Depreciation	11.15	18.32	24.75	24.01	23.28	22.59	21.91	21.25	20.61	20.00
PBT	20.63	62.09	83.11	99.00	116.55	138.67	157.43	172.23	188.03	203.48
Tax	6.77	20.37	26.60	31.68	37.30	44.37	50.38	55.11	60.17	65.11
PAT	13.86	41.73	56.51	67.32	79.25	94.30	107.05	117.12	127.86	138.37
FCF	-15.67	50.91	93.61	84.53	109.47	110.75	122.75	134.67	153.36	151.75
NPV	1275.78									
Equity Share Value	**116.37**									

Source: ICICIdirect Research

FINANCIAL SUMMARY

Profit & Loss				Rs crore
Year Ended March	**FY07**	**FY08E**	**FY09E**	**FY10E**
Net Sales	83.60	115.53	141.38	318.65
YoY Growth(%)	*41.7%*	*38.2%*	*22.4%*	*125.4%*
Other Income	2.37	2.87	3.22	3.76
Expenses				
Employee Cost	15.08	19.59	23.08	63.17
% of NS	*18.0%*	*17.0%*	*16.3%*	*19.8%*
Material Consumed	17.96	24.26	28.28	62.14
% of NS	*21.5%*	*21.0%*	*20.0%*	*19.5%*
Power & Fuel	4.15	6.35	7.07	15.93
% of NS	*5.0%*	*5.5%*	*5.0%*	*5.0%*
Other Operating	21.31	29.46	32.52	76.48
% of NS	*25.5%*	*25.5%*	*23.0%*	*24.0%*
Others	0.62	0.00	0.00	0.00
% of NS	*0.7%*	*0.0%*	*0.0%*	*0.0%*
Total Expenses	59.13	79.67	90.94	217.72
EBIDTA	24.47	35.86	50.44	100.93
YoY Growth(%)	*47.4%*	*46.5%*	*40.7%*	*100.1%*
% of NS	*29.3%*	*31.0%*	*35.7%*	*31.7%*
Depriciation	9.20	9.55	11.15	18.32
Interest	7.56	11.16	21.88	24.28
PBT	9.49	18.02	20.63	62.09
Tax	3.28	5.91	6.77	20.37
PAT	6.21	12.11	13.86	41.73
% of NS	*7.4%*	*10.5%*	*9.8%*	*13.1%*

56% CAGR in revenue growth over FY07-10E

49% CAGR in earnings over FY07-10E

Balance Sheet Rs crore

Year Ended March	FY07	FY08E	FY09E	FY10E
Sources of Funds				
Paid up Equity	28.66	37.62	37.62	37.62
Adv. Recd. For Warrants	25.57	0.00	0.00	0.00
Share Capital Suspense	4.78	4.78	4.78	4.78
Reserves & Surplus	110.27	199.92	213.79	255.51
Networth	169.29	242.33	256.19	297.92
Total Debt	432.50	492.50	712.50	727.50
Deferred Tax	12.43	16.04	20.16	32.58
Total Liabilities	**614.23**	**750.86**	**988.85**	**1058.00**
Application of Funds				
Gross Block	395.43	415.43	557.43	872.43
Less: Acc. Depreciation	47.78	57.34	68.48	86.81
Net Block	347.65	358.09	488.94	785.62
Capital WIP	57.62	199.62	297.62	57.62
Investments & Pre-operative Exp	96.71	96.71	96.71	96.71
Current Assets	133.50	124.40	142.52	195.68
Less: Current Liabilities & Provisions	25.49	32.21	41.19	81.88
Net Working Capital	108.00	92.19	101.33	113.80
Misc. Exp not w/o	4.25	4.25	4.25	4.25
Total Assets	**614.22**	**750.86**	**988.85**	**1058.00**

Cash Flow Rs crore

Rs Crore	FY07	FY08E	FY09E	FY10E
Opening Cash	2.47	12.84	19.74	30.12
Profit After Tax	6.21	12.11	13.86	41.73
Depreciation	9.20	9.55	11.15	18.32
Provisions & Others	11.43	3.60	4.13	12.42
Cash Profit	26.84	25.27	29.14	72.47
Changes in WC				
Net Increase in CL	13.68	6.71	8.98	40.70
Net increase in CA	87.53	-15.99	7.73	13.47
Cash Flow after change in working capital	-47.01	47.97	30.38	99.69
Capex & Other Investing Activities	79.46	162.00	240.00	75.00
Cash Flow after investing activity	-126.47	-114.03	-209.62	24.69
Proceeds from financing actvity	136.85	120.93	220.00	15.00
Cash Flow after financing activity	10.38	6.90	10.38	39.69
Net Cash inflow	10.38	6.90	10.38	39.69
Closing Cash	**12.84**	**19.74**	**30.12**	**69.81**

Ratio Analysis Rs crore

Year Ended March	FY07	FY08E	FY09E	FY10E
Margins (%)				
EBIDTA	29.3%	31.0%	35.7%	31.7%
PAT	7.4%	10.5%	9.8%	13.1%
Asset based ratios (%)				
RONW / ROE	3.7%	5.0%	5.4%	14.0%
ROCE / ROI	2.2%	3.6%	4.2%	8.1%
Gearing				
Debt / Equity	2.55	2.03	2.78	2.44
Per Share (Rs)				
Diluted Earnings	2.17	2.86	3.27	9.84
Book Value	59.06	64.41	68.10	79.19
Cash EPS	5.90	6.57	7.59	20.37
Turnover				
Asset	0.14	0.16	0.15	0.31
Inventory	42.90	43.10	42.88	45.55
Debtor	10.58	11.11	12.50	12.50
Creditor	5.38	5.71	5.26	5.26
Valuations (x)				
P / E	34.54	20.26	17.69	5.88
P / BV	1.27	0.90	0.85	0.73
M.Cap / Sales	1.98	1.88	1.54	0.68
EV / EBIDTA	23.92	19.25	17.84	8.67
EV / Sales	7.00	5.98	6.37	2.75
Market Cap. (Rs Crore)	165.82	217.64	217.64	217.64
EV (Rs Crore)	585.48	690.40	900.02	875.32
Du Pont Analysis				
PAT/PBT	0.65	0.67	0.67	0.67
PBT/EBIT	0.56	0.62	0.49	0.72
EBIT/Sales	0.20	0.25	0.30	0.27
Sales/Assets	0.16	0.18	0.16	0.33
Asset/Equity	3.03	2.68	3.47	3.21

RATING RATIONALE

ICICIdirect endeavors to provide objective opinions and recommendations. ICICIdirect assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Outperformer, Performer, Hold, and Underperformer. The performance horizon is 2 years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Outperformer: 20% or more;
Performer: Between 10% and 20%;
Hold: ±10% return;
Underperformer: -10% or more.

Harendra Kumar	**Head - Research & Advisory**	**harendra.kumar@icicidirect.com**

ICICIdirect Research Desk,
ICICI Securities Limited,
Mafatlal House, Ground Floor,
163, H T Parekh Marg,
Churchgate, Mumbai – 400 020

research@icicidirect.com