

## Major indices movements

Major indices	Clsg	1d (%)	3m (%)	6m (%)
BSE Sensex	18,238	0.2	7.1	7.3
Nifty	5,486	0.3	7.4	7.8
Dow	10,320	0.5	0.6	(0.7)
Nikkei	9,098	0.4	(8.2)	(11.3)
Hang Seng	20,893	0.1	5.6	0.1
Brasil Bovespa	66,808	(0.4)	6.1	(1.2)
Mexico Bolsa	32,417	0.2	3.5	0.2

## Turnover

Value Traded (Rs bn)	2 Sep 2010	% Chg	52 Wk Hi	52 Wk Lo
Cash BSE	52.7	2.1	94.0	28.6
Cash NSE	133.4	(0.5)	241.6	18.2
<b>Total</b>	<b>186.1</b>			
Del.(%)	39.9			
F&O	840.9	(20.8)	1661.9	358.0
<b>Total Trade</b>	<b>1027.0</b>			

## Fund Activity

Net Inflows				
(Rs bn)	Purch	Sales	Net	YTD
<b>1 Sep 2010</b>				
FII's	27.3	(22.0)	5.3	233.4
Domestic Funds	6.8	(5.1)	1.6	98.8
<b>2 Sep 2010</b>				
Cash Provisional			(1.3)	
F&O - Index	54.9	(36.8)	18.1	(27.6)
F&O - Stock	12.5	(10.0)	2.5	(11.6)

## Advances/declines BSECash

2 Sep 2010	A	B1	B2	Total
Advance	133	1220	259	1,612
Decline	69	724	162	955

## Commodity Prices

Commodity	3 Sep 2010	1d (%)	3m (%)	6m (%)
Crude (USD/Bbl)	76.0	(0.3)	1.6	(3.8)
Copper(usd/t)	7,635	0.4	14.5	1.9
Aluminum H.G.(usd/t)	2,145	1.8	8.1	(1.1)
Zinc(usd/t)	2,174	1.9	20.6	(3.6)

Debt/Forex Mkt	Clsg	1d (%)	3m (%)	6m (%)
Re/USD	46.72	0.2	0.5	(1.7)
10 yr Gsec Yield	7.97	0.4	6.2	0.8

## Contents

### Research Views

Auto – August 2010 volume update

### Research Update included

Confluence: Capital Goods pre-conference note

Eicher Motors Management Meet Note; Preferred bet in the CV space; NOT RATED

Direct Tax Code: Watered Down Version

Confluence: Information Technology Pre-conference notes

### Technical Comments

## News clippings

- Bajaj Auto** has clocked an all-time high monthly sales of 3,29,364 units in August, a 55 per cent jump over 2,13,072 units sold in the same month last year. Motorcycle sales witnessed 59 per cent increase at 2,98,176 units compared with 1,82,441 units. The company had sold the highest number of Pulsar and Discover bikes last month.
- JSW Steel** has raised prices by 3-4 per cent on higher international prices and input cost, effective September 1. **Ispat Industries** has also raised prices by Rs 1,000 per tonne to maintain import parity as "Indian prices are still much lower".
- IRB Infrastructure Developers Ltd** has entered into a pact with Indian Hotels Co Ltd to construct and operate a Gateway Hotel for the latter at Kolhapur in Maharashtra. Aryan Hospitality Pvt Ltd, IRB's unit, will build the 100-125 room hotel within three years.
- The consortium comprising of **Tata Power** (47.50 per cent), Origin Energy Limited (47.50 per cent) and PT Supraco Indonesia (5 per cent) were declared as the successful bidder for the Sorik Marapi geothermal project in Northern Sumatra, Indonesia.
- Tata Teleservices** has given China's Huawei Technologies a contract to roll out the company's third-generation mobile network.
- According to the Indian Meteorological Department (IMD), Southwest monsoon rains were 16% above normal in the past week, compared with 29% above normal in the previous week.

## Research views

### Auto – August 2010 volume update

#### Ashok Leyland Ltd (ALL)

- Total sales increased by 56.4% YoY to 7,480 units
- MHCV domestic sales increased by 59.9% YoY to 6,652 units
- MHCV export sales grew by 43.6% to 774 units

Units sold	Aug-10	Aug-09	% YoY	YTD FY11	YTD FY10
MHCV passenger (dom.)	1,856	1,281	44.9	7,463	4,466
MHCV goods (dom.)	4,796	2,880	66.5	24,399	12,847
Total MHCV (dom.)	6,652	4,161	59.9	31,862	17,313
Total MHCV (exp.)	774	539	43.6	3,378	1,823
<b>Total MHCVs</b>	<b>7,426</b>	<b>4,700</b>	<b>58.0</b>	<b>35,240</b>	<b>19,136</b>
LCV (dom.)	53	72	-26.4	327	270
LCV (exp.)	1	12	-91.7	62	136
<b>Total LCVs</b>	<b>54</b>	<b>84</b>	<b>-35.7</b>	<b>389</b>	<b>406</b>
Total (dom.)	6,705	4,233	58.4	32,189	17,583
Total (exp.)	775	551	40.7	3,440	1,959
<b>Total - sales</b>	<b>7,480</b>	<b>4,784</b>	<b>56.4</b>	<b>35,629</b>	<b>19,542</b>

#### Bajaj Auto Limited (BAL)

- Total sales increased by 55.0% YoY to 329,364 units
- Motorcycle sales grows by 58.5% YoY to 289,176 units
- Three wheelers sales grows 33.9% YoY to 40,188 units
- Exports sales increased by 31.2% units to 98,578 units

Units sold	Aug-10	Aug-09	% YoY	YTD FY11	YTD FY10
Two-Wheelers	289,176	182,441	58.5	1,397,375	834,498
Three wheelers	40,188	30,021	33.9	178,740	117,367
<b>Grand total</b>	<b>329,364</b>	<b>212,462</b>	<b>55.0</b>	<b>1,576,115</b>	<b>951,865</b>
Domestic	230,786	137,298	68.1	1,046,844	629,821
Export	98,578	75,164	31.2	529,271	322,044

# Capital Goods Conference

## Pre-conference note

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**Venue : Trident, Nariman Point, Mumbai**

**Date : 7th & 8th September, 2010**

**Time : 10 AM – 6 PM**

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02 September, 2010

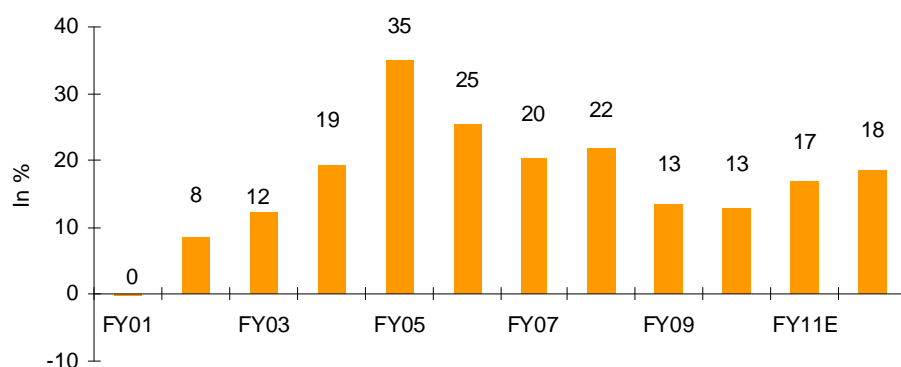
### Capital spends to grow at 17% and 18% in FY11E and FY12E respectively

We have forecasted nominal growth in capital spends at 17% and 18% in FY11E and FY12E respectively. It is structural spends that will drive the capital spends in FY10-12E period with nominal growth of 18% and 19% in FY11E and FY12E respectively. Industrial spends are expected to grow at 16% and 18% in FY11E and FY12E respectively. We expect utilities, construction, mining and defence to drive growth in capital spends, which are largely structural and attract participation from public undertakings. The real growth in above segments will be robust at 28%, 16%, 14% and 18% in FY12E respectively. Manufacturing or process segment, dominated by private spends will record real growth of 14% in FY11E and 17% in FY12E.

Real Growth	Wts	FY91-96 (5 Yr CAGR)			FY99-03 (4 Yr CAGR)			FY04-08 (4 Yr CAGR)			FY10E Gr	FY11E Gr	FY12E Gr
		GCF Gr	GDP Gr	Multiple (X)	GCF Gr	GDP Gr	Multiple (X)	GCF Gr	GDP Gr	Multiple (X)			
<b>Agriculture &amp; Allied</b>	<b>7%</b>	<b>-8%</b>	<b>6%</b>	<b>-1.2</b>	<b>14%</b>	<b>5%</b>	<b>2.8</b>	<b>10%</b>	<b>9%</b>	<b>1.1</b>	<b>8%</b>	<b>9%</b>	<b>9%</b>
<b>Mining</b>	<b>2%</b>	<b>2%</b>	<b>6%</b>	<b>0.3</b>	<b>-2%</b>	<b>5%</b>	<b>-0.3</b>	<b>16%</b>	<b>9%</b>	<b>1.8</b>	<b>12%</b>	<b>13%</b>	<b>14%</b>
<b>Manufacturing</b>	<b>42%</b>	<b>22%</b>	<b>6%</b>	<b>3.4</b>	<b>0%</b>	<b>5%</b>	<b>-0.1</b>	<b>26%</b>	<b>9%</b>	<b>2.9</b>	<b>9%</b>	<b>14%</b>	<b>17%</b>
(a) Oil	NA	NA	6%	NA	-5%	5%	-1.1	31%	9%	3.4	10%	21%	27%
(b) Metal	NA	NA	6%	NA	5%	5%	1.0	52%	9%	5.7	7%	8%	8%
(c) Cement	NA	NA	6%	NA	1%	5%	0.1	31%	9%	3.4	14%	13%	14%
(d) Auto	NA	NA	6%	NA	-3%	5%	-0.6	42%	9%	4.6	7%	8%	8%
(e) Chemical & Foods	NA	NA	6%	NA	-13%	5%	-2.5	24%	9%	2.6	7%	8%	8%
<b>Utilities</b>	<b>6%</b>	<b>1%</b>	<b>6%</b>	<b>0.1</b>	<b>0%</b>	<b>5%</b>	<b>-0.1</b>	<b>10%</b>	<b>9%</b>	<b>1.2</b>	<b>23%</b>	<b>26%</b>	<b>28%</b>
(a) Power	NA	NA	6%	NA	NA	5%	NA	31%	9%	3.5	23%	26%	28%
<b>Construction</b>	<b>4%</b>	<b>14%</b>	<b>6%</b>	<b>2.3</b>	<b>19%</b>	<b>5%</b>	<b>3.7</b>	<b>23%</b>	<b>9%</b>	<b>2.5</b>	<b>16%</b>	<b>16%</b>	<b>16%</b>
(a) Roads	NA	NA	6%	NA	25%	5%	5.0	16%	9%	NA	16%	16%	16%
(b) Gas	NA	NA	6%	NA	NA	5%	NA	-	9%	NA	NA	NA	NA
(c) Airport	NA	NA	6%	NA	NA	5%	NA	45%	9%	NA	14%	14%	14%
(d) Port	NA	NA	6%	NA	NA	5%	NA	153%	9%	NA	16%	16%	16%
<b>Services</b>	<b>17%</b>	<b>4%</b>	<b>6%</b>	<b>0.6</b>	<b>16%</b>	<b>5%</b>	<b>3.2</b>	<b>20%</b>	<b>9%</b>	<b>2.2</b>	<b>10%</b>	<b>11%</b>	<b>11%</b>
(a) Trade	3%	-10%	6%	-1.6	11%	5%	2.2	8%	9%	0.9	6%	7%	7%
(b) Railways	1%	4%	6%	0.6	13%	5%	2.6	14%	9%	1.5	10%	11%	12%
(c) Transport	7%	8%	6%	1.3	22%	5%	4.3	13%	9%	1.4	10%	11%	11%
(d) Storage	0%	30%	6%	4.7	20%	5%	4.0	3%	9%	0.4	14%	16%	17%
(e) Telecom	6%	16%	6%	2.5	7%	5%	1.5	31%	9%	3.4	11%	13%	14%
<b>Real Estate</b>	<b>11%</b>	<b>9%</b>	<b>6%</b>	<b>1.4</b>	<b>16%</b>	<b>5%</b>	<b>3.2</b>	<b>5%</b>	<b>9%</b>	<b>0.6</b>	<b>4%</b>	<b>14%</b>	<b>15%</b>
<b>Security &amp; Defence</b>	<b>8%</b>	<b>5%</b>	<b>6%</b>	<b>0.8</b>	<b>9%</b>	<b>5%</b>	<b>1.7</b>	<b>20%</b>	<b>9%</b>	<b>2.2</b>	<b>15%</b>	<b>16%</b>	<b>18%</b>
<b>Others</b>	<b>3%</b>	<b>6%</b>	<b>6%</b>	<b>0.9</b>	<b>10%</b>	<b>5%</b>	<b>1.9</b>	<b>3%</b>	<b>9%</b>	<b>0.3</b>	<b>2%</b>	<b>3%</b>	<b>3%</b>
<b>Growth (Real)</b>	<b>100%</b>	<b>7%</b>	<b>6%</b>	<b>1.0</b>	<b>7%</b>	<b>5%</b>	<b>1.4</b>	<b>17%</b>	<b>9%</b>	<b>1.9</b>	<b>10%</b>	<b>14%</b>	<b>15%</b>
<b>Growth (Nominal)</b>											<b>13%</b>	<b>17%</b>	<b>18%</b>
<b>GDP growth assumption</b>											<b>7%</b>	<b>8%</b>	<b>8%</b>
<b>Real GCF growth multiple ( to GDP)</b>											<b>1.5</b>	<b>1.8</b>	<b>1.9</b>

Source: Emkay Research, CMIE

**Capital spends to regain momentum in FY11E and FY12E - though the pace will differ (Nominal Terms)**

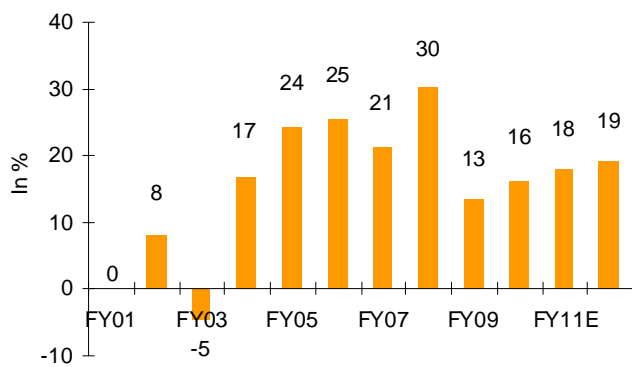


Source: Emkay Research

**Structural capex to lead growth in FY10-12E cycle**

With streamlining of government budgets through auctioning of BWA and 3G licenses (better than target realizations) and partial de-regulation of auto fuels, government has given strong growth signals – albeit through spending and the Keynesian way. Also, Emkay Banking & Economy analyst, Mr. Kashyap Jhaveri shares the same opinion that government spends will hog the limelight in FY11E and FY12E – with higher development spends directed towards education, infrastructure, defence and welfare programs. Therefore, we expect continued momentum in structural capital spends with an estimated nominal growth of 18% in FY11E and 19% in FY12E.

**Secular pattern of structural spends- no risk of slowdown (Nominal Growth)**



Source: Emkay Research

**Utilities, construction and manufacturing to take center stage**

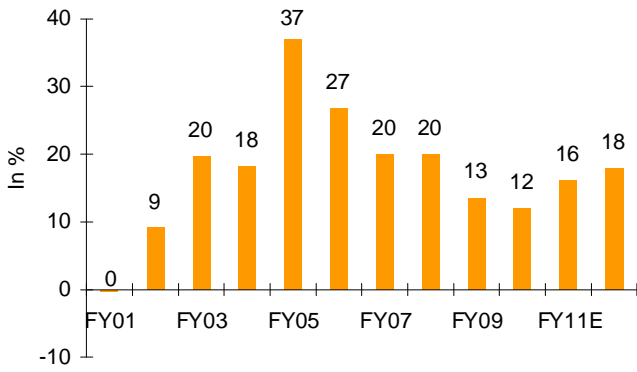
Real Growth	Weights	FY10P	FY11E	FY12E
Agriculture & Allied	7%	8%	9%	9%
Mining	2%	12%	13%	14%
<b>Manufacturing</b>	<b>13%</b>	<b>9%</b>	<b>14%</b>	<b>17%</b>
<b>Utilities</b>	<b>21%</b>	<b>23%</b>	<b>26%</b>	<b>28%</b>
<b>Construction</b>	<b>18%</b>	<b>16%</b>	<b>16%</b>	<b>16%</b>
Services	17%	10%	11%	11%
Defence	19%	15%	16%	18%
Others	3%	2%	3%	3%
<b>Blended Real Growth</b>	<b>100%</b>	<b>14%</b>	<b>16%</b>	<b>17%</b>

Source: Emkay Research

**Industrial capex to pick up in FY11E and gain momentum in FY12E- but growth momentum to be lower than FY04-08 cycle.**

Growth momentum in industrial capex will be robust in FY10-12E cycle, but lower than the previous cycle. We expect growth momentum to improve from 12% in FY10P to 16% and 18% in FY11E and FY12E respectively. We anticipate capacity addition to begin in H2FY11E. While, capacity addition growth is lower than previous cycle, it is high on absolute terms. The following is the snapshot of base material capacity expansion (1) Cement to witness capacity addition of 87 Mnt from 198 Mnt to 285 Mnt, up 44% (2) Steel capacity to increase 50% or 30 Mnt - from 60 Mnt to 90 Mnt (3) Zinc capacity to increase 43% or 0.3 Mnt - from 0.7 Mnt to 1.0 Mnt (4) Copper capacity increase from 1.0 Mnt to 1.5 Mnt, up 33% (5) Aluminum to increase from 1.4 Mnt to 3.0 Mnt, up 114% and (6) Oil & gas capacity to increase by 42%.

**Pick up in FY11E and gain momentum in FY12E (Nominal Growth)**



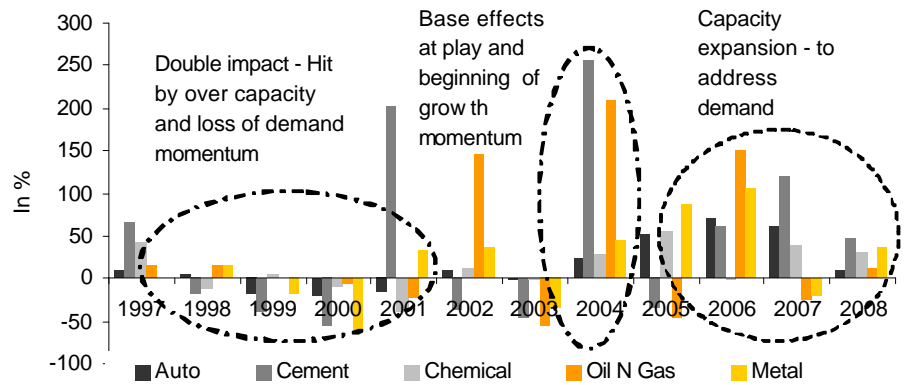
Source: Emkay Research

**Utilities, Construction and Manufacturing in driver's seat in FY10-12E Period**

Real Growth	Weights	FY10P	FY11E	FY12E
Agriculture & Allied	0%	8%	9%	9%
Mining	2%	12%	13%	14%
<b>Manufacturing</b>	<b>42%</b>	<b>9%</b>	<b>14%</b>	<b>17%</b>
<b>Utilities</b>	<b>10%</b>	<b>23%</b>	<b>26%</b>	<b>28%</b>
<b>Construction</b>	<b>7%</b>	<b>16%</b>	<b>16%</b>	<b>16%</b>
Services	21%	10%	11%	11%
Real Estate	15%	4%	14%	15%
Others	3%	2%	3%	3%
<b>Blended Real Growth</b>	<b>100%</b>	<b>10%</b>	<b>14%</b>	<b>16%</b>

Source: Emkay Research

**Capacity expansion in FY04-08 period versus virtually negligible additions in FY99-03 period (yoy increase in capital spends)**



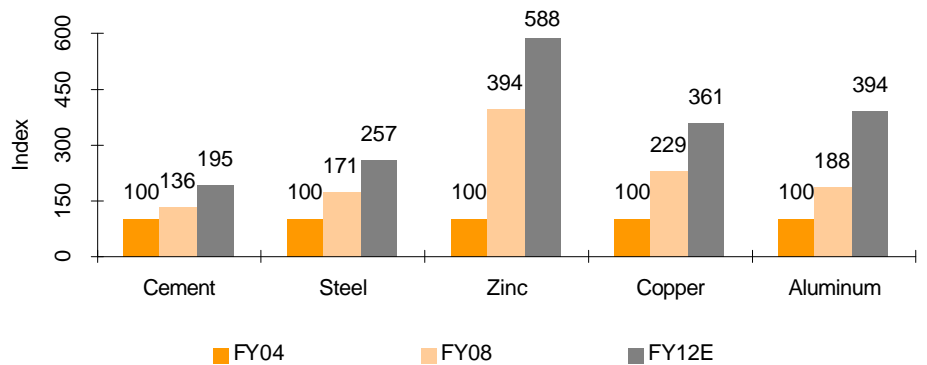
Source: Emkay Research

**Actual capacity expansion planned until FY12E**

In Mnt	FY04	FY08	FY12E
Cement	146.0	198.0	285.0
Steel	35.0	60.0	90.0
Zinc	0.2	0.7	1.0
Copper	0.4	1.0	1.5
Aluminum	0.8	1.4	3.0

Source: Emkay Research

**Capacity expansion from base of 100 in FY08**



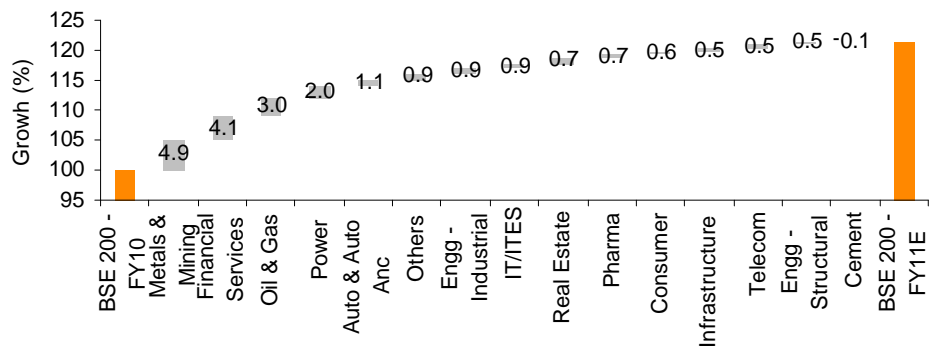
Source: Emkay Research

**Upon analyzing earnings growth in FY10-12E period, ECI industry (Engineering, Construction and Infrastructure) promises strong earnings performance**

**...ECI earnings growth estimated to outperform BSE-200**

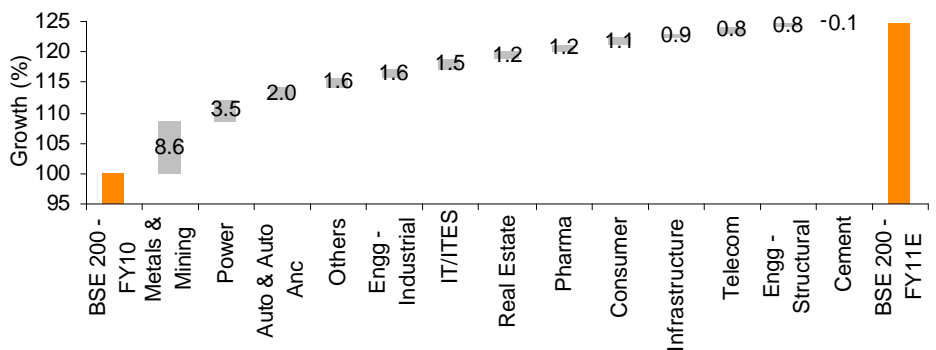
Consensus, at large, is expecting strong earnings performance from the ECI sector – estimating 50% higher earnings growth for the ECI sector over BSE-200. The earnings growth for ECI sector is estimated at 30% in FY10-12E versus 21% for BSE-200. Further, ECI sector is estimated to contribute 9% of BSE-200 earnings growth (including Oil & Gas and Financials) in FY10-12E or 13% of BSE-200 earnings growth (excluding Oil & Gas and Financials) in FY10-12E. Thus, ECI sector certainly promises robust earnings performance in FY10-12E period, led by momentum in structural capex and uptick in industrial capex.

**BSE-200 - 9% of earnings growth contributed by ECI sector in FY10-12E**



Source: Emkay Research

**BSE-200 - 13% of earnings growth contributed by ECI sector in FY10-12E (Ex- Oil N Gas and Financials)**



Source: Emkay Research

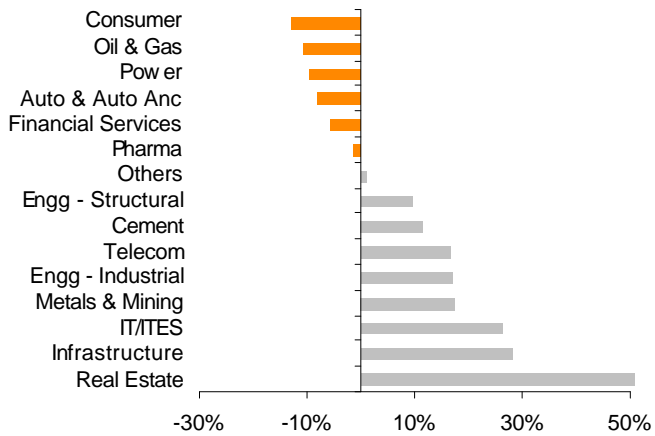
**...7 sectors estimated to outperform BSE 200 earnings growth in FY10-12E period**

Furthermore, analysis of earnings growth in the two time periods reveals that– capex plays have outperformed the BSE-200 earnings growth in FY04-08 period and are expected to do so in FY10-12E period also. Inherently, it implies robust revenue booking in FY04-08 period and expectations of strong revenue booking in FY10-12E period. However, only difference is reduction in sectors outperforming BSE 200 earnings growth from 9 sectors in FY04-08 period to 7 sectors in FY10-12E period. This certainly puts the ECI sector under spotlight.



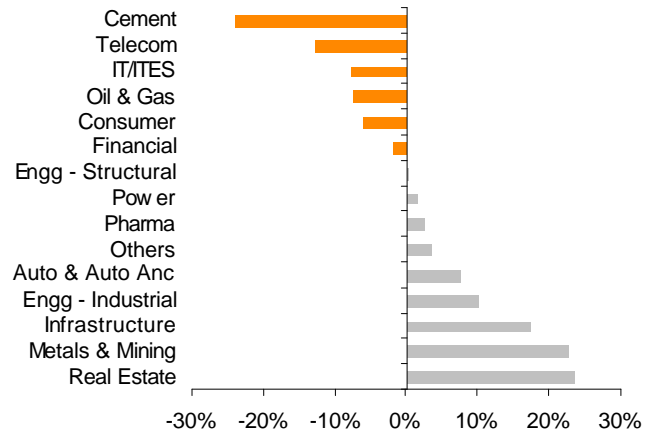
**ECI sector: Strong earnings performance in FY04-08 period and FY10-12E period**

**Earnings performance in FY04-08 period**



Source: Emkay Research

**Earnings performance in FY10-12E period**

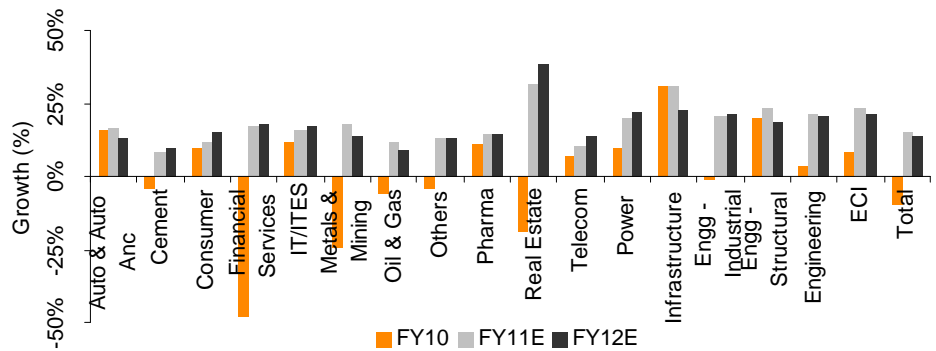


Source: Emkay Research

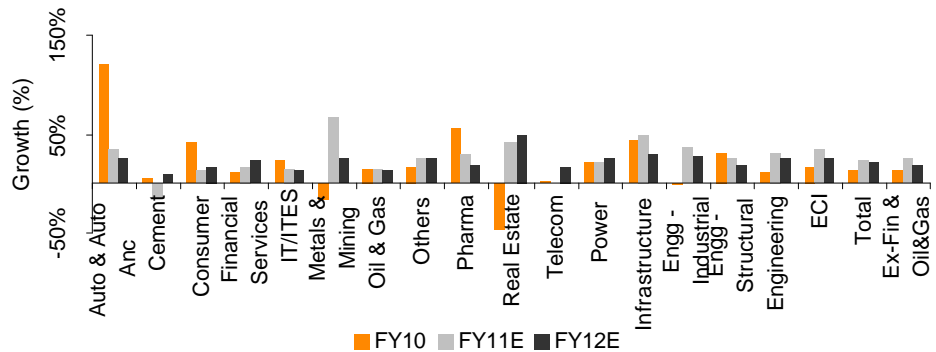
**...ECI earnings growth mirroring trend in investment spends; Industrial capex to drive FY11E and FY12E earnings growth**

As mentioned earlier, investment spends are expected to strengthen in FY11E and broaden in FY12E- earnings growth for ECI sector is mirroring the same. The earnings growth for ECI is estimated to grow at 17% in FY10P and improve thereafter to 34% in FY11E and 25% in FY12E. Engineering – Industrials earnings trajectory is expected to swing from -1% in FY10P to 36% in FY11E and 27% in FY12E, in-turn driving ECI industry earnings. Better earnings trajectory is backed by improved revenue booking environment – revenue growth trajectory expected to improve from 8% in FY10P to 23% in FY11E and 21% in FY12E.

**BSE 200 - ECI - seeing strengthening of revenue growth in FY10-12E period**



**BSE 200 - ECI - seeing strengthening of earnings growth in FY10-12E period**



Source: Emkay Research

### Institutional investors not warmed up to the late cycle plays?

We have analyzed the change in shareholding of BSE-200 companies over a long time period i.e. ranging from Dec'03 to Mar'10. Our analysis of long dated data series– shows that institutional investors were 'Market Weight' to 'Overweight' on consumption sectors at the start of the earnings cycle. For instance, institutional investors were 'Market Weight' to 'Over Weight' on Automobiles, Telecom and Consumers in the 2003-08 earnings cycle – more precisely, at the very-start of the earnings cycle. At that time, institutional investors were 'Under Weight' on late cycle plays ('Infrastructure', Engineering-'Industrials' and 'Engineering-Structural') and turned positive only after 7-8 quarters (around Jun'06).

Barring 'Infrastructure' which has now emerged as a secular growth story, institutional investors have turned 'Under Weight' to 'Market Weight' in late cycle plays in the downturn. The shareholding pattern until Mar'10 continues to reflect 'Overweight' position in 'Infrastructure' and 'Market Weight' to 'Under Weight' in 'Engineering-Industrials' and 'Engineering-Structural'.

We are seeing a similar cycle repeat itself. The new earnings cycle beginning Jun'09 has seen institutional investors favoring consumption sectors like 'Automobile' and 'Consumers'. They have not yet caught on to late cycle plays like 'Engineering-Industrial' and 'Engineering-Structural', which are waiting on the sidelines to take-off.

#### Weightage relative to the market weightage (considered average holding for the period)

Final - 1A	200612	200703	200706	200709	200712	200803	200806	200809	200812	200903	200906	200909	200912	201003
Auto & Auto Anci	OW	MW	UW	UW+	UW+	UW+	UW+	UW	UW+	OW	UW	MW	MW	MW
Cement	MW	UW+	UW+	UW+	UW+	UW+	UW+	UW+	UW+	UW+	UW+	UW+	UW+	UW+
Consumer	MW	MW	MW	MW	OW	MW	MW	MW	UW	UW	MW	MW	MW	MW
Financial Services	MW	MW	MW	MW	MW	MW	MW	MW	OW	MW	OW	OW	OW	OW
IT/ITES	UW+	UW+	UW+	UW+	UW+	UW+	OW+	OW+	OW+	OW+	OW+	OW+	OW+	OW+
Metals & Mining	UW+	UW+	MW	MW	OW	OW+	OW+	OW	MW	MW	MW	OW+	OW+	OW+
Oil & Gas	OW	OW	OW	MW	MW	MW	MW	UW+	UW+	UW+	UW+	UW+	UW+	UW+
Others	UW+	OW	UW	UW+	UW+	MW	OW+	OW+	OW+	OW+	UW+	UW+	UW	UW+
Pharma	UW+	UW+	UW+	UW+	MW	UW	OW+	UW+	MW	MW	OW	OW+	OW+	OW+
Real Estate	UW+	UW+	UW+	UW+	UW+	UW+	UW+	UW	OW	OW+	OW+	OW+	OW+	OW+
Telecom	OW+	OW+	OW+	OW+	OW+	OW+	OW+	OW+	OW+	OW+	OW+	OW+	OW+	OW+
Power	UW+	UW+	UW+	UW+	UW+	UW+	UW+	UW	UW	UW	MW	MW	UW	UW
Infrastructure	OW+	OW+	OW+	OW+	OW+	OW+	OW+	OW+	OW+	OW+	OW+	OW+	OW+	OW+
Engg - Industrial	MW	UW	UW	UW+	UW+	UW+	UW+	UW+	UW+	UW+	UW+	UW+	UW+	UW+
Engg - Structural	MW	MW	MW	MW	MW	MW	UW+	MW	MW	MW	MW	UW	UW	UW
ECI	OW+	UW+	UW+	UW+	UW+	UW+	UW+	UW+	UW+	UW+	UW+	UW+	UW+	UW+
Total														

Source: Emkay Research

Early cycle plays like 'Automobiles' and 'Consumers' have undergone change in institutional holding beginning Jun'09 from 'Stable' to 'Increase'. But, late cycle plays like 'Engineering-Industrial' and 'Engineering-Structural' are yet to witness meaningful improvement in institutional holding. We believe that, increase in institutional holding will coincide with uptick in order inflows and revenues- our expectation is H2FY11E. Only, 'Infrastructure' is an exception with continuous increase in institutional holding till Mar'10.

#### Changes in the sector holding (change versus average change for long-dated period)

	200703	200706	200709	200712	200803	200806	200809	200812	200903	200906	200909	200912	201003
Auto & Auto Anci	Stable	Increase	Stable	Decrease	Decrease	Stable	Stable	Dec +	Increase	Stable	Increase	Increase	Increase
Cement	Dec +	Dec +	Stable	Dec +	Decrease	Stable	Stable	Dec +	Stable	Stable	Stable	Stable	Increase
Consumer	Decrease	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable
Financial Services	Stable	Stable	Increase	Stable	Stable	Stable	Stable	Increase	Decrease	Increase	Increase	Stable	Increase
IT/ITES	Increase	Increase	Stable	Increase	Increase	Increase	Stable	Stable	Stable	Stable	Stable	Increase	Increase
Metals & Mining	Stable	Increase	Stable	Stable	Stable	Dec +	Dec +	Dec +	Stable	Increase	Inc +	Inc +	Inc +
Oil & Gas	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable
Others	Stable	Increase	Increase	Inc +	Increase	Increase	Stable	Stable	Dec +	Dec +	Decrease	Stable	Stable
Pharma	Increase	Stable	Stable	Inc +	Inc +	Increase	Dec +	Dec +	Dec +	Stable	Increase	Inc +	Increase
Real Estate	Dec +	Stable	Inc +	Inc +	Increase	Decrease	Decrease	Stable	Increase	Inc +	Inc +	Inc +	Stable
Telecom	Decrease	Stable	Stable	Stable	Decrease	Dec +	Decrease	Stable	Dec +	Decrease	Inc +	Increase	Stable
Power	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Increase	Stable	Stable	Inc +
Infrastructure	Increase	Inc +	Inc +	Decrease	Dec +	Dec +	Dec +	Dec +	Decrease	Decrease	Inc +	Increase	Inc +
Engg - Industrial	Inc +	Increase	Decrease	Decrease	Dec +	Dec +	Decrease	Stable	Decrease	Increase	Stable	Increase	Increase
Engg - Structural	Stable	Stable	Increase	Stable	Stable	Decrease	Stable	Stable	Stable	Stable	Stable	Stable	Stable
ECI	Inc +	Stable	Stable	Stable	Decrease	Decrease	Decrease	Decrease	Decrease	Stable	Inc +	Inc +	Inc +
Total	Stable	Stable	Stable	Stable	Stable	Decrease	Decrease	Decrease	Stable	Stable	Increase	Increase	Inc +

Source: Emkay Research

#### Valuation has always lagged, uptick in earnings growth for ECI industry

It is evident from historical data that ECI industry's 1-year forward PER valuations has lagged changes in earnings growth momentum. There are numerous sub-cycles within the super cycle like (1) FY96-98 growth cycle, (2) FY98-01 down cycle (3) FY02-08 growth cycle and (4) FY08-10 down cycle, which clearly highlights earnings growth leading change in forward valuations.

- In FY98-01 down cycle – muted earnings growth momentum got discounted in October-1999 with a lag of one year
- In FY02-08 growth cycle- valuations bottomed out in April 2002 and thereafter, discounted the uptick in earnings growth with a lag of 1 year

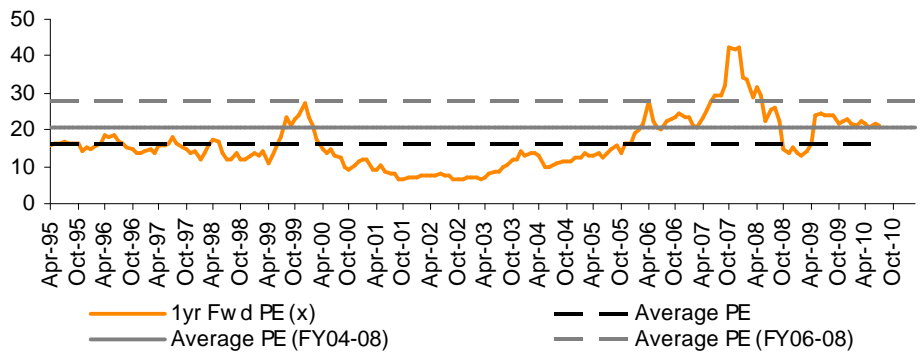
Currently, ECI industry is trading at 1-year forward PER of 21.6X or 33% above the long-term PER valuations of 16.2X. Current 1-year forward PER valuations is at discount to FY06-08 sub-cycle and at par to FY04-08 super cycle. Strengthening of earnings growth in FY11E and FY12E (surpassing earnings growth of FY08 and FY09) could drive valuation re-rating.

**ECI industry valuations**

	Current PER multiple (X times)	Based on long term average		Based on FY04-08 average		Based on FY06-08 average	
		Multiples (X)	Premium / Discount	Multiples (X)	Premium / Discount	Multiples (X)	Premium / Discount
<b>ECI Industry</b>	21.6	16.2	<b>33%</b>	20.7	<b>4%</b>	27.6	<b>-22%</b>
<b>Industrial</b>	23.7	19.6	<b>21%</b>	22.1	<b>7%</b>	30.1	<b>-21%</b>
<b>Structural</b>	19.7	13.0	<b>50%</b>	18.8	<b>5%</b>	24.1	<b>-18%</b>

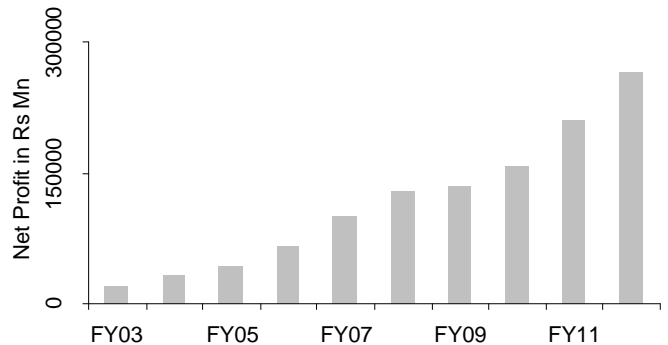
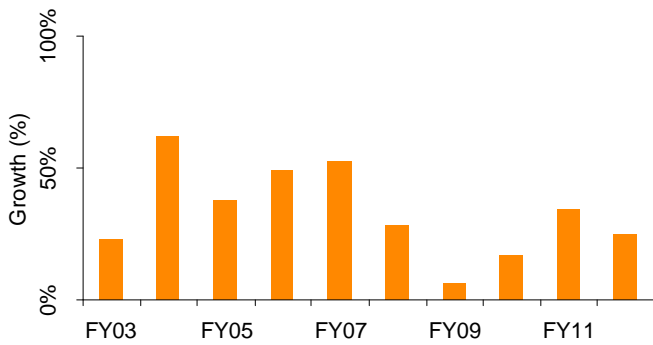
Source: Emkay Research

**ECI Industry is trading above long-term average PER valuations**



Source: Emkay Research

**Earnings growth for ECI industry expected to pick-up from FY11E**



Source: Emkay Research

02 September, 2010

## NOT RATED

Price Target  
Rs 1,394 NR

Sensex 18,032

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	23	36	190
Rel. to Sensex	(5)	12	22	147

Source: Bloomberg

### Stock Details

Sector	Engineering & Capital Goods		
Reuters	CMIF.BO		
Bloomberg	FPE@IN		
Equity Capital (Rs mn)	49		
Face Value (Rs)	10		
No of shares o/s (mn)	5		
52 Week H/L (Rs)	1985/445		
Market Cap (Rs bn/USD mn)	7/147		
Daily Avg Vol (No of shares)	1094		
Daily Avg Turnover (US\$ mn)	0.0		

### Shareholding Pattern (%)

	Jun-10	Mar-10	Dec-09
Promoters	75.0	75.0	75.0
FII/NRI	0.8	0.8	0.8
Institutions	0.0	0.0	0.0
Private Corp	1.8	2.0	3.3
Public	22.4	22.2	20.9

Source: Capitaline

- **CMI FPE acquisition by Belgian CMI Group - widens product portfolio and geographical presence; India emerges as sole manufacturing location**
- **CMI strong brand value combined with CMI FPE presence and manufacturing set-up in developed markets would enhance growth momentum**
- **Valuations at 25.3X FY10 seems expensive - not fully discounting strong earnings performance, good cash generation and healthy return ratios**

### CMI and CMI FPE are stalwarts in their own respects

24-year old CMI Group from Belgium is one amongst six global suppliers for cold rolling mills. The Belgian parent has 30% global market share in galvanizing lines. CMI FPE (India-listed subsidiary) is a formidable player, in downstream equipment for steel plants in India and neighboring countries.

### CMI FPE acquisition a complementary fit

The recent acquisition of FPE (now CMI FPE), by Belgian giant CMI, complements the parent company's business model. Complementary benefits are (1) widens product portfolio - galvanizing lines, cold rolling mills, etc and opportunity to integrate solutions with services and maintenance (2) presence in both developed and developing markets, providing accessibility to wider clientele and (3) emergence of India as only manufacturing set-up for global parent.

### Presence across value chain and geography, window to enhance growth

CMI FPE caters to steel majors in Africa, Middle East and Asia, whereas Belgian parent serves in Europe, China and America. Further, product portfolio has expanded beyond traditional cold rolling mills to entire gamut of down stream equipment for steel industry. CMI's strong brand value and expertise combined with CMI FPE's presence in developing markets would enhance growth momentum of the latter.

### Order book at ~Rs10 bn, best ever despite unfavorable environment

Order backlog of CMI FPE has surged from Rs7 bn in FY08 to Rs10 bn in FY10- highest ever order backlog, despite unfavorable environment. In FY10, CMI FPE received highest order inflows- received 7 orders valued at Rs8 bn. Order inflows include equipment installation at Bhushan Power & Steel and revamping of rolling mill at Tata Steel, alongside order wins in Vietnam, Columbia, Iran, Africa, etc.

### Valuations fail to reflect strong earnings performance, good cash generation and healthy return ratios

CMI FPE is best placed to gain from uptick in steel capex in developed and developing markets. With robust order backlog of Rs10.0 bn and visible signs of improvement in demand environment, CMI FPE is expected to report robust earnings performance in ensuing years. Though, valuations at 25.3X FY10 earnings look expensive - it is not fully factoring robust earnings growth, good cash generation and healthy return ratios.

### Financial Snapshot

YE- Mar	Net Sales	EBITDA (Core) (%)		EPS APAT (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV	
FY07	5,111	345	6.8	153	30.9	600.9	21.0	45.1	21.3	8.9
FY08	3,278	280	8.5	83	16.8	-45.7	10.2	83.0	27.7	8.1
FY09	4,540	204	4.5	27	5.4	-67.7	3.1	257.1	34.7	8.0
FY10	3,872	370	9.6	273	55.2	918.3	28.1	25.3	17.4	6.4

## Company Background

CMI FPE Ltd, previously known as Flat Products Equipment Ltd (FPE), over the last 23 years, has emerged as a formidable player in Cold Rolling Mill Complexes in India and neighboring countries. It was promoted by Late Dr. TR Mehta and thereafter acquired by Belgian based CMI Group (holding 75% equity). CMI Group, with revenues of Euro 734 Mn or Rs44 bn in CY09, is a formidable player in downstream equipment for steel capex in developed markets. Product range includes galvanizing lines, pickling lines, annealing lines, acid regeneration plant, color coating lines, etc. Erstwhile FPE rechristened as CMI FPE, now forms an integral part of parent CMI Group owing to complementary benefits. Combined entity has much wider product portfolio addressing the downstream capex of steel industry and global presence (both developed and developing).

### Key Financials - Quarterly

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
<b>Revenue</b>	<b>594</b>	<b>644</b>	<b>1,466</b>	<b>1,318</b>	<b>809</b>	<b>36.1</b>	<b>-38.6</b>
<b>Expenditure</b>	<b>551</b>	<b>590</b>	<b>1,185</b>	<b>1,207</b>	<b>685</b>	<b>24.2</b>	<b>-43.3</b>
Consumption of RM	344	402	829	880	390	13.3	-55.7
as % of sales	57.9	62.4	56.6	66.7	48.2		
Employee Cost	65	64	70	65	84	28.6	29.8
as % of sales	11.0	10.0	4.8	4.9	10.4		
Other expenditure	142	123	285	263	211	48.6	-19.8
as % of sales	23.8	19.2	19.5	19.9	26.0		
<b>EBITDA</b>	<b>43</b>	<b>54</b>	<b>282</b>	<b>111</b>	<b>124</b>	<b>188.4</b>	<b>11.8</b>
Depreciation	11	11	14	17	12	10.0	-28.4
<b>EBIT</b>	<b>32</b>	<b>43</b>	<b>268</b>	<b>94</b>	<b>112</b>	<b>249.5</b>	<b>19.0</b>
Other Income	3	35	3	-32	6	136.0	-118.2
Interest	13	0	0	0	0		
<b>PBT</b>	<b>22</b>	<b>78</b>	<b>270</b>	<b>61</b>	<b>118</b>	<b>444.2</b>	<b>92.0</b>
Total Tax	8	26	106	19	39	363.9	101.6
<b>Adjusted PAT</b>	<b>13</b>	<b>53</b>	<b>165</b>	<b>42</b>	<b>80</b>	<b>494.0</b>	<b>87.7</b>
Extra ordinary items	0	0	0	3	0		
<b>Reported PAT</b>	<b>13</b>	<b>53</b>	<b>165</b>	<b>46</b>	<b>80</b>	<b>503.0</b>	<b>74.6</b>
<b>Adjusted EPS</b>	<b>2.7</b>	<b>10.6</b>	<b>33.3</b>	<b>9.2</b>	<b>16.1</b>	<b>503.0</b>	<b>74.6</b>
<b>Margins (%)</b>						<b>(bps)</b>	<b>(bps)</b>
EBIDTA	7.3	8.4	19.2	8.4	15.4	812 bps	693 bps
EBIT	5.4	6.7	18.2	7.2	13.9	847 bps	672 bps
EBT	3.7	12.1	18.4	4.7	14.6	1095 bps	994 bps
PAT	2.3	8.1	11.2	3.2	9.8	759 bps	663 bps
Effective Tax rate	38.2	32.7	39.1	31.1	32.6	-565 bps	154 bps

## Financial tables

## Income Statement (Rs. Mn)

(Year Ending Mar 31)	FY07	FY08	FY09	FY10
<b>Net Sales</b>	<b>5,111</b>	<b>3,278</b>	<b>4,540</b>	<b>3,872</b>
Growth (%)	78.7	-35.9	38.5	-14.7
<b>Expenditure</b>	<b>4,766</b>	<b>2,998</b>	<b>4,336</b>	<b>3,502</b>
Materials Consumed	3,904	2,068	3,162	2,462
Employee Cost	160	199	254	251
Manufacturing Exp	247	294	286	255
Other Exp	455	438	634	534
<b>EBITDA</b>	<b>345</b>	<b>280</b>	<b>204</b>	<b>370</b>
Growth (%)	162.3	-19.0	-27.1	81.5
<b>EBITDA margin (%)</b>	<b>6.8</b>	<b>8.5</b>	<b>4.5</b>	<b>9.6</b>
Depreciation	40	54	56	53
<b>EBIT</b>	<b>306</b>	<b>226</b>	<b>148</b>	<b>317</b>
<b>EBIT margin (%)</b>	<b>6.0</b>	<b>6.9</b>	<b>3.3</b>	<b>8.2</b>
Other Income	7	11	108	153
Interest expenses	76	92	79	39
<b>PBT</b>	<b>237</b>	<b>145</b>	<b>177</b>	<b>432</b>
Tax	84	62	150	159
Effective tax rate (%)	35.5	42.6	84.9	36.8
<b>Adjusted PAT</b>	<b>153</b>	<b>83</b>	<b>27</b>	<b>273</b>
Growth (%)	600.9	-45.7	-67.7	918.3
Net Margin (%)	3.0	2.5	0.6	7.0
E/O items	(8)	(0)	(1)	(2)
<b>Reported PAT</b>	<b>160</b>	<b>83</b>	<b>28</b>	<b>275</b>
Growth (%)	632.4	-48.1	-66.8	896.0

## Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY07	FY08	FY09	FY10
Equity share capital	49	49	49	49
Reserves & surplus	727	798	813	1,029
<b>Net worth</b>	<b>776</b>	<b>848</b>	<b>863</b>	<b>1,078</b>
Secured Loans	643	607	307	0
Unsecured Loans	11	450	250	0
<b>Loan Funds</b>	<b>654</b>	<b>1,057</b>	<b>557</b>	<b>0</b>
Net deferred tax liability	7	6	-93	-110
<b>Total Liabilities</b>	<b>1,437</b>	<b>1,911</b>	<b>1,327</b>	<b>968</b>
Gross Block	692	763	697	739
Less: Depreciation	374	424	407	457
<b>Net block</b>	<b>318</b>	<b>339</b>	<b>290</b>	<b>282</b>
Capital work in progress	24	0	0	1
Investment	6	6	1	0
<b>Current Assets</b>	<b>2,635</b>	<b>2,681</b>	<b>3,312</b>	<b>3,357</b>
Inventories	513	819	172	199
Sundry debtors	1,376	1,050	2,095	2,145
Cash & bank balance	190	197	367	450
Loans & advances	555	616	678	563
Other current assets	0	0	0	0
<b>Current lia &amp; Prov</b>	<b>1,547</b>	<b>1,115</b>	<b>2,277</b>	<b>2,672</b>
Current liabilities	1,347	1,062	1,956	2,423
Provisions	200	53	321	249
<b>Net current assets</b>	<b>1,088</b>	<b>1,566</b>	<b>1,036</b>	<b>685</b>
Misc. exp	0	0	0	0
<b>Total Assets</b>	<b>1,437</b>	<b>1,911</b>	<b>1,327</b>	<b>968</b>

## Cash Flow (Rs. Mn)

(Year Ending Mar 31)	FY07	FY08	FY09	FY10
<b>PBT</b>	<b>153</b>	<b>145</b>	<b>177</b>	<b>432</b>
Depreciation	40	54	56	53
Interest Provided	47	60	46	4
Other Non-Cash items	12	39	233	96
Chg in working cap	31	-431	384	406
Tax paid	-31	-105	-155	-269
<b>Operating Cashflow</b>	<b>250</b>	<b>-237</b>	<b>742</b>	<b>721</b>
Capital expenditure	-54	-48	-25	-42
Free Cash Flow	197	-285	717	679
Other income	0	0	0	0
Investments	0	0	0	0
<b>Investing Cashflow</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	-64	401	-500	-557
Interest Paid	0	-60	-45	-14
Dividend paid (incl tax)	-11	-52	-12	-12
Income from investments	0	0	0	0
Others	0	0	0	0
<b>Financing Cashflow</b>	<b>-75</b>	<b>289</b>	<b>-557</b>	<b>-583</b>
<b>Net chg in cash</b>	<b>122</b>	<b>4</b>	<b>160</b>	<b>96</b>
Opening cash position	69	190	195	354
<b>Closing cash position</b>	<b>190</b>	<b>194</b>	<b>354</b>	<b>450</b>

## Key ratios

(Year Ending Mar 31)	FY07	FY08	FY09	FY10
<b>Profitability (%)</b>				
EBITDA Margin	6.8	8.5	4.5	9.6
Net Margin	3.0	2.5	0.6	7.0
ROCE	21.5	13.5	9.1	27.6
ROE	21.0	10.2	3.1	28.1
RoIC	25.2	13.2	15.4	61.3
<b>Per Share Data (Rs)</b>				
EPS	30.9	16.8	5.4	55.2
CEPS	38.9	27.8	16.8	66.0
BVPS	157.1	171.6	174.7	218.2
DPS	10.0	2.0	2.0	10.0
<b>Valuations (x)</b>				
PER	45.1	83.0	257.1	25.3
P/CEPS	35.8	50.3	83.2	21.1
P/BV	8.9	8.1	8.0	6.4
EV / Sales	1.4	2.4	1.6	1.7
EV / EBITDA	21.3	27.7	34.7	17.4
Dividend Yield (%)	0.7	0.1	0.1	0.7
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	0.6	1.0	0.2	(0.4)
Net Debt/EBIDTA	1.3	3.1	0.9	(1.2)
Working Cap Cycle (days)	76.9	147.8	104.6	81.1

Source: Capitaline

02 September, 2010

### NOT RATED

Price Target  
Rs 226 NR

Sensex 18,032

#### Price Performance

(%)	1M	3M	6M	12M
Absolute	7	26	93	41
Rel. to Sensex	6	19	77	23

Source: Bloomberg

#### Stock Details

Sector	Power EPC
Reuters	DIAC.BO
Bloomberg	DIPI@IN
Equity Capital (Rs mn)	337
Face Value (Rs)	10
No of shares o/s (mn)	34
52 Week H/L (Rs)	258/113
Market Cap (Rs bn/USD mn)	8/165
Daily Avg Vol (No of shares)	125840
Daily Avg Turnover (US\$ mn)	0.5

#### Shareholding Pattern (%)

	Jun-10	Mar-10	Dec-09
Promoters	43.9	46.0	46.2
FII/NRI	21.8	20.8	20.9
Institutions	8.9	9.8	9.8
Private Corp	4.1	3.7	3.4
Public	21.4	19.7	19.7

Source: Capitaline

- **Likely completion of capacity expansion across segments in FY10-FY11E, coupled with healthy order book/pipeline (Rs14.5/31.6bn) to drive 46% revenue CAGR in FY10-12E**
- **T&D in India in a secular growth phase, led by multifold increase in generation capacities & current under-investments**
- **Diamond Power Infrastructure Ltd (DPIL) to emerge as complete T&D solution provider across KV range after commissioning of EHV cables and transmission line tower facilities in Nov-Dec'10**
- **Expect 23% EPS CAGR in FY10-12E; Current valuations of 6.6x FY12E EPS, undemanding; Hold positive bias over strong & secular growth potential**

### Large capacity expansions across segments and healthy order book to drive healthy revenue growth

With a view to becoming a complete T&D solution provider DPIL has been expanding capacities over the last two years. Most of the expansions have already been commissioned or are on the brink of completion. These expansions include – (1) EHV cables (Nov 2010), (2) transmission towers (Dec 2010), (3) transformers (Dec 2010), (4) LT and HT cables (Feb 2010). We expect strong revenue CAGR of 46% during FY10-12E driven by (1) 81% power cable division growth, mainly led by expanded LT facility (operational only for three months in FY10), (2) EPC division CAGR of 57% driven by healthy order book of Rs7.2bn (2.2x FY10 revenues) and strong order pipeline of Rs31bn and (3) transformer revenue CAGR of 43% driven by large unutilized capacities.

### T&D sector in a secular growth phase

Last 3-4 years have seen aggressive generation capacity additions (10,000 MW per annum currently versus 3,000-4,000 MW per annum earlier). And based on the ongoing expansions, capacity addition run rate is likely to further increase to about 20,000-25,000MW in next 2-3 years. This is a five fold jump over the past additions. If generation capacities are increasing multifold, there would be no doubt, a need to install similar kind of T&D infrastructure. Currently there is under investment in T&D network in India. This is clearly visible in the more than 35% T&D losses in the country. Thus, there is a need to rectify the problem of underinvestment for the current capacity and also install T&D network for the new capacity. Thus, the growth is likely to accelerate.

### DPIL emerging as complete solution provider; We remain positively biased

DPIL is emerging as a complete solution provider in T&D across KV range with the commissioning of EHV cables and transmission line towers facilities in Nov-Dec 2010. Driven by secular growth phase of the industry coupled with capacities ready for production across the value chain, we expect strong traction in the business, going forward. We expect earnings CAGR of 23% over FY10-FY12E. At Rs235, stock is trading at 6.6x FY12E earnings. We have a positive bias.

#### Financial Snapshot

YE- Mar	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
FY09	6,979	898	12.9	568	27.0	2.9	34.8	8.7	7.9	2.4
FY10	8,483	1,170	13.8	661	23.6	(12.8)	26.7	10.0	7.8	2.3
FY11E	13,977	1,824	13.1	1,017	27.3	16.1	25.6	8.6	6.8	1.7
FY12E	18,063	2,369	13.1	1,322	35.5	29.9	23.3	6.6	5.4	1.4



## Company Background

Diamond Power Infrastructure has 30 years of experience in the cables and conductors business. The company has manufacturing plants located at Baroda and Silvasa. It currently manufactures all types of conductors, LT cables, HT cables and EHV cables (more than 32KV). The company recently acquired Apex Electrical and Western Industries, with aggregate power and distribution transformers capacity of 15000MVA. The company also undertakes EPC projects for underground cabling, substations and distribution networks. Further, the company is putting up a 45,000 MT transmission towers manufacturing facility.

DPIIL operates through four divisions – Conductors, EPC, Transformers, and Power cables. EPC contributes 49.2% to the total order book; conductor contributes 27.1%, transformers 6.3%, and power cables 17.4%

### Key Financials - Quarterly

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Revenue	1699	1726	2099	2953	3816	124.6	29.2
Expenditure	-1446	-1482	-1813	-2565	-3270	126.2	27.5
as % of sales	-85.11	-85.86	-86.40	-86.88	-85.69		
Consumption of RM	-1378.5	-1413.7	-1781.66	-2105.8	-3168.5	129.9	50.5
as % of sales	-81.15	-81.89	-84.89	-71.32	-83.03		
Employee Cost	-16.8	-20.12	-21	-29.8	-31.1	85.1	4.4
as % of sales	-0.99	-1.17	-1.00	-1.01	-0.81		
Other expenditure	-49.94	-46.57	-44.12	-94.6	-70.6	41.4	-25.4
as % of sales	-2.94	-2.70	-2.10	-3.20	-1.85		
EBITDA	253	244	286	387	546	115.8	41.0
Depreciation	-13.8	-13.8	-13.8	-31.3	-15.4	11.4	-50.8
EBIT	239	230	272	356	531	121.8	49.0
Other Income	4	2	1	6	9	153.6	43.5
Interest	-59	-58	-59	-72	-72	21.6	-0.6
PBT	184	174	214	290	468	154.7	61.2
Tax	-44	-61	-74	-67	-155	252.6	132.8
Adjusted PAT	139	113	139	223	312	123.8	39.8
Extra ordinary items	0	0	0	0	0		
Reported PAT	139	113	139	223	312	123.8	39.8
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0		
PAT after MI	139	113	139	223	312	123.8	39.8
Reported EPS	6.6	5.4	5.0	8.0	11.1	67.9	39.8
<b>Margins (%)</b>						<b>(bps)</b>	<b>(bps)</b>
EBIDTA	14.9	14.1	13.6	13.1	14.3	-0.6	1.2
EBIT	14.1	13.3	12.9	12.1	13.9	-0.2	1.8
EBT	10.8	10.1	10.2	9.8	12.3	1.4	2.4
PAT	8.2	6.6	6.6	7.6	8.2	0.0	0.6
Effective Tax rate	24.0	35.1	34.7	23.0	33.2	9.2	10.2

## Financial tables

## Income Statement (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
<b>Net Sales</b>	<b>6,979</b>	<b>8,483</b>	<b>13,977</b>	<b>18,063</b>
Growth (%)	31.8	21.6	64.8	29.2
<b>Expenditure</b>	<b>6,080</b>	<b>7,313</b>	<b>12,153</b>	<b>15,693</b>
Raw Materials	5,753	6,987	11,568	14,878
Construction Exp	0	0	0	0
Employee Cost	0	0	0	0
Other Exp	328	326	585	816
<b>EBITDA</b>	<b>898</b>	<b>1,170</b>	<b>1,824</b>	<b>2,369</b>
Growth (%)	35.6	30.2	55.9	29.9
<b>EBITDA margin (%)</b>	<b>12.9</b>	<b>13.8</b>	<b>13.1</b>	<b>13.1</b>
Depreciation	51	34	109	177
<b>EBIT</b>	<b>847</b>	<b>1,135</b>	<b>1,715</b>	<b>2,193</b>
<b>EBIT margin (%)</b>	<b>12.1</b>	<b>13.4</b>	<b>12.3</b>	<b>12.1</b>
Other Income	13	13	54	113
Interest expenses	216	223	345	455
<b>PBT</b>	<b>644</b>	<b>925</b>	<b>1,424</b>	<b>1,850</b>
Tax	76	264	407	529
Effective tax rate (%)	11.8	28.6	28.6	28.6
<b>Adjusted PAT</b>	<b>568</b>	<b>661</b>	<b>1,017</b>	<b>1,322</b>
(Profit)/loss from JV's/Ass/MI	0	0	0	0
<b>Adjusted PAT after MI</b>	<b>568</b>	<b>661</b>	<b>1,017</b>	<b>1,322</b>
Growth (%)	23.3	16.3	53.9	29.9
<b>Net Margin (%)</b>	<b>8.1</b>	<b>7.8</b>	<b>7.3</b>	<b>7.3</b>
E/O items	0	0	0	0
<b>Reported PAT</b>	<b>568</b>	<b>661</b>	<b>1,017</b>	<b>1,322</b>
Growth (%)	23.3	16.3	53.9	29.9

## Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Equity share capital	211	281	372	372
Reserves & surplus	1,926	2,732	4,771	6,044
<b>Net worth</b>	<b>2,136</b>	<b>3,012</b>	<b>5,143</b>	<b>6,417</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Secured Loans	2,310	3,065	5,237	5,737
Unsecured Loans	0	0	0	0
<b>Loan Funds</b>	<b>2,310</b>	<b>3,065</b>	<b>5,237</b>	<b>5,737</b>
Net deferred tax liability	0	0	0	0
<b>Total Liabilities</b>	<b>4,446</b>	<b>6,078</b>	<b>10,381</b>	<b>12,154</b>
Gross Block	827	829	3,205	3,125
Less: Depreciation	299	333	442	619
<b>Net block</b>	<b>529</b>	<b>496</b>	<b>2,763</b>	<b>2,506</b>
Capital work in progress	872	1,576	50	180
<b>Investment</b>	<b>51</b>	<b>52</b>	<b>52</b>	<b>52</b>
<b>Current Assets</b>	<b>3,461</b>	<b>4,534</b>	<b>8,876</b>	<b>11,201</b>
Inventories	1,407	1,710	3,201	4,136
Sundry debtors	1,902	2,311	4,191	5,417
Cash & bank balance	153	513	1,484	1,648
Loans & advances	0	0	0	0
Other current assets	0	0	0	0
<b>Current lia &amp; Prov</b>	<b>563</b>	<b>678</b>	<b>1,457</b>	<b>1,882</b>
Current liabilities	563	678	1,457	1,882
Provisions	0	0	0	0
<b>Net current assets</b>	<b>2,898</b>	<b>3,857</b>	<b>7,419</b>	<b>9,319</b>
Misc. exp & Def. Assets	96	96	96	96
<b>Total Assets</b>	<b>4,446</b>	<b>6,077</b>	<b>10,380</b>	<b>12,153</b>

## Cash Flow (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
<b>PBT (Ex-Other income)</b>	<b>631</b>	<b>912</b>	<b>1,370</b>	<b>1,737</b>
Depreciation	51	34	109	177
Interest Provided	216	223	345	455
Other Non-Cash items	295	169	1,060	0
Chg in working cap	-682	-598	-2,591	-1,736
Tax paid	-76	-264	-407	-529
<b>Operating Cashflow</b>	<b>435</b>	<b>476</b>	<b>-114</b>	<b>104</b>
Capital expenditure	-835	-706	-850	-50
<b>Free Cash Flow</b>	<b>-399</b>	<b>-229</b>	<b>-964</b>	<b>54</b>
Other income	13	13	54	113
Investments	-2	-2	0	0
<b>Investing Cashflow</b>	<b>-823</b>	<b>-694</b>	<b>-796</b>	<b>63</b>
Equity Capital Raised	-25	70	91	0
Loans Taken / (Repaid)	708	755	2,172	500
Interest Paid	-216	-223	-345	-455
Dividend paid (incl tax)	-21	-24	-37	-49
Income from investments	0	0	0	0
Others	0	0	0	0
<b>Financing Cashflow</b>	<b>447</b>	<b>578</b>	<b>1,881</b>	<b>-4</b>
<b>Net chg in cash</b>	<b>59</b>	<b>360</b>	<b>972</b>	<b>164</b>
Opening cash position	94	153	513	1,484
<b>Closing cash position</b>	<b>153</b>	<b>513</b>	<b>1,484</b>	<b>1,648</b>

## Key ratios

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
<b>Profitability (%)</b>				
EBITDA Margin	12.9	13.8	13.1	13.1
Net Margin	8.1	7.8	7.3	7.3
ROCE	23.6	22.0	21.1	19.6
ROE	34.8	26.7	25.6	23.3
RoIC	21.9	17.0	17.3	16.4
<b>Per Share Data (Rs)</b>				
EPS	27.0	23.6	27.3	35.5
CEPS	29.4	24.8	30.3	40.3
BVPS	96.8	103.9	135.6	169.8
DPS	1.0	0.9	1.0	1.3
<b>Valuations (x)</b>				
PER	8.7	10.0	8.6	6.6
P/CEPS	8.0	9.5	7.7	5.8
P/BV	2.4	2.3	1.7	1.4
EV / Sales	1.0	1.1	0.9	0.7
EV / EBITDA	7.9	7.8	6.8	5.4
Dividend Yield (%)	0.4	0.4	0.4	0.6
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	0.7	0.6	0.6	0.5
Net Debt/EBITDA	1.6	1.5	1.6	1.4
Working Cap Cycle (days)	144	144	155	155

Source: Capitaline

02 September, 2010

### NOT RATED

Price Target  
Rs 147 NR

Sensex 18,032

#### Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	22	76	118
Rel. to Sensex	(3)	15	61	90

Source: Bloomberg

#### Stock Details

Sector	Engineering & Capital Goods
Reuters	GEII.BO
Bloomberg	GEIN@IN
Equity Capital (Rs mn)	166
Face Value (Rs)	10
No of shares o/s (mn)	17
52 Week H/L (Rs)	165/62
Market Cap (Rs bn/USD mn)	2/53
Daily Avg Vol (No of shares)	85911
Daily Avg Turnover (US\$ mn)	0.3

#### Shareholding Pattern (%)

	Jun-10	Mar-10	Dec-09
Promoters	41.4	41.4	41.4
FII/NRI	21.3	20.7	18.9
Institutions	0.1	0.1	0.0
Private Corp	8.6	7.7	5.5
Public	28.6	30.1	34.1

Source: Capitaline

- **GEI Industrial Systems (GIS) is a leading player in air-cooled heat exchangers and heat condensers, with market share of 45% and 75% in oil & gas and power respectively**
- **Current order book stands at Rs5 bn (equivalent to 1.7X FY10 revenues), with an order bid pipeline at Rs10 bn**
- **Expanding capacity for air-cooled heat exchangers and condensers by 4X to 4000 MW by Mar'11**
- **Expect strong traction in FY10-12E period. Trading at attractive valuations of 17.5x FY10 earnings**

#### Dominant player in air-cooled heat exchangers and heat condensers

GEI Industrial Systems (GIS) is leading player in air-cooled heat exchangers and heat condensers, with a 45% market share in oil & gas and 75% market share in power. We expect robust capital spends in both oil & gas and power space and GIS would emerge as a direct beneficiary. Further, rising customer preference for air-cooled condensers over the conventional water cooled condensers (especially in view of rising water scarcity) would drive strong and sustained growth.

#### Order book at Rs4.3 bn - equivalent to 1.7X FY10 revenue

GIS has an order book of Rs4.3 bn as on Jun'10 - equivalent to 1.7X FY10 revenues. This translates into order backlog for roughly 1000-1200 MW ensuring 100% utilization. The order book is executable in 10-12 months - lending clear visibility for 1-1.25 years. GIS has bagged orders from Jaypee Group, KSK Group, IOC, etc and has a robust order bid pipeline of Rs10 bn.

#### Expanding capacity 4X to 4000MW by Mar'11

GIS is expanding its capacity for air-cooled heat exchangers and condensers from 1000 MW to 4000 MW by Mar'11 at a capex of Rs150 mn. This will upgrade GIS' capabilities to execute and handle super-critical orders. Currently, GIS can execute a single order upto 150 MW - bagged 2x150MW from Shree Power Ltd.

#### Future triggers - looking at increasing product portfolio in BoP

GIS plans to add products in the BoP space through its subsidiary, GEI Power by FY11E. GIS has targeted dehydrators, piping system, HP/LP heaters as new areas for growth. GIS expects meaningful contribution from new products in FY12E.

#### Attractive valuations at 17.5X FY10 earnings, promises strong upsides

GIS will be a direct beneficiary of robust capex spends in power and oil & gas sectors, given its leadership and strong product portfolio. GIS expects strong earnings performance in FY10-12E period. GIS is discounting its FY10 earnings of Rs8.5/Share at 17.5X. It promises strong upsides.

#### Financial Snapshot

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY07	1,121	171	15.3	53	3.3	38.2	15.0	45.7	10.3	5.9
FY08	1,921	286	14.9	90	5.2	59.4	16.6	28.7	6.5	3.8
FY09	2,203	329	14.9	104	6.0	15.6	14.5	24.8	6.1	3.4
FY10P	2,434	285	11.7	147	8.5	42.0	18.3	17.5	7.1	3.0

## Company Background

Founded in 1970, GEI Industrial Systems (GIS) was initially formed as an ancillary unit to BHEL by Mr. CE Fernandes and Mr. PL Mundhra. Company is engaged in design, manufacture and installation of air-cooled heat exchangers and condensers. It provides air cooled heat exchangers for crude oil refineries, petrochemical plants and LNG and CNG processing stations and air cooled condensing package for thermal power stations. Its manufacturing facility is located in Bhopal (Madhya Pradesh). GIS has a technical tie-up with Birwelco, UK, for technology and product design. GIS' clients include BHEL, Tata Electric Company, Shree Power, Jaypee Group, etc. In Petroleum and Oil & Gas, client list includes HPCL, ONGC, IPCL, Reliance Industries, IOC, Cairns India, etc. Its group companies are GEI Godavari Engineering, GEI Foods Pvt Ltd and GEI FHM Consultants.

### Key Financials - Quarterly

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
<b>Revenue</b>	<b>391</b>	<b>593</b>	<b>613</b>	<b>840</b>	<b>496</b>	<b>26.8</b>	<b>-41.0</b>
<b>Expenditure</b>	<b>324</b>	<b>529</b>	<b>529</b>	<b>769</b>	<b>419</b>	<b>29.3</b>	<b>-45.5</b>
Consumption of RM	235	400	372	581	300	27.7	-48.4
as % of sales	60.0	67.5	60.7	69.1	60.5		
Employee Cost	43	45	56	53	56	31.8	5.1
as % of sales	10.9	7.5	9.1	6.3	11.3		
Other expenditure	47	84	101	135	63	34.6	-53.3
as % of sales	12.0	14.2	16.5	16.0	12.7		
<b>EBITDA</b>	<b>67</b>	<b>64</b>	<b>84</b>	<b>72</b>	<b>77</b>	<b>15.1</b>	<b>7.6</b>
Depreciation	5	5	6	6	5	13.0	-5.5
<b>EBIT</b>	<b>62</b>	<b>59</b>	<b>78</b>	<b>66</b>	<b>72</b>	<b>15.3</b>	<b>8.6</b>
Other Income	2	28	9	38	10	431.6	-73.7
Interest	29	29	29	33	27		
<b>PBT</b>	<b>35</b>	<b>59</b>	<b>59</b>	<b>71</b>	<b>55</b>	<b>55.5</b>	<b>-22.9</b>
Total Tax	8	19	20	29	14	75.6	-53.4
<b>Adjusted PAT</b>	<b>28</b>	<b>40</b>	<b>39</b>	<b>42</b>	<b>41</b>	<b>49.8</b>	<b>-1.4</b>
Extra ordinary items	0	2	0	0	0		
<b>Reported PAT</b>	<b>28</b>	<b>42</b>	<b>40</b>	<b>42</b>	<b>41</b>	<b>49.8</b>	<b>-1.4</b>
<b>Adjusted EPS</b>	<b>1.9</b>	<b>2.5</b>	<b>2.4</b>	<b>2.5</b>	<b>2.5</b>	<b>28.6</b>	<b>-1.4</b>
<b>Margins (%)</b>						<b>(bps)</b>	<b>(bps)</b>
EBIDTA	17.1	10.8	13.6	8.5	15.5	-160	700
EBIT	15.9	10.0	12.7	7.9	14.5	-150	660
EBT	9.0	9.9	9.6	8.5	11.1	200	260
PAT	7.0	6.8	6.4	5.0	8.3	130	330
Effective Tax rate	22.1	31.5	33.2	41.3	25.0	290	-1,630

## Financial tables

## Income Statement (Rs. Mn)

(Year Ending Mar 31)	FY07	FY08	FY09	FY10
<b>Net Sales</b>	<b>1,121</b>	<b>1,921</b>	<b>2,203</b>	<b>2,434</b>
Growth (%)	55.6	71.4	14.7	10.5
<b>Expenditure</b>	<b>950</b>	<b>1,635</b>	<b>1,874</b>	<b>2,149</b>
Materials Consumed	644	1,130	1,333	1,603
Employee Cost	67	105	138	199
Manufacturing Exp	102	174	168	196
Other Exp	137	227	235	151
<b>EBITDA</b>	<b>171</b>	<b>286</b>	<b>329</b>	<b>285</b>
Growth (%)	42.9	66.7	15.1	-13.2
<b>EBITDA margin (%)</b>	<b>15.3</b>	<b>14.9</b>	<b>14.9</b>	<b>11.7</b>
Depreciation	15	16	18	20
<b>EBIT</b>	<b>157</b>	<b>270</b>	<b>311</b>	<b>265</b>
<b>EBIT margin (%)</b>	<b>14.0</b>	<b>14.0</b>	<b>14.1</b>	<b>10.9</b>
Other Income	4	4	11	68
Interest expenses	73	123	150	121
<b>PBT</b>	<b>88</b>	<b>151</b>	<b>171</b>	<b>212</b>
Tax	35	61	67	65
Effective tax rate (%)	40.0	40.4	39.4	30.6
<b>Adjusted PAT</b>	<b>53</b>	<b>90</b>	<b>104</b>	<b>147</b>
Growth (%)	49.7	69.2	15.6	42.0
<b>Net Margin (%)</b>	<b>4.7</b>	<b>4.7</b>	<b>4.7</b>	<b>6.1</b>
E/O items	(9)	(28)	(1)	(3)
Reported PAT	62	118	104	150
Growth (%)	75.7	89.2	-11.4	44.1

## Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY07	FY08	FY09	FY10
Equity share capital	163	173	173	173
Reserves & surplus	252	497	584	684
<b>Net worth</b>	<b>414</b>	<b>670</b>	<b>757</b>	<b>857</b>
Secured Loans	353	422	642	768
Unsecured Loans	11	24	1	1
<b>Loan Funds</b>	<b>365</b>	<b>446</b>	<b>643</b>	<b>769</b>
Net deferred tax liability	22	32	33	68
<b>Total Liabilities</b>	<b>800</b>	<b>1,147</b>	<b>1,432</b>	<b>1,694</b>
Gross Block	355	535	570	620
Less: Depreciation	136	155	177	197
<b>Net block</b>	<b>219</b>	<b>380</b>	<b>393</b>	<b>423</b>
Capital work in progress	8	0	27	47
<b>Investment</b>	<b>1</b>	<b>13</b>	<b>20</b>	<b>0</b>
<b>Current Assets</b>	<b>1,154</b>	<b>1,299</b>	<b>1,777</b>	<b>2,045</b>
Inventories	438	507	864	964
Sundry debtors	560	608	631	691
Cash & bank balance	96	74	124	222
Loans & advances	60	110	158	168
Other current assets	0	0	0	0
Current lia & Prov	586	547	791	823
<b>Current liabilities</b>	<b>544</b>	<b>492</b>	<b>729</b>	<b>750</b>
Provisions	42	54	62	73
<b>Net current assets</b>	<b>568</b>	<b>752</b>	<b>986</b>	<b>1,223</b>
Misc. exp	5	2	5	1
<b>Total Assets</b>	<b>800</b>	<b>1,147</b>	<b>1,432</b>	<b>1,694</b>

## Cash Flow (Rs. Mn)

(Year Ending Mar 31)	FY07	FY08	FY09	FY10
<b>PBT</b>	<b>53</b>	<b>90</b>	<b>104</b>	<b>62</b>
Depreciation	15	16	18	20
Interest Provided	44	65	106	121
Other Non-Cash items	7	2	1	32
Chg in working cap	-94	-199	-185	-150
Tax paid	-2	-4	-3	-65
<b>Operating Cashflow</b>	<b>22</b>	<b>-30</b>	<b>41</b>	<b>20</b>
Capital expenditure	-18	-39	-62	20
Free Cash Flow	4	-69	-21	20
Other income	0	0	0	0
Investments	0	-12	-8	0
<b>Investing Cashflow</b>	<b>0</b>	<b>-12</b>	<b>-8</b>	<b>0</b>
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	71	60	78	78
Interest Paid	0	0	0	0
Dividend paid (incl tax)	0	0	0	0
Income from investments	0	0	0	0
Others	0	0	0	0
<b>Financing Cashflow</b>	<b>71</b>	<b>60</b>	<b>78</b>	<b>78</b>
<b>Net chg in cash</b>	<b>75</b>	<b>-21</b>	<b>49</b>	<b>98</b>
Opening cash position	20	96	74	124
<b>Closing cash position</b>	<b>95</b>	<b>74</b>	<b>124</b>	<b>222</b>

Source: Capitaline

## Key ratios

(Year Ending Mar 31)	FY07	FY08	FY09	FY10
<b>Profitability (%)</b>				
EBITDA Margin	15.3	14.9	14.9	11.7
Net Margin	4.7	4.7	4.7	6.1
ROCE	21.8	27.7	24.1	17.0
ROE	15.0	16.6	14.5	18.3
RoIC	22.5	25.4	24.6	18.6
<b>Per Share Data (Rs)</b>				
EPS	3.3	5.2	6.0	8.5
CEPS	4.2	6.1	7.1	9.7
BVPS	25.5	38.8	43.8	49.6
DPS	0.0	0.0	0.0	0.0
<b>Valuations (x)</b>				
PER	45.7	28.7	24.8	17.5
P/CEPS	35.8	24.3	21.1	15.4
P/BV	5.9	3.8	3.4	3.0
EV / Sales	1.6	1.0	0.9	0.8
EV / EBITDA	10.3	6.5	6.1	7.1
Dividend Yield (%)	0.0	0.0	0.0%	0.0
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	0.6	0.6	0.7	0.6
Net Debt/EBITDA	1.6	1.3	1.6	1.9
Working Cap Cycle (days)	157.8	125.4	144.0	165.6

02 September, 2010

### NOT RATED

Price Target  
Rs 234 NR

Sensex 18,032

#### Price Performance

(%)	1M	3M	6M	12M
Absolute	(13)	3	43	119
Rel. to Sensex	(14)	(3)	31	91

Source: Bloomberg

#### Stock Details

Sector	Engineering & Capital Goods
Reuters	JHNP.BO
Bloomberg	JHP@IN
Equity Capital (Rs mn)	73
Face Value (Rs)	10
No of shares o/s (mn)	7
52 Week H/L (Rs)	315/100
Market Cap (Rs bn/USD mn)	2/37
Daily Avg Vol (No of shares)	45051
Daily Avg Turnover (US\$ mn)	0.2

#### Shareholding Pattern (%)

	Jun-10	Mar-10	Dec-09
Promoters	47.7	46.4	47.8
FII/NRI	2.2	1.3	1.2
Institutions	0.0	0.0	0.0
Private Corp	18.4	16.1	16.6
Public	31.7	36.2	34.6

Source: Capitaline

- **Jaihind Projects (JPL) is the 3rd largest pipeline contractor in India - with 30 years of experience and has laid +14000 km of pipeline**
- **Big opportunity in oil & gas infrastructure - cross-country pipelines, city gas distribution and renewal projects**
- **Order backlog of Rs7.6 bn, equivalent to 1.8x FY10 revenues. With foray into Middle East and Africa and bids in India, momentum likely to continue**
- **Reported strong earnings CAGR of 100% in FY07-10 period- Trading at attractive valuations of 7X FY10 earnings**

#### Vast experience- spanning 30 years and +14000 Km of pipeline laying

JPL has over 30 years of experience in on-shore pipeline laying. It has laid +14000 km of pipeline with +5000 km of pipeline in hydrocarbon space. JPL has done installations upto 56" diameter and worked in diverse terrains and topographies. Its experience spans across cross country pipelines, city gas distribution, water supply projects, oil & gas infrastructure renewal and turnkey projects. Further, JPL is among the top 3 pipeline contractors in India. It has executed projects for Gail, ONGC, GSPL, Mahanagar Gas, etc.

#### Big opportunity in oil & gas infrastructure- JPL to ride the wave

In India only ~30% of hydrocarbons are transported as compared to ~70% in the developed world. Accordingly, there is need to augment oil & gas infrastructure. All gas producers and transporting companies have ambitious plans : Gail - 6,000 km, GSPL - 6700 km and Reliance - 2200 km. There is proposal to expand the city-gas distribution from 19 cities to 25 cities of India. Given its vast experience, JPL is likely to be a big beneficiary of these ambitious infrastructure plans.

#### Order book at 1.8x FY10 revenue: Momentum likely to continue

JPL's current order book stands at Rs.7.6 bn, translating into 1.8X FY10 revenues. Key order wins are (1) GSPL - Darod Jafrabad pipeline of Rs2.3 bn (2) GSPL - Morbi Mundra pipeline of Rs2.0 and (3) BRPL - slurry pipeline of Rs1.1 bn. JPL has ventured into the Middle East with active alliances with Tehran Jacob and APPCO. Considering robust bid pipeline in India and foray into Middle East and Africa, order inflows momentum is likely to continue.

#### Strong performance in FY07-10 period, attractive valuations at 7X FY10 earnings

JPL has posted strong performance in FY07-10 period (1) revenue CAGR of 69% from Rs 0.8 bn to Rs 4.1 bn in FY10 (2) net profit CAGR of 100% from Rs 31 mn to Rs 247 mn and (3) EBITDA margin expansion of 650 bps to 19% in FY10. Considering favorable business dynamics and ensuing opportunity, JFL is trading at attractive valuations of 7X FY10 earnings.

#### Financial Snapshot

YE- Mar	Net Sales	EBITDA (Core)	(%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
FY07	847	80	9.4	31	6.0	185.2	19.9	39.3	1.6	7.1
FY08	1,433	182	12.7	64	9.0	48.9	21.9	26.4	3.1	4.1
FY09	3,231	405	12.5	106	14.9	65.5	22.0	16.0	2.1	3.1
FY10P	4,093	778	19.0	247	34.0	129.1	35.3	7.0	2.4	2.0

Note: FY08 and FY09 are consolidated results

## Company Background

JPL founded in 1963 is a formidable player in EPC for pipelines- spanning industrial, hydrocarbons and water. JPL has +30 years experience and laid +14,000 km of pipelines and executed +5,000 km of pipelines in the hydrocarbon space. Company undertakes projects for cross country pipeline, city gas pipelines, water supply and storage networks, industrial pipelines and renewal projects. JPL has also ventured in Africa and Middle East. JPL has executed projects for GAIL, GSPL, ONGC, HPCL, IOCL, BPCL, Mahanagar Gas, etc.

### Key Financials - Quarterly

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
<b>Revenue</b>	<b>655</b>	<b>647</b>	<b>1,231</b>	<b>1,559</b>	<b>719</b>	<b>9.7</b>	<b>-53.9</b>
<b>Expenditure</b>	<b>527</b>	<b>486</b>	<b>1,022</b>	<b>1,281</b>	<b>538</b>	<b>2.0</b>	<b>-58.0</b>
Consumption of RM	209	187	654	536	261	24.8	-51.4
as % of sales	31.9	29.0	53.1	34.4	36.3		
Employee Cost	166	155	213	581	182	9.6	-68.6
as % of sales	25.3	24.0	17.3	37.2	25.3		
Other expenditure	152	143	155	164	95	-37.7	-42.1
as % of sales	23.2	22.2	12.6	10.5	13.2		
<b>EBITDA</b>	<b>129</b>	<b>161</b>	<b>209</b>	<b>279</b>	<b>182</b>	<b>41.4</b>	<b>-34.8</b>
Depreciation	11	12	14	13	14	25.2	11.2
<b>EBIT</b>	<b>117</b>	<b>149</b>	<b>196</b>	<b>266</b>	<b>168</b>	<b>42.9</b>	<b>-37.0</b>
Other Income	4	3	21	11	11	161.9	-1.8
Interest	49	60	121	151	84		
<b>PBT</b>	<b>73</b>	<b>93</b>	<b>96</b>	<b>126</b>	<b>95</b>	<b>30.7</b>	<b>-24.7</b>
Total Tax	24	32	36	49	36	45.9	-27.0
<b>Adjusted PAT</b>	<b>48</b>	<b>61</b>	<b>60</b>	<b>78</b>	<b>60</b>	<b>23.0</b>	<b>-23.2</b>
Extra ordinary items	0	0	0	0	0		
<b>Reported PAT</b>	<b>48</b>	<b>61</b>	<b>60</b>	<b>78</b>	<b>60</b>	<b>23.0</b>	<b>-23.2</b>
<b>Adjusted EPS</b>	<b>6.7</b>	<b>8.4</b>	<b>8.3</b>	<b>10.7</b>	<b>8.2</b>	<b>23.0</b>	<b>-23.2</b>
<b>Margins (%)</b>						<b>(bps)</b>	<b>(bps)</b>
EBIDTA	19.6	24.9	17.0	17.9	25.3	570	740
EBIT	17.9	23.1	15.9	17.1	23.3	540	630
EBT	11.1	14.3	7.8	8.1	13.2	210	510
PAT	7.4	9.4	4.9	5.0	8.3	90	330
Effective Tax rate	33.5	34.5	37.6	38.6	37.4	390	-120

## Financial tables

## Income Statement (Rs. Mn)

(Year Ending Mar 31)	FY07	FY08	FY09	FY10
<b>Net Sales</b>	<b>847</b>	<b>1,433</b>	<b>3,231</b>	<b>4,093</b>
Growth (%)	36.5	69.2	125.5	26.7
<b>Expenditure</b>	<b>767</b>	<b>1,251</b>	<b>2,826</b>	<b>3,315</b>
Materials Consumed	174	296	1,382	1,544
Employee Cost	346	500	121	177
Manufacturing Exp	0	0	0	0
Selling, Admin & Other Exp	247	455	1,323	1,594
<b>EBITDA</b>	<b>80</b>	<b>182</b>	<b>405</b>	<b>778</b>
Growth (%)	129.9	127.5	122.5	92.1
<b>EBITDA margin (%)</b>	<b>9.4</b>	<b>12.7</b>	<b>12.5</b>	<b>19.0</b>
Depreciation	14	22	36	49
<b>EBIT</b>	<b>66</b>	<b>160</b>	<b>369</b>	<b>729</b>
<b>EBIT margin (%)</b>	<b>7.8</b>	<b>11.2</b>	<b>11.4</b>	<b>17.8</b>
Other Income	5	14	40	40
Interest expenses	23	74	207	381
PBT	49	101	202	388
Tax	18	37	96	141
Effective tax rate (%)	36.9	36.7	47.6	36.3
<b>Adjusted PAT</b>	<b>31</b>	<b>64</b>	<b>106</b>	<b>247</b>
Growth (%)	185.2	107.1	65.5	133.9
<b>Net Margin (%)</b>	<b>3.6</b>	<b>4.5</b>	<b>3.3</b>	<b>6.0</b>
E/O items	0	1	0	0
<b>Reported PAT</b>	<b>31</b>	<b>63</b>	<b>106</b>	<b>247</b>
Growth (%)	185.2	103.9	68.2	133.9

## Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY07	FY08	FY09	FY10
Equity share capital	51	71	71	73
Reserves & surplus	119	341	478	778
<b>Net worth</b>	<b>170</b>	<b>412</b>	<b>549</b>	<b>851</b>
Secured Loans	102	572	887	1,516
Unsecured Loans	34	12	91	604
<b>Loan Funds</b>	<b>136</b>	<b>584</b>	<b>978</b>	<b>2,120</b>
Net deferred tax liability	21	32	39	65
<b>Total Liabilities</b>	<b>327</b>	<b>1,027</b>	<b>1,566</b>	<b>3,036</b>
Gross Block	320	510	842	1,038
Less: Depreciation	71	88	120	157
<b>Net block</b>	<b>249</b>	<b>422</b>	<b>723</b>	<b>881</b>
Capital work in progress	0	23	0	162
Investment	0	0	0	1
<b>Current Assets</b>	<b>434</b>	<b>1,123</b>	<b>2,306</b>	<b>2,905</b>
Inventories	2	12	145	168
Sundry debtors	186	686	1,143	1,537
Cash & bank balance	9	15	140	222
Loans & advances	235	411	878	978
Other current assets	0	0	0	0
<b>Current lia &amp; Prov</b>	<b>356</b>	<b>541</b>	<b>1,462</b>	<b>913</b>
Current liabilities	137	474	1,334	779
Provisions	219	67	128	134
<b>Net current assets</b>	<b>77</b>	<b>582</b>	<b>844</b>	<b>1,992</b>
Misc. exp	0	0	0	
<b>Total Assets</b>	<b>327</b>	<b>1,028</b>	<b>1,567</b>	<b>3,036</b>

## Cash Flow (Rs. Mn)

(Year Ending Mar 31)	FY07	FY08	FY09	FY10
<b>PBT</b>	<b>49</b>	<b>101</b>	<b>203</b>	<b>388</b>
Depreciation	14	22	36	49
Interest Provided	-4	-10	136	300
Other Non-Cash items	0	-13	-18	-67
Chg in working cap	9	-453	-159	-1,137
Tax paid	-14	-27	-41	-141
<b>Operating Cashflow</b>	<b>54</b>	<b>-380</b>	<b>157</b>	<b>-608</b>
Capital expenditure	-134	-217	-330	250
<b>Free Cash Flow</b>	<b>-80</b>	<b>-597</b>	<b>-173</b>	<b>-358</b>
Other income	4	10	27	40
Investments	0	0	0	0
<b>Investing Cashflow</b>	<b>4</b>	<b>10</b>	<b>27</b>	<b>40</b>
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	69	401	394	400
Interest Paid	0	0	-162	0
Dividend paid (incl tax)	0	0	0	0
Income from investments	0	0	0	0
Others	0	191	39.2	0
<b>Financing Cashflow</b>	<b>69</b>	<b>592</b>	<b>271</b>	<b>400</b>
<b>Net chg in cash</b>	<b>-7</b>	<b>5</b>	<b>125</b>	<b>82</b>
Opening cash position	17	9	15	140
<b>Closing cash position</b>	<b>10</b>	<b>15</b>	<b>140</b>	<b>222</b>

Source: Capitaline

## Key ratios

(Year Ending Mar 31)	FY07	FY08	FY09	FY10
<b>Profitability (%)</b>				
EBITDA Margin	9.4	12.7	12.5	19.0
Net Margin	3.6	4.5	3.3	6.0
ROCE	23.9	23.6	28.5	31.7
ROE	19.9	21.9	22.0	35.3
RoIC	20.8	16.2	25.9	27.5
<b>Per Share Data (Rs)</b>				
EPS	6.0	9.0	14.9	34.0
CEPS	8.8	12.1	19.9	40.8
BVPS	33.3	58.0	77.2	117.2
DPS	0.0	0.0	0.0	0.0
<b>Valuations (x)</b>				
PER	39.3	26.4	16.0	7.0
P/CEPS	27.0	19.6	11.9	5.8
P/BV	7.1	4.1	3.1	2.0
EV / Sales	0.1	0.4	0.3	0.5
EV / EBITDA	1.6	3.1	2.1	2.4
Dividend Yield (%)	0.0	0.0	0.0	0.0
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	0.7	1.4	1.5	2.2
Net Debt/EBIDTA	1.6	3.1	2.1	2.4
Working Cap Cycle (days)	37.0	84.0	80.6	126.4

**Note:** FY08 and FY09 are consolidated results



02 September, 2010

## NOT RATED

Price Target  
Rs 176 NR

Sensex 18,032

### Price Performance

(%)	1M	3M	6M	12M
Absolute	2	(2)	(19)	(3)
Rel. to Sensex	1	(8)	(26)	(15)

Source: Bloomberg

### Stock Details

Sector	Engineering & Capital Goods
Reuters	SNGM.BO
Bloomberg	SGM@IN
Equity Capital (Rs mn)	87
Face Value (Rs)	2
No of shares o/s (mn)	43
52 Week H/L (Rs)	272/163
Market Cap (Rs bn/USD mn)	8/162
Daily Avg Vol (No of shares)	29616
Daily Avg Turnover (US\$ mn)	0.1

### Shareholding Pattern (%)

	Jun-10	Mar-10	Dec-09
Promoters	44.5	44.5	44.5
FII/NRI	35.7	36.2	35.6
Institutions	4.9	4.7	5.2
Private Corp	3.0	2.8	2.8
Public	11.9	11.8	11.9

Source: Capitaline

- **Sanghvi Movers' (SML) transition is complete - exposure to windmill reduces to 25% while that of industrials and power increases to 40% and 29% respectively**
- **Expect yields to improve 20 bps to 3.1% and capacity utilization to improve from 76% in FY10 to 87% in FY12E, led by uptick in demand from industrial clients**
- **Capex of Rs2.0 bn in FY11E and FY12E can be funded from internal cashflows and minimal borrowed funds**
- **Considering, ROCE of +20% and ROE of 20%, stock trades at attractive valuations of 8.4X FY10 earnings and 1.6X FY10 book value**

### Transition complete - Pares windmill exposure to 25% and ups industrial (40%) and power (29%) exposure

Transition of SML is complete - Exposure to windmill sector has come down from 48% of revenues in FY08 to 22% in Q1FY11. SML has made remarkable progress in power and industrials

- SML has made good progress in thermal power, contributing 29% of revenues. Company expects to make further inroads into thermal power (especially UMPP) and offset the subdued demand from windmill segment.
- Exposure to our preferred theme of industrial capex has increased to 40% of total revenues (namely cement - 17%, oil & gas & refining - 13% and steel - 9% of revenues in Q1FY11).

### Improving outlook- expect uptick in demand, yields & utilization in FY11E

Management expects demand uptick from industrial segment in H2FY11E. Further, yields are likely to improve 20-40 bps from 2.9% to 3.1% and capacity utilization expected to improve from 76% in FY10 to 87% in FY12E.

### Capex of Rs2.0 bn for FY11E and FY12E; Sufficient internal cash generation

So far, SML has planned capex of Rs2.0 bn for FY11E and FY12E. Considering operating cashflow of Rs1.8 bn, SML can fund the capex plans through internal cashflows with minimal borrowed funds.

### Expect rebound in earnings growth in FY11E; Valuations attractive

SML expects operational performance to rebound in FY11E, led by improvement in yields and utilization levels. SML has guided for revenue growth of 20% in FY11E. SML is trading at attractive valuations of PER of 8.4X FY10 earnings and PBV of 1.6X FY10P book value. Operating cashflow yield is very attractive at 16%.

### Financial Snapshot

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY07	1,786	1,304	73.0	643	15.7	78.3	45.1	11.2	7.0	3.5
FY08	2,543	1,863	73.3	728	16.6	5.4	28.7	10.6	5.4	2.5
FY09	3,575	2,742	76.7	1,011	23.3	40.8	29.0	7.5	4.1	1.9
FY10P	3,288	2,527	76.9	904	20.9	-10.5	20.9	8.4	4.4	1.6

## Company Background

Sanghvi Movers Ltd. (SML), a flagship company of the Sanghvi Group, is the largest crane rental company in India, 3<sup>rd</sup> largest in Asia and 9<sup>th</sup> largest in the world as per Cranes International Magazine (June 2009 issue). It has a fleet of 347 cranes ranging medium to large sized and heavy duty hydraulic and crawler cranes with capacity ranging from 20 tons to 800 tons. SML has a dominant market share of over 80% in +250 MT segment and 65% in +100-150 MT. SML has nationwide presence with depots at Pune, Vadgaon, Chakan, Nagpur, Jamnagar, Bharuch, Delhi, Ghaziabad, Cuttack, Bangalore, Chennai, Gadag, etc.

### Key Financials - Quarterly

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
<b>Revenue</b>	<b>816</b>	<b>794</b>	<b>824</b>	<b>854</b>	<b>853</b>	<b>4.5</b>	<b>-0.1</b>
<b>Expenditure</b>	<b>198</b>	<b>193</b>	<b>202</b>	<b>196</b>	<b>219</b>	<b>10.4</b>	<b>11.9</b>
Employee Cost	30	28	29	34	33	9.5	-3.2
<i>as % of sales</i>	3.7	3.6	3.5	4.0	3.9		
Other expenditure	168	164	173	161	186	10.6	15.1
<i>as % of sales</i>	20.5	20.7	21.0	18.9	21.7		
<b>EBITDA</b>	<b>618</b>	<b>601</b>	<b>622</b>	<b>658</b>	<b>634</b>	<b>2.6</b>	<b>-3.6</b>
Depreciation	186	187	200	215	214	15.0	-0.7
<b>EBIT</b>	<b>433</b>	<b>414</b>	<b>422</b>	<b>443</b>	<b>421</b>	<b>-2.8</b>	<b>-5.1</b>
Other Income	33	27	14	66	47	41.9	-28.2
Interest	123	118	120	114	121		
<b>PBT</b>	<b>343</b>	<b>323</b>	<b>316</b>	<b>395</b>	<b>347</b>	<b>1.1</b>	<b>-12.2</b>
Total Tax	112	108	107	146	107	-4.8	-26.9
<b>Adjusted PAT</b>	<b>231</b>	<b>215</b>	<b>209</b>	<b>249</b>	<b>240</b>	<b>4.0</b>	<b>-3.6</b>
Extra ordinary items	0	0	0	0	0		
<b>Reported PAT</b>	<b>231</b>	<b>215</b>	<b>209</b>	<b>249</b>	<b>240</b>	<b>4.0</b>	<b>-3.6</b>
<b>Adjusted EPS</b>	<b>5.3</b>	<b>5.0</b>	<b>4.8</b>	<b>5.8</b>	<b>5.5</b>	<b>4.0</b>	<b>-3.6</b>
<b>Margins (%)</b>						<b>(bps)</b>	<b>(bps)</b>
EBIDTA	75.7	75.7	75.5	77.1	74.3	-140	-280
EBIT	53.0	52.1	51.2	51.9	49.3	-370	-260
EBT	42.0	40.6	38.4	46.3	40.6	-140	-560
PAT	28.3	27.1	25.4	29.2	28.2	-10	-100
Effective Tax rate	32.6	33.4	33.8	36.9	30.7	-190	-620

## Financial tables

## Income Statement (Rs. Mn)

(Year Ending Mar 31)	FY07	FY08	FY09	FY10
<b>Net Sales</b>	<b>1,786</b>	<b>2,543</b>	<b>3,575</b>	<b>3,288</b>
Growth (%)	19.8	42.4	40.6	-8.0
<b>Expenditure</b>	<b>483</b>	<b>680</b>	<b>833</b>	<b>761</b>
Materials Consumed	48	49	45	-28
Employee Cost	45	106	115	122
Manufacturing Exp	271	373	506	0
Other Exp	118	152	167	666
<b>EBITDA</b>	<b>1,304</b>	<b>1,863</b>	<b>2,742</b>	<b>2,527</b>
Growth (%)	32.1	42.9	47.2	-7.8
<b>EBITDA margin (%)</b>	<b>73.0</b>	<b>73.3</b>	<b>76.7</b>	<b>76.9</b>
Depreciation	348	475	680	787
<b>EBIT</b>	<b>956</b>	<b>1,389</b>	<b>2,062</b>	<b>1,739</b>
<b>EBIT margin (%)</b>	<b>53.5</b>	<b>54.6</b>	<b>57.7</b>	<b>52.9</b>
Other Income	274	26	40	112
Interest expenses	248	309	532	475
<b>PBT</b>	<b>981</b>	<b>1,106</b>	<b>1,570</b>	<b>1,377</b>
Tax	338	378	560	472
Effective tax rate (%)	34.5	34.2	35.6	34.3
<b>Adjusted PAT</b>	<b>643</b>	<b>728</b>	<b>1,011</b>	<b>904</b>
Growth (%)	99.8	13.1	38.9	-10.5
<b>Net Margin (%)</b>	<b>36.0</b>	<b>28.6</b>	<b>28.3</b>	<b>27.5</b>
E/O items	172	14	19	-
<b>Reported PAT</b>	<b>471</b>	<b>713</b>	<b>991</b>	<b>904</b>
Growth (%)	47.0	51.6	38.9	-8.8

## Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY07	FY08	FY09	FY10P
Equity share capital	82	88	87	87
Reserves & surplus	1,959	2,948	3,857	4,612
<b>Net worth</b>	<b>2,041</b>	<b>3,036</b>	<b>3,944</b>	<b>4,698</b>
Secured Loans	2,751	3,709	4,993	4,750
Unsecured Loans	0	0	0	0
<b>Loan Funds</b>	<b>2,751</b>	<b>3,709</b>	<b>4,993</b>	<b>4,750</b>
Net deferred tax liability	315	390	530	530
<b>Total Liabilities</b>	<b>5,107</b>	<b>7,135</b>	<b>9,467</b>	<b>9,978</b>
Gross Block	5,934	7,336	10,483	11,860
Less: Depreciation	1,286	1,738	2,404	3,191
<b>Net block</b>	<b>4,647</b>	<b>5,598</b>	<b>8,079</b>	<b>8,669</b>
Capital work in progress	6	825	46	40
<b>Investment</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Current Assets</b>	<b>923</b>	<b>1,076</b>	<b>1,793</b>	<b>1,685</b>
Inventories	0	0	0	0
Sundry debtors	503	646	1,206	1,109
Cash & bank balance	53	80	75	105
Loans & advances	367	351	512	471
Other current assets	0	0	0	0
Current lia & Prov	469	364	452	415
<b>Current liabilities</b>	<b>170</b>	<b>164</b>	<b>299</b>	<b>275</b>
Provisions	299	200	153	140
<b>Net current assets</b>	<b>454</b>	<b>713</b>	<b>1,342</b>	<b>1,270</b>
Misc. exp	0	0	0	0
<b>Total Assets</b>	<b>5,107</b>	<b>7,135</b>	<b>9,467</b>	<b>9,978</b>

## Cash Flow (Rs. Mn)

(Year Ending Mar 31)	FY07	FY08	FY09	FY10P
<b>PBT</b>	<b>723</b>	<b>1,106</b>	<b>1,570</b>	<b>1,377</b>
Depreciation	348	475	680	787
Interest Provided	241	305	527	475
Other Non-Cash items	145	99	178	160
Chg in working cap	-197	-208	-590	-72
Tax paid	-163	-299	-416	-472
<b>Operating Cashflow</b>	<b>1,097</b>	<b>1,477</b>	<b>1,949</b>	<b>2,254</b>
Capital expenditure	-1,762	-2,227	-2,318	-1,377
<b>Free Cash Flow</b>	<b>-664</b>	<b>-749</b>	<b>-370</b>	<b>877</b>
Other income	0	0	0	0
Investments	0	0	0	0
<b>Investing Cashflow</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Equity Capital Raised	770.3	357.6	0	0
Loans Taken / (Repaid)	391	993	1,179	-243
Interest Paid	-253	-315	-542	-475
Dividend paid (incl tax)	-71	-101	-130	-130
Income from investments	0	0	0	0
Others	-10.1	-17.1	-22.1	0
<b>Financing Cashflow</b>	<b>826</b>	<b>918</b>	<b>486</b>	<b>-847</b>
<b>Net chg in cash</b>	<b>162</b>	<b>168</b>	<b>116</b>	<b>30</b>
Opening cash position	-110	-89	-41	75
<b>Closing cash position</b>	<b>53</b>	<b>80</b>	<b>75</b>	<b>105</b>

Source: Capitaline

## Key ratios

(Year Ending Mar 31)	FY07	FY08	FY09	FY10P
<b>Profitability (%)</b>				
EBITDA Margin	73.0	73.3	76.7	76.9
Net Margin	36.0	28.6	28.3	27.5
ROCE	22.6	22.7	24.8	17.9
ROE	45.1	28.7	29.0	20.9
RoIC	18.9	22.3	22.1	17.7
<b>Per Share Data (Rs)</b>				
EPS	15.7	16.6	23.3	20.9
CEPS	24.2	27.4	39.0	39.1
BVPS	49.9	69.2	91.1	108.5
DPS	2.5	3.0	2.0	2.0
<b>Valuations (x)</b>				
PER	11.2	10.6	7.5	8.4
P/CEPS	7.3	6.4	4.5	4.5
P/BV	3.5	2.5	1.9	1.6
EV / Sales	5.1	4.0	3.2	3.4
EV / EBITDA	7.0	5.4	4.1	4.4
Dividend Yield (%)	1.4	1.7	1.1	1.1
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	1.3	1.2	1.2	1.0
Net Debt/EBITDA	2.1	1.9	1.8	1.8
Working Cap Cycle (days)	83.6	83.7	104.9	145.0

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### NOT RATED

Price Target  
Rs 243 NR

Sensex 18,032

#### Price Performance

(%)	1M	3M	6M	12M
Absolute	(14)	-	-	-
Rel. to Sensex	(15)	-	-	-

Source: Bloomberg

#### Stock Details

Sector	Engineering & Capital Goods
Reuters	TECN.BO
Bloomberg	TECE@IN
Equity Capital (Rs mn)	105
Face Value (Rs)	10
No of shares o/s (mn)	10
52 Week H/L (Rs)	311/243
Market Cap (Rs bn/USD mn)	3/55
Daily Avg Vol (No of shares)	N.A
Daily Avg Turnover (US\$ mn)	N.A

#### Shareholding Pattern (%)

	Jun-10	Mar-10	Dec-09
Promoters	36.5	-	-
FII/NRI	18.6	-	-
Institutions	6.7	-	-
Private Corp	14.1	-	-
Public	24.1	-	-

Source: Capitaline

- **Technofab Engineering (TEL) has +20 years experience in mechanical and electrical jobs in India and Africa**
- **Served as main contractor for 99% of jobs executed in last 3 years. Worked for Lanco Infra, Gammon India, BHEL, etc**
- **Order backlog of Rs11 bn (including L1); Revenue visibility extremely strong at 5X FY10 revenues**
- **Aided by strong order backlog, earnings momentum to continue. Trading at attractive valuations of 13.3X FY10 earnings (post issue capital)**

#### Diverse capabilities and good project execution skills

TEL has +20 years experience in mechanical & electrical jobs, with presence in India and Africa. Company has diverse capabilities and good project execution skills serving both infrastructure (power and roads) and process industries. TEL executes following packages on turnkey basis - (1) low pressure piping system for industrial and utility (2) fuel oil handling and storage system (3) fire protection system (4) waste-water treatment plants (5) plant electrification and (6) rural electrification.

#### 99% of past experience (last 3 years) as main contractor

TEL is main contractor as against sub-contractor for projects executed during last 3 years. Company has worked as direct contractor for Lanco Infra, Gammon India, BHEL, NPCIL, NTPC, etc. It has relatively good track record of project execution with no legacy issues or baggage of mis-managed projects.

#### To strengthen business in Africa - diversify beyond India

TEL has rich experience in Africa and has worked as main contractor for electrical and mechanical projects. Company has two offices in Africa - at Ethiopia and Kenya. With good opportunity unfolding in Africa, TEL plans to increase order intake. Of late, TEL has bagged one road construction project in India to gain the required qualifications for Africa, thereby diversifying beyond mechanical and electrical projects.

#### Order backlog of Rs11 bn (including L1); Visibility at 5X FY10 revenues

Current order backlog at Rs11 bn, includes L1 orders of Rs4.1 bn. Domestic orders contribute +80% of order backlog and overseas orders (Africa) contribute the rest. The order backlog is dominated by process & infrastructure followed by Thermal power and Nuclear power. Revenue visibility is extremely strong at 5X FY10 revenues, with execution cycle of 20-24 months.

#### Valuations attractive at 13.3X FY10 earnings

TEL has posted strong operational performance in FY07-10 period (1) revenue CAGR of 48% from Rs 0.6 bn to Rs 2.0 bn in FY10 and (2) net profit CAGR at 167% from Rs 10 mn to Rs 190 mn. Aided by strong order backlog, TEL is expected to continue the growth momentum in FY10-12E period. TEL is discounting FY10 earnings at 13.3X (post issue capital)- trading at attractive valuations.

#### Financial Snapshot

YE-	Net	EBITDA		EPS	EPS	RoE	EV/		
Mar	Sales	(Core)	(%)	APAT	(Rs)	(%)	P/E	EBITDA	P/BV
FY07	614	29	4.7	8	1.1	64.6	5.8	230.4	13.0
FY08	810	91	11.2	53	7.1	527.3	30.0	36.7	9.1
FY09	1,493	216	14.5	117	15.6	120.2	43.6	16.7	6.1
FY10	2,004	337	16.8	191	25.5	63.3	46.5	10.2	3.9

## Company Background

Technofab Engineering (TEL) is owned by Gupta Family i.e. Mr Avinash Gupta and Family (Two Sons, Mr Arjun Gupta and Mr Nakul Gupta); they own 36% of equity capital and Gammon India as 2<sup>nd</sup> largest shareholder with 11.2% of equity capital. TEL is a pure EPC company - playing in smaller verticals of Mechanical and Electrical. Company has diversified EPC portfolio serving both Infrastructure (Power and Roads) and Process Industries. In Power, TEL serves both Thermal Power and Nuclear Power, whereas it also executes Rural Electrification projects. In Thermal Power, TEL undertakes jobs linked to DM Plant, Electrification, Water Treatment Plants, Fire Protection, etc, thus largely encompassing Mechanical and Electricals jobs. In Process Industries, TEL undertakes Mechanical jobs in Oil N Gas industry largely related to Fire Protection system. Offlately, TEL has bagged one road construction project in India to gain the required qualifications for its foray in Africa, where it has good presence in Mechanical and Electrical projects.

## Financial tables

## Income Statement (Rs. Mn)

(Year Ending Mar 31)	FY07	FY08	FY09	FY10
<b>Net Sales</b>	<b>614</b>	<b>810</b>	<b>1,493</b>	<b>2,004</b>
Growth (%)	13.8	32.0	84.4	34.2
<b>Expenditure</b>	<b>585</b>	<b>719</b>	<b>1,277</b>	<b>1,667</b>
Materials Consumed	0	1	1	0
Employee Cost	9	19	35	45
Manufacturing Exp	558	666	1,181	1,540
Other Exp	18	33	61	82
<b>EBITDA</b>	<b>29</b>	<b>91</b>	<b>216</b>	<b>337</b>
Growth (%)	8.7	216.3	137.0	55.9
<b>EBITDA margin (%)</b>	<b>4.7</b>	<b>11.2</b>	<b>14.5</b>	<b>16.8</b>
Depreciation	3	3	10	14
<b>EBIT</b>	<b>26</b>	<b>89</b>	<b>206</b>	<b>323</b>
<b>EBIT margin (%)</b>	<b>4.2</b>	<b>10.9</b>	<b>13.8</b>	<b>16.1</b>
Other Income	3	8	7	1
Interest expenses	16	16	32	32
<b>PBT</b>	<b>12</b>	<b>80</b>	<b>180</b>	<b>292</b>
Tax	4	27	63	102
Effective tax rate (%)	34.7	33.7	35.1	34.7
<b>Adjusted PAT</b>	<b>8</b>	<b>53</b>	<b>117</b>	<b>191</b>
Growth (%)	64.6	572.2	120.2	63.3
<b>Net Margin (%)</b>	<b>1.3</b>	<b>6.6</b>	<b>7.8</b>	<b>9.5</b>
E/O items	0	-2	0	0
<b>Reported PAT</b>	<b>8</b>	<b>55</b>	<b>117</b>	<b>191</b>
Growth (%)	64.6	597.5	112.3	63.2

## Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY07	FY08	FY09	FY10
Equity share capital	70	75	75	75
Reserves & surplus	70	139	247	425
<b>Net worth</b>	<b>140</b>	<b>214</b>	<b>322</b>	<b>500</b>
Secured Loans	105	42	118	152
Unsecured Loans	41	0	44	42
<b>Loan Funds</b>	<b>146</b>	<b>42</b>	<b>162</b>	<b>194</b>
Net deferred tax liability	-2	-1	0	2
<b>Total Liabilities</b>	<b>284</b>	<b>255</b>	<b>484</b>	<b>696</b>
Gross Block	30	32	63	90
Less: Depreciation	20	13	22	35
<b>Net block</b>	<b>10</b>	<b>19</b>	<b>42</b>	<b>55</b>
Capital work in progress	0	2	0	0
<b>Investment</b>	<b>0</b>	<b>7</b>	<b>2</b>	<b>4</b>
<b>Current Assets</b>	<b>429</b>	<b>539</b>	<b>932</b>	<b>1,125</b>
Inventories	0	43	45	35
Sundry debtors	264	276	319	564
Cash & bank balance	15	63	241	110
Loans & advances	149	153	323	412
Other current assets	2	3	4	5
<b>Current lia &amp; Prov</b>	<b>153</b>	<b>308</b>	<b>487</b>	<b>483</b>
Current liabilities	144	273	412	367
Provisions	10	35	75	117
<b>Net current assets</b>	<b>276</b>	<b>230</b>	<b>445</b>	<b>642</b>
Misc. exp	0	0	0	0
<b>Total Assets</b>	<b>286</b>	<b>258</b>	<b>488</b>	<b>701</b>

## Cash Flow (Rs. Mn)

(Year Ending Mar 31)	FY07	FY08	FY09	FY10
<b>PBT</b>	<b>13</b>	<b>80</b>	<b>180</b>	<b>293</b>
Depreciation	2	3	10	14
Interest Provided	16	15	28	32
Other Non-Cash items	1	2	0	2
Chg in working cap	68	90	-48	-347
Tax paid	-5	-24	-51	-86
<b>Operating Cashflow</b>	<b>95</b>	<b>166</b>	<b>120</b>	<b>-94</b>
Capital expenditure	-1	-21	-29	-29
<b>Free Cash Flow</b>	<b>94</b>	<b>145</b>	<b>91</b>	<b>-122</b>
Other income	0	0	0	0
Investments	0	0	0	0
<b>Investing Cashflow</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Equity Capital Raised	0	25	0	0
Loans Taken / (Repaid)	-83	-104	120	32
Interest Paid	-16	-15	-28	-32
Dividend paid (incl tax)	0	0	-4	-9
Income from investments	0	0	0	0
Others	0	0	0	0
<b>Financing Cashflow</b>	<b>-99</b>	<b>-94</b>	<b>88</b>	<b>-9</b>
<b>Net chg in cash</b>	<b>-6</b>	<b>51</b>	<b>179</b>	<b>-131</b>
Opening cash position	20	15	63	241
<b>Closing cash position</b>	<b>15</b>	<b>66</b>	<b>242</b>	<b>110</b>

Source: Capitaline

**Note:** considered pre-issue capital

## Key ratios

(Year Ending Mar 31)	FY07	FY08	FY09	FY10
<b>Profitability (%)</b>				
EBITDA Margin	4.7	11.2	14.5	16.8
Net Margin	1.3	6.6	7.8	9.5
ROCE	7.9	32.8	55.6	54.8
ROE	5.8	30.0	43.6	46.5
RoC	9.5	48.4	85.2	55.5
<b>Per Share Data (Rs)</b>				
EPS	1.1	7.1	15.6	25.5
CEPS	1.6	7.4	16.9	27.3
BVPS	20.0	28.5	42.9	66.6
DPS	0.0	0.5	1.0	1.5
<b>Valuations (x)</b>				
PER	230.4	36.7	16.7	10.2
P/CEPS	162.5	35.0	15.3	9.5
P/BV	13.0	9.1	6.1	3.9
EV / Sales	0.2	0.0	-0.1	0.0
EV / EBITDA	4.5	-0.2	-0.4	0.2
Dividend Yield (%)	0.0	0.2	0.4	0.6
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	0.9	(0.1)	(0.2)	0.2
Net Debt/EBIDTA	4.5	(0.2)	(0.4)	0.2
Working Cap Cycle (days)	186.0	114.0	82.5	99.0

02 September, 2010

### ACCUMULATE

Price Target  
Rs 394 Rs 448

Sensex 17,971

#### Price Performance

(%)	1M	3M	6M	12M
Absolute	(4)	(5)	7	10
Rel. to Sensex	(4)	(10)	(0)	(4)

Source: Bloomberg

#### Stock Details

Sector	Transformer
Reuters	TRNF.BO
Bloomberg	TRIL@IN
Equity Capital (Rs mn)	129
Face Value (Rs)	10
No of shares o/s (mn)	13
52 Week H/L (Rs)	473/303
Market Cap (Rs bn/USD mn)	5/107
Daily Avg Vol (No of shares)	38410
Daily Avg Turnover (US\$ mn)	0.4

#### Shareholding Pattern (%)

	Jun-10	Mar-10	Dec-09
Promoters	76.8	76.8	76.8
FII/NRI	1.6	1.9	2.6
Institutions	3.7	4.5	4.6
Private Corp	3.0	2.4	2.2
Public	14.9	14.4	13.8

Source: Capitaline

- **Volume growth, prudent selection of orders & cost control helped TRIL report a 10% rise in PAT in FY10 (Industry profits declined 30-35%)**
- **Consistent industry outperformance has led to substantial market share gains - From 1.9% in FY05 to 5.2% in FY10**
- **Moving up the chain - Already dispatched few 400kv transformers. Currently, executing 1200kv transformer trial for PGCIL**
- **Expect earnings CAGR of 18% in FY10-12E with earnings of Rs44.8/53.4 in FY11/12E. Valuations attractive at 7.4X and 4.2x FY12E earnings and EBITDA (22% discount to peers)**

#### Despite pressures at the sector level, TRIL grew profitably in FY10

TRIL's FY10 revenues grew by 21% on the back of a robust 52% volume growth (against industry growth of 13%). Further, with prudent selection of orders and cost control, TRIL managed to restrict margin erosion to 100 bps (transformer sector - 520bps). The net profit grew by 10% in FY10 in contrast to the industry profits declining by 33%. The company has been successfully riding against the waves over the last two years and in the process, has increased its market share to 5.2% in FY10 from 3.2% in FY08. TRIL has moved up the value chain and ventured into higher KV range - (1) has dispatched 400kv transformers already and (2) is in the process of development trial of 1200kv transformer for PGCIL - major positive in the long term. Further, the company has received the best supplier award from GETCO (transmission utility of Gujarat) recently - signifying quality and service superiority.

#### To benefit from improvement in industrial capex

The transformer sector has been hit by supply side pricing pressures (increased capacities) while demand continues to remain robust (13-14% growth) We believe with (1) industrial capex picking up, (2) acceleration in utilities ordering led by multifold increase in commissioning of generation capacities and (3) higher (10-15%) average commodity prices compared to FY10 driving absolute EBITDA, sector is poised for a gradual improvement. With TRIL's capacity utilization at 49% in FY10, the company is best placed to take advantage. We expect earnings CAGR of 18% in FY10-FY12E with earnings of Rs44.8/53.4 for FY11E/12E.

#### Valuations discount of 22% to peers unwarranted; Accumulate

At CMP of Rs395, TRIL is trading at 8.8/7.4x FY11/12E earnings, 1.5/1.3x FY11/12E Book Value and 5.0/4.2x FY11/12E EBITDA. This is a discount of 22% to the industry average. Also, on EV/MVA basis, TRIL is trading at 0.20mn/MVA which is ~ 35% discount to industry average of Rs0.35mn/MVA. We believe with (1) higher growth (FY10 earnings growth of 10% vs decline of 33% for our transformer universe), (2) strong balance sheet (net cash of Rs650mn) & (3) better than average ROEs (18% vs 16% industry average), valuation discount is unwarranted. We have an 'Accumulate' rating with price target of Rs448.

#### Financial Snapshot

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY09	4,251	647	15.2	452	35.0	32.8	20.3	12.8	8.4	2.2
FY10	5,128	728	14.2	489	37.9	8.3	19.6	11.2	7.1	1.9
FY11E	6,154	899	14.6	579	44.8	18.3	18.8	10.0	5.5	1.6
FY12E	7,360	1,061	14.4	690	53.4	19.3	19.1	8.4	4.5	1.4

## Company and promoter background

TRIL was incorporated in 1994 and promoted by Mr. Jitendra Mamtora. Mr. Mamtora started his career in 1969 as an electrical engineer; thereafter he started a proprietary concern in the name of M/s Transformers and Rectifiers (India) in 1981 leading to incorporation in 1994. In 2008, the company came out with its initial public offer for funding its expansion from 8,000MVA to 24,000MVA. The expansion is already complete and the company's current installed capacity stands at 24,000MVA. TRIL has been a leader in 220kv category in India. Recently, it has ventured into 400kv range and has dispatched few transformers already. Also, currently the company is involved in developing 1200kv transformer for PGCIL on trial basis.

The revenues for the past five years have grown at a CAGR of 47%, driven by volume growth of 38% and realization increase of 5%. The net profit of the company grew at 71% CAGR during past five years. Currently, TRIL's market share stands at 5.2% of India's transformer market in FY10.

### Key Financials - Quarterly

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
<b>Revenue</b>	<b>838</b>	<b>870</b>	<b>1,282</b>	<b>2,138</b>	<b>833</b>	<b>-0.6</b>	<b>-61.0</b>
<b>Expenditure</b>	<b>-714</b>	<b>-726</b>	<b>-1,136</b>	<b>-1,824</b>	<b>-708</b>	<b>-0.8</b>	<b>-61.2</b>
<i>as % of sales</i>	<i>-85.2</i>	<i>-83.5</i>	<i>-88.6</i>	<i>-85.3</i>	<i>-85.0</i>		
Consumption of RM	-563	-570	-1,013	-1,686	-591	4.9	-65.0
<i>as % of sales</i>	<i>-67.2</i>	<i>-65.6</i>	<i>-79.0</i>	<i>-78.8</i>	<i>-70.9</i>		
Employee Cost	-32	-32	-25	-41	-28	-11.1	-31.7
<i>as % of sales</i>	<i>-3.8</i>	<i>-3.6</i>	<i>-1.9</i>	<i>-1.9</i>	<i>-3.4</i>		
Other expenditure	-119	-124	-99	-97	-90	-24.8	-7.4
<i>as % of sales</i>	<i>-14.2</i>	<i>-14.3</i>	<i>-7.7</i>	<i>-4.5</i>	<i>-10.8</i>		
<b>EBITDA</b>	<b>124</b>	<b>144</b>	<b>146</b>	<b>315</b>	<b>125</b>	<b>0.7</b>	<b>-60.4</b>
Depreciation	-9	-9	-13	-14	-14	67.1	5.2
<b>EBIT</b>	<b>115</b>	<b>135</b>	<b>133</b>	<b>301</b>	<b>110</b>	<b>-4.2</b>	<b>-63.3</b>
Other Income	15	18	19	31	23	50.3	-26.8
Interest	-11	-11	-7	-19	-7	-30.2	-60.4
<b>PBT</b>	<b>120</b>	<b>142</b>	<b>145</b>	<b>313</b>	<b>126</b>	<b>5.0</b>	<b>-59.9</b>
Tax	-40	-47	-48	-114	-41	1.8	-64.2
<b>Adjusted PAT</b>	<b>80</b>	<b>96</b>	<b>97</b>	<b>200</b>	<b>85</b>	<b>6.6</b>	<b>-57.4</b>
Extra ordinary items	9	0	15	0	0		
<b>Reported PAT</b>	<b>88</b>	<b>96</b>	<b>112</b>	<b>200</b>	<b>85</b>	<b>-3.7</b>	<b>-57.4</b>
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0		
<b>PAT after MI</b>	<b>88</b>	<b>96</b>	<b>112</b>	<b>200</b>	<b>85</b>	<b>-3.7</b>	<b>-57.4</b>
Reported EPS	6.8	7.4	8.7	15.4	6.6	-3.7	-57.4
<b>Margins (%)</b>						<b>(bps)</b>	<b>(bps)</b>
EBIDTA	14.8	16.5	11.4	14.7	15.0	19	25
EBIT	13.8	15.5	10.4	14.1	13.3	-50	-83
EBT	15.7	16.4	12.5	14.7	15.1	-58	43
PAT	9.5	11.0	7.6	9.3	10.2	69	87
Effective Tax rate	32.7	32.9	29.7	36.3	32.4	-37	-393



## Financial tables

## Income Statement (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
<b>Net Sales</b>	<b>4,251</b>	<b>5,128</b>	<b>6,154</b>	<b>7,360</b>
Growth (%)	41.2	20.6	20.0	19.6
<b>Expenditure</b>	<b>3,604</b>	<b>4,400</b>	<b>5,255</b>	<b>6,299</b>
Raw Materials	3,091	3,832	4,622	5,581
Construction Exp	321	281	324	373
Employee Cost	87	129	146	162
Other Exp	105	158	163	184
<b>EBITDA</b>	<b>647</b>	<b>728</b>	<b>899</b>	<b>1,061</b>
Growth (%)	18.9	12.6	23.5	18.0
<b>EBITDA margin (%)</b>	<b>15.2</b>	<b>14.2</b>	<b>14.6</b>	<b>14.4</b>
Depreciation	25	44	60	61
<b>EBIT</b>	<b>622</b>	<b>684</b>	<b>839</b>	<b>999</b>
<b>EBIT margin (%)</b>	<b>14.6</b>	<b>13.3</b>	<b>13.6</b>	<b>13.6</b>
Other Income	104	83	85	93
Interest expenses	69	47	65	65
<b>PBT</b>	<b>657</b>	<b>720</b>	<b>858</b>	<b>1,027</b>
Tax	225	251	304	361
Effective tax rate (%)	32.9	32.5	34.0	34.0
<b>Adjusted PAT</b>	<b>432</b>	<b>469</b>	<b>555</b>	<b>666</b>
(Profit)/loss from JV's/Ass/MI	20	20	24	24
<b>Adjusted PAT after MI</b>	<b>452</b>	<b>489</b>	<b>579</b>	<b>690</b>
Growth (%)	32.8	8.3	18.3	19.3
<b>Net Margin (%)</b>	<b>10.6</b>	<b>9.5</b>	<b>9.4</b>	<b>9.4</b>
E/O items	0	27	0	0
<b>Reported PAT</b>	<b>452</b>	<b>516</b>	<b>579</b>	<b>690</b>
Growth (%)	32.8	14.1	12.2	19.3

## Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Equity share capital	129	129	129	129
Reserves & surplus	2,317	2,758	3,254	3,844
<b>Net worth</b>	<b>2,446</b>	<b>2,888</b>	<b>3,383</b>	<b>3,973</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Secured Loans	550	650	650	650
Unsecured Loans	0	0	0	0
<b>Loan Funds</b>	<b>550</b>	<b>650</b>	<b>650</b>	<b>650</b>
Net deferred tax liability	6	6	1	-4
<b>Total Liabilities</b>	<b>3,002</b>	<b>3,543</b>	<b>4,034</b>	<b>4,619</b>
Gross Block	505	915	985	1,055
Less: Depreciation	100	144	204	265
<b>Net block</b>	<b>405</b>	<b>771</b>	<b>780</b>	<b>789</b>
Capital work in progress	385	25	25	25
<b>Investment</b>	<b>17</b>	<b>17</b>	<b>17</b>	<b>17</b>
<b>Current Assets</b>	<b>3,107</b>	<b>3,862</b>	<b>4,563</b>	<b>5,408</b>
Inventories	547	701	841	1,006
Sundry debtors	1,531	1,758	2,110	2,523
Cash & bank balance	916	1,285	1,471	1,710
Loans & advances	113	118	142	170
Other current assets	0	0	0	0
Current lia & Prov	911	1,131	1,351	1,619
<b>Current liabilities</b>	<b>848</b>	<b>1,055</b>	<b>1,260</b>	<b>1,510</b>
Provisions	63	76	91	109
<b>Net current assets</b>	<b>2,196</b>	<b>2,732</b>	<b>3,213</b>	<b>3,789</b>
Misc. exp & Def. Assets	-1	-1	-1	-1
<b>Total Assets</b>	<b>3,002</b>	<b>3,543</b>	<b>4,034</b>	<b>4,619</b>

## Cash Flow (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
<b>PBT (Ex-Other income)</b>	<b>580</b>	<b>691</b>	<b>809</b>	<b>969</b>
Depreciation	25	44	60	61
Interest Provided	69	47	65	65
Other Non-Cash items	0	0	0	0
Chg in working cap	-184	-179	-310	-356
Tax paid	-225	-238	-289	-343
<b>Operating Cashflow</b>	<b>265</b>	<b>365</b>	<b>335</b>	<b>397</b>
Capital expenditure	-441	-50	-70	-70
<b>Free Cash Flow</b>	<b>-176</b>	<b>315</b>	<b>265</b>	<b>327</b>
Other income	104	83	85	93
Investments	27	27	35	35
<b>Investing Cashflow</b>	<b>-310</b>	<b>60</b>	<b>50</b>	<b>58</b>
Equity Capital Raised	-7	-7	-11	-11
Loans Taken / (Repaid)	206	100	0	0
Interest Paid	-69	-47	-65	-65
Dividend paid (incl tax)	-52	-65	-72	-86
Income from investments	-39	-37	-50	-53
Others	0	0	0	0
<b>Financing Cashflow</b>	<b>39</b>	<b>-56</b>	<b>-199</b>	<b>-216</b>
<b>Net chg in cash</b>	<b>-6</b>	<b>369</b>	<b>186</b>	<b>239</b>
Opening cash position	922	916	1,285	1,471
<b>Closing cash position</b>	<b>915</b>	<b>1,285</b>	<b>1,472</b>	<b>1,710</b>

Source: Capitaline

## Key ratios

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
<b>Profitability (%)</b>				
EBITDA Margin	15.2	14.2	14.6	14.4
Net Margin	10.6	9.5	9.4	9.4
ROCE	22.9	20.9	22.1	23.1
ROE	20.3	19.6	18.8	19.1
RoIC	23.6	21.4	23.1	24.2
<b>Per Share Data (Rs)</b>				
EPS	35.0	37.9	44.8	53.4
CEPS	36.9	41.3	49.5	58.1
BVPS	189.3	223.5	261.8	307.5
DPS	4.0	5.0	5.6	6.7
<b>Valuations (x)</b>				
PER	12.8	11.2	10.0	8.4
P/CEPS	12.2	10.9	9.1	7.7
P/BV	2.2	1.9	1.6	1.4
EV / Sales	1.3	1.0	0.8	0.6
EV / EBITDA	8.4	7.1	5.5	4.5
Dividend Yield (%)	1.0	1.2	1.3	1.6
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	-0.1	-0.2	-0.2	-0.3
Net Debt/EBITDA	-0.6	-0.9	-0.9	-1.0
Working Cap Cycle (days)	110	103	103	103

02 September, 2010

## BUY

Price Target  
Rs 801 Rs 1,079

Sensex 17,971

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	(7)	(12)	67
Rel. to Sensex	(3)	(12)	(18)	45

Source: Bloomberg

### Stock Details

Sector	Material Handling
Reuters	TTRO.BO
Bloomberg	TRF@IN
Equity Capital (Rs mn)	110
Face Value (Rs)	10
No of shares o/s (mn)	11
52 Week H/L (Rs)	1,175/435
Market Cap (Rs bn/USD mn)	9/192
Daily Avg Vol (No of shares)	29749
Daily Avg Turnover (US\$ mn)	0.6

### Shareholding Pattern (%)

	Jun-10	Mar-10	Dec-09
Promoters	39.6	41.8	41.8
FII/NRI	1.2	1.2	1.3
Institutions	13.7	12.3	13.8
Private Corp	7.2	7.7	7.7
Public	38.3	37.0	35.4

Source: Capitaline

- **TRF expected to benefit from upturn in capex spends in FY10-12E period. Expect MHE revenues to grow at 23% CAGR in FY10-12E period**
- **Satisfactory progress in automotive business - forecasted to make meaningful contribution in FY12E and triple revenues from Rs2.1 bn in FY10 to Rs5.6 bn in FY12E**
- **Order book at Rs20 bn - comfortable order book cover at 3.1X FY10 revenues. Satisfactory progress in key orders**
- **Roll-over valuation to FY06-08 average with revised price target of Rs1,079/Share. Hold positive bias**

### MHE poised for strong growth ahead - Expect to grow at 23% CAGR

TRF, with +70% exposure to power sector and rich product portfolio, is likely to continue to benefit from structural upturn in capex spends of India (expect capital spends to grow at 17% in FY11E and 18% in FY12E). Further, satisfactory progress in key order wins is an encouraging sign for project execution and revenue booking. Though, TRF had muted revenue growth in FY10, strong order backlog and satisfactory progress are likely to drive execution and revenue CAGR of 23% during FY10-12E period

### Automotive business on track - Expect strong growth ahead

TRF is making steady progress in its automotive business. York Transport Equipment reported traction on qoq basis and expect to be profitable in FY11E. Further, TRF's investments in York India (axle's fabrication), DLTML (trailers), Tata DLT (trailers) and Adithya Automotive (tipper bodies) are progressing satisfactorily. Automotive business should make meaningful contributions in FY12E. Expect revenues to triple from Rs2.1 bn in FY10 to Rs5.6 bn FY12E.

### Strong order book at Rs20 bn - equivalent to 3.1X FY10 revenues

TRF has entered FY11E on a strong note by securing orders worth Rs4.0 bn YTD - this is equivalent to 36% of FY11E target order inflows. TRF's order book has also shot up to Rs20.0 bn. This translates into order book cover of 3.1X FY10 standalone revenues - rendering good visibility. Management has indicated healthy order-bid pipeline for sustained momentum in order inflows, which is an encouraging sign.

### Maintain positive bias with revised price target of Rs1,079

We maintain our positive bias on the core MHE business with low probability of negative surprises in view of (1) quality order book at Rs20 bn - lending earning visibility for the next 2 years and (2) satisfactory progress in key orders. Automotive application business is progressing on expected lines - forecasted to make meaningful contribution in FY12E. We have rolled-over valuations to FY06-08 average and revised our SOTP target price from Rs882/Share to Rs1079/Share. We have BUY rating.

### Financial Snapshot

YE-	Net	EBITDA		EPS	EPS	RoE	EV/		
Mar	Sales	(Core)	(%)	APAT	(Rs)	(%)	P/E	EBITDA	P/BV
FY09	7,238	800	11.1	405	36.8	36.3	21.7	12.4	5.3
FY10	8,659	879	10.1	481	41.9	13.6	19.1	11.5	4.3
FY11E	12,342	1,224	9.9	701	63.7	52.1	12.6	8.2	3.3
FY12E	15,470	1,654	10.7	976	88.7	39.3	9.0	5.9	2.5

## Company Background

Established in 1962 and promoted by the Tata Group, TRF is a leading company in the business of design, manufacture, supply, installation and commissioning of engineering equipment and systems. The company was promoted by Tata Steel, ACC, Hewitt-Robbins (US) and General Electric (UK) as TRF in 1962. Tata Material Handling Systems (TMHS) and Tata Technodyne (TT) were later amalgamated with TRF in 2000. TRF has manufacturing facilities at Jamshedpur and Kolkata.

TRF's business is divided into (1) Products Division and (2) Projects Division. In its products division TRF sells individual products and systems such as idlers, pulleys, stackers, reclaimers, vibrating screens, feeders, cranes, loaders and unloaders. The project division bundles the products into comprehensive package and offers turnkey solutions in power, steel, coal washeries, mines, fertilizer, sugar and ports industries.

TRF has also ventured into automotive business applications and solutions through the inorganic route. TRF acquired (1) 51% stake in Singapore-based York Transport Equipment in Oct'07 - manufacturer of axles and trailers (2) Sri Lanka based Dutch Lanka Trailers Manufacturers Ltd. (DLTML) - manufacturer of trailers for heavy equipment vehicles, etc and (3) entered a 3-party JV, Adithya Automotive Application for fabrication and machining of tippers, load bodies, trailers, refrigerated bodies, etc.

### Key Financials - Quarterly

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
<b>Revenue</b>	<b>1,351</b>	<b>1,857</b>	<b>2,822</b>	<b>2,629</b>	<b>2,393</b>	<b>77.2</b>	<b>(9.0)</b>
<b>Expenditure</b>	<b>1,250</b>	<b>1,710</b>	<b>2,421</b>	<b>2,470</b>	<b>2,267</b>	<b>81.4</b>	<b>(8.2)</b>
Consumption of RM	637	1,047	1,620	1,640	1,351	111.9	(17.6)
as % of sales	47.2	56.4	57.4	62.4	56.4		
Payment to Subcontractor	256	234	262	281	354	38.1	26.0
as % of sales	19.0	12.6	9.3	10.7	14.8		
Employee Cost	149	173	177	192	199	34.0	3.6
as % of sales	11.0	9.3	6.3	7.3	8.3		
Other expenditure	207	256	362	357	363	75.3	1.8
as % of sales	15.3	13.8	12.8	13.6	15.2		
<b>EBITDA</b>	<b>101</b>	<b>147</b>	<b>401</b>	<b>160</b>	<b>126</b>	<b>24.4</b>	<b>(21.1)</b>
Depreciation	10	13	15	23	18	74.1	(22.2)
<b>EBIT</b>	<b>91</b>	<b>134</b>	<b>386</b>	<b>137</b>	<b>108</b>	<b>18.8</b>	<b>(20.9)</b>
Other Income	18	51	28	27	46	148.8	68.7
Interest	21	30	33	41	36		
<b>PBT</b>	<b>88</b>	<b>155</b>	<b>380</b>	<b>123</b>	<b>118</b>	<b>34.5</b>	<b>(4.1)</b>
Total Tax	36	43	130	43	46	30.1	8.3
<b>Adjusted PAT</b>	<b>52</b>	<b>112</b>	<b>251</b>	<b>80</b>	<b>72</b>	<b>37.5</b>	<b>(10.7)</b>
Minoity Interest	0	12	8	1	7	-	1,253.4
<b>Adjusted PAT (after MI)</b>	<b>52</b>	<b>100</b>	<b>243</b>	<b>80</b>	<b>65</b>	<b>23.8</b>	<b>(19.0)</b>
Extra ordinary items	0	19	0	-26	0	(100.0)	(100.0)
<b>Reported PAT</b>	<b>52</b>	<b>119</b>	<b>242</b>	<b>54</b>	<b>65</b>	<b>24.4</b>	<b>20.2</b>
<b>Adjusted EPS</b>	<b>4.7</b>	<b>10.8</b>	<b>22.0</b>	<b>4.9</b>	<b>5.9</b>	<b>24.4</b>	<b>20.2</b>
<b>Margins (%)</b>						<b>(bps)</b>	<b>(bps)</b>
EBIDTA	7.5	7.9	14.2	6.1	5.3	(220)	-80
EBIT	6.7	7.2	13.7	5.2	4.5	(220)	-70
EBT	6.5	8.3	13.5	4.7	4.9	(160)	30
PAT	3.9	6.0	8.9	3.1	3.0	(90)	-10
Effective Tax rate	40.6	27.7	34.1	34.8	39.3	(130)	450

## Financial tables

## Income Statement (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
<b>Net Sales</b>	<b>7,238</b>	<b>8,659</b>	<b>12,342</b>	<b>15,470</b>
Growth (%)	62.2	19.6	42.5	25.4
<b>Expenditure</b>	<b>6,438</b>	<b>7,781</b>	<b>11,118</b>	<b>13,817</b>
Materials Consumed	4,922	5,978	8,699	11,063
Employee Cost	576	694	967	1,124
Manufacturing Exp	351	403	673	763
Other Exp	588	705	779	867
<b>EBITDA</b>	<b>800</b>	<b>879</b>	<b>1,224</b>	<b>1,654</b>
Growth (%)	21.9	9.8	39.3	35.2
<b>EBITDA margin (%)</b>	<b>11.1</b>	<b>10.1</b>	<b>9.9</b>	<b>10.7</b>
Depreciation	38	61	114	126
<b>EBIT</b>	<b>762</b>	<b>817</b>	<b>1,109</b>	<b>1,527</b>
<b>EBIT margin (%)</b>	<b>10.5</b>	<b>9.4</b>	<b>9.0</b>	<b>9.9</b>
Other Income	-30	41	59	59
Interest expenses	79	126	177	206
<b>PBT</b>	<b>652</b>	<b>732</b>	<b>992</b>	<b>1,381</b>
Tax	247	251	291	405
Effective tax rate (%)	37.8	34.3	29.4	29.3
<b>Adjusted PAT</b>	<b>405</b>	<b>481</b>	<b>701</b>	<b>976</b>
Growth (%)	125.6	118.7	145.6	139.3
<b>Net Margin (%)</b>	<b>5.6</b>	<b>5.6</b>	<b>5.7</b>	<b>6.3</b>
(Profit)/loss from JVs/Ass/MI	0	20	0	0
<b>Adj. PAT After JVs/Ass/MI</b>	<b>405</b>	<b>461</b>	<b>701</b>	<b>976</b>
E/O items	(1)	7	-	-
<b>Reported PAT</b>	<b>405</b>	<b>467</b>	<b>701</b>	<b>976</b>
Growth (%)	1.9	15.4	49.9	39.3

## Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Equity share capital	55	110	110	110
Reserves & surplus	1,189	1,362	1,980	2,873
<b>Net worth</b>	<b>1,244</b>	<b>1,472</b>	<b>2,090</b>	<b>2,983</b>
Minority Interest	408	597	597	597
Secured Loans	934	1,996	1,996	1,996
Unsecured Loans	0	170	170	170
<b>Loan Funds</b>	<b>934</b>	<b>2,166</b>	<b>2,166</b>	<b>2,166</b>
Net deferred tax liability	(7)	(27)	(27)	(27)
<b>Total Liabilities</b>	<b>2,579</b>	<b>4,208</b>	<b>4,826</b>	<b>5,719</b>
Gross Block	1,056	1,705	2,075	2,195
Less: Depreciation	561	623	737	864
<b>Net block</b>	<b>495</b>	<b>1,082</b>	<b>1,338</b>	<b>1,332</b>
Capital work in progress	13	136	136	136
<b>Investment</b>	<b>37</b>	<b>37</b>	<b>37</b>	<b>37</b>
<b>Current Assets</b>	<b>5,784</b>	<b>7,634</b>	<b>9,879</b>	<b>12,366</b>
Inventories	1,134	1,554	2,272	2,848
Sundry debtors	2,976	4,198	5,750	7,208
Cash & bank balance	215	435	411	864
Loans & advances	1,459	1,446	1,446	1,446
Other current assets	0	0	0	0
<b>Current lia &amp; Prov</b>	<b>3,751</b>	<b>4,681</b>	<b>6,512</b>	<b>8,019</b>
Current liabilities	3,506	4,375	6,207	7,714
Provisions	245	305	305	305
<b>Net current assets</b>	<b>2,033</b>	<b>2,953</b>	<b>3,367</b>	<b>4,347</b>
Misc. exp	1.0	-	-	-
<b>Total Assets</b>	<b>2,579</b>	<b>4,208</b>	<b>4,878</b>	<b>5,851</b>

## Cash Flow (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
<b>PBT (Ex-Other income)</b>	<b>651</b>	<b>739</b>	<b>992</b>	<b>1,381</b>
Depreciation	38	61	114	126
Interest Provided	79	125	177	206
Other Non-Cash items	-4	-75	0	0
Chg in working cap	-583	-521	-438	-527
Tax paid	-221	-244	-291	-405
<b>Operating Cashflow</b>	<b>-39</b>	<b>85</b>	<b>554</b>	<b>781</b>
Capital expenditure	-124	-268	-370	-120
<b>Free Cash Flow</b>	<b>-163</b>	<b>-183</b>	<b>184</b>	<b>661</b>
Other income	0	0	0	0
Investments	0	-478	0	0
<b>Investing Cashflow</b>	<b>0</b>	<b>-478</b>	<b>0</b>	<b>0</b>
Equity Capital Raised	0	33	0	0
Loans Taken / (Repaid)	351	1,049	0	0
Interest Paid	-79	-125	-125	-125
Dividend paid (incl tax)	-64	-76	-83	-83
Income from investments	0	0	0	0
Others	0	0	0	0
<b>Financing Cashflow</b>	<b>207</b>	<b>881</b>	<b>-208</b>	<b>-208</b>
<b>Net chg in cash</b>	<b>44</b>	<b>220</b>	<b>-24</b>	<b>453</b>
Opening cash position	171	215	435	411
<b>Closing cash position</b>	<b>215</b>	<b>435</b>	<b>411</b>	<b>864</b>

Source: Capitaline

## Key ratios

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
<b>Profitability (%)</b>				
EBITDA Margin	11.1	10.1	9.9	10.7
Net Margin	5.6	5.6	5.7	6.3
ROCE	28.3	25.2	25.7	29.9
ROE	24.5	24.8	29.5	31.1
RoIC	32.9	22.7	26.1	32.6
<b>Per Share Data (Rs)</b>				
EPS	36.8	41.9	63.7	88.7
CEPS	41.6	50.0	71.0	96.8
BVPS	150.1	188.0	244.2	325.3
DPS	12.0	7.5	7.5	7.5
<b>Valuations (x)</b>				
PER	21.7	19.1	12.6	9.0
P/CEPS	19.3	16.0	11.3	8.3
P/BV	5.3	4.3	3.3	2.5
EV / Sales	1.3	1.2	0.9	0.7
EV / EBITDA	12.4	11.5	8.2	5.9
Dividend Yield (%)	1.5	0.9	0.9	0.9
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	0.4	0.8	0.7	0.4
Net Debt/EBIDTA	0.7	1.4	1.1	0.7
Working Cap Cycle (days)	102.5	105.1	93.5	91.0

September 2, 2010

### NOT RATED

Price	Target Price
Rs 1,259	NR
Sensex	18,206

### Price Performance

(%)	1M	3M	6M	12M
Absolute	28	49	101	181
Rel. to Sensex	26	36	84	137

Source: Bloomberg

### Stock Details

Sector	Automobiles
Reuters	EICH.BO
Bloomberg	EIM@IN
Equity Capital (Rs mn)	268
Face Value(Rs)	10
No of shares o/s (mn)	27
52 Week H/L	1308/435
Market Cap (Rs bn/USD mn)	34/721
Daily Avg Volume (No of sh)	158214
Daily Avg Turnover (US\$m)	3.4

### Shareholding Pattern (%)

	Jun'10	Mar'10	Dec'09
Promoters	55.7	55.8	55.9
FII/NRI	19.5	11.6	11.8
Institutions	10.5	9.6	8.9
Private Corp	1.4	10.0	10.5
Public	12.9	13.0	13.0

Source: Capitaline

- Management restructuring to result higher focus on Eicher brand. Mr Lal has step down as CEO of VECV and will now focus on two wheelers and Eicher Motors (parent company)
- Entry of Volvo has helped Eicher Motor in terms of process improvements and efficiency improvement across business verticals. Ability to attract new talent has also improved
- Capacity constraints persist in 2 wheelers. Adequate capacity for CV. Raw material buying is largely spot/ three month contracts
- Remains preferred pick in CV space due to strong ROIC. Valuation no longer attractive but for re-rating. Valued existing business at Rs 1258 and engine business at Rs 153

### Key meeting highlights

#### Management restructuring

Mr Siddhartha Lal has relinquished his title of CEO – VECV retaining the MD position. Mr. Vinod Aggarwal (earlier CFO – Eicher Motors) has been appointed as CEO – VECV. The key reason for the change is to increase focus on two wheeler business and Eicher Motors (parent company). The integration (post the stake sale to Volvo) over last two years has been very smooth and is now complete. We view this as positive as now there will be higher focus on interest of various stakeholders.

#### Capacity constraints

Two wheelers business is facing capacity constraints (post the introduction of new products) due to age old plants. Efforts are being made to improve the plant and increase the capacity. The block closure in the current month will be used to improve upon the capacity of the plant. However, new capacity creation is the necessity as volumes from the current facilities cannot be increased beyond a point. Commercial vehicles business has adequate capacities.

#### Two wheelers – sudden increase in volumes

There has been a sudden jump in the volumes of two wheelers (from ~30,000 units per annum to ~50,000 units per annum). This is due to efforts on brand visibility, improving product styling, change in gear and brake setting, improving the presentation skills of the front end, etc. Also, general buoyancy in the demand has helped. The current demand is much higher than the capacity resulting in waiting list of > 3 months for its products.

#### Geographical spread – two wheelers

The brand is an urban centric brand with top 10 to 15 cities contributing >50% of domestic sales. Punjab, Haryana and Delhi region has a significant share in the volumes. There is greater focus to improve the brand visibility in the smaller town and villages given the rise in affluence and young population. Capacity constraints continue to be a key hurdle.

#### Financial Snapshot

YE-	Net	EBITDA			EPS	EPS	RoE	EV/		
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
CY08(9M)	17,168	1,002	5.8	173	6.2	-71.8	2.3	204.0	24.7	3.2
CY09	29,443	1,502	5.1	963	36.1	484.7	8.9	34.9	15.4	3.1
CY10E	44,169	3,386	7.7	1,892	70.9	96.3	16.5	17.8	6.3	2.8
CY11E	54,096	5,271	9.7	2,663	99.8	40.8	20.1	12.6	3.7	2.3

Source: Company, Emkay Research

**Geographical spread – commercial vehicles**

Eicher has a strong presence in the Southern markets. In some of the routes, it is the industry leader in the 5 ton to 12 ton segment. It is reasonably strong in North and West. However, in some pockets it does not have presence largely due to demand for HCVs, East is relatively weak due to demand for HCVs. With introduction of M&HCVs, Eicher expects to improve its positioning in these markets. However, the focus of Eicher is not to become a pan India player in the near term but to garner a large market share on select routes.

**Surplus cash on books**

The surplus cash in VECV will be utilized for various projects that are outlined based on the long term plans as discussed with Volvo. The recently announced engine manufacturing is one of such opportunities. Also, in the short term the cash will help VECV to withstand any aggressive pricing with the entry of many new players in the M&HCV space. However, it does not expect the aggressive pricing at the current juncture.

**Outlook on margins**

Margins are function of share of Volvo truck business. Higher the share of Volvo truck business, lower will be the margins as VECV earns only distribution margins. Company records sales and raw material at gross levels. There is no significant pressure on the Eicher business except for volatile raw material prices. Most of the raw material contracts are short term in nature (spot/ 3 month contracts).

**Demand outlook**

Commercial vehicles demand is robust and does not expect any significant impact except for the cyclical slowdown due to emission norms implementation and strong demand in the recent past. Two wheelers demand is robust and company is losing out due to capacity constraints.

**Valuations and View**

At Rs 1,259, the stock trades at PER of 17.8 and 12.6x our CY10 and CY11 estimates respectively. We continue to prefer Eicher in the commercial vehicle space given its strong ROIC. However, post the run up in the stock price, valuation are no more attractive unless there is a case of re-rating. We would like to have some signs executions without delay before re-rating of the stock on valuations.

**Summary valuation**

Rs mn	CY10E	CY11E
<b>Sales</b>		
VECV	39,697	48,645
Standalone	4,471	5,451
<b>Total</b>	<b>44,169</b>	<b>54,096</b>
<b>EBIDTA</b>		
VECV	2,926	4,717
Standalone	461	554
<b>Total</b>	<b>3,386</b>	<b>5,271</b>
<b>Target Multiple(EV/EBIDTA)</b>		
VECV	7	7
Standalone	8	8
<b>Target EV ( Rs. Mn)</b>		
VECV (Eicher's share)	11,140	17,964
Standalone	3,685	4,430
<b>Total</b>	<b>14,825</b>	<b>22,394</b>
<b>Less. Net Debt (Rs. Mn)*</b>	(10,202)	(11,328)
<b>Target Market Cap ( Rs. Mn)</b>	<b>25,027</b>	<b>33,722</b>
Share Cap. (Nos mn)	26.8	26.8
<b>Value per share (Rs.)</b>	<b>934</b>	<b>1,258</b>
<b>Value of Engine business (Rs.)#</b>	<b>135</b>	<b>153</b>
<b>Total (Rs.)</b>	<b>1,069</b>	<b>1,411</b>

\* Net Debt for VECV - only Eicher's share is considered

#CY13 - 40,000 engines, ASP - Rs 0.3mn, margins - 10%, COE - 13%

## Financials

## Income Statement - Consolidated

Y/E, Mar (Rs. mn)	CY08(9M)	CY09	CY10E	CY11E
<b>Net Sales</b>	<b>17,168</b>	<b>29,443</b>	<b>44,169</b>	<b>54,096</b>
Growth (%)	(24.0)	71.5	50.0	22.5
<b>Expenditure</b>	<b>16,166</b>	<b>27,941</b>	<b>40,783</b>	<b>48,825</b>
Materials Consumed	12,862	21,992	33,268	40,162
Employee Cost	1,202	2,152	2,429	2,705
Other Exp	2,102	3,797	5,085	5,958
<b>EBITDA</b>	<b>1,002</b>	<b>1,502</b>	<b>3,386</b>	<b>5,271</b>
Growth (%)	(10.0)	49.9	125.5	55.7
<b>EBITDA margin (%)</b>	<b>5.8</b>	<b>5.1</b>	<b>7.7</b>	<b>9.7</b>
Depreciation	580	539	650	700
<b>EBIT</b>	<b>422</b>	<b>963</b>	<b>2,736</b>	<b>4,571</b>
<b>EBIT margin (%)</b>	<b>2.5</b>	<b>3.3</b>	<b>6.2</b>	<b>8.4</b>
Other Income	239	1,126	1,400	1,500
Interest expenses	110	87	110	110
<b>PBT</b>	<b>551</b>	<b>2,003</b>	<b>4,026</b>	<b>5,961</b>
<b>Tax</b>	<b>184</b>	<b>578</b>	<b>1,167</b>	<b>1,728</b>
Effective tax rate (%)	33.4	28.9	29.0	29.0
<b>Adjusted PAT</b>	<b>367</b>	<b>1,424</b>	<b>2,859</b>	<b>4,234</b>
Growth (%)	(40.5)	288.4	100.7	48.1
<b>Net Margin (%)</b>	<b>2.1</b>	<b>4.8</b>	<b>6.5</b>	<b>7.8</b>
(Profit)/loss from JV's/Ass/MI	193	461	968	1,571
<b>Adjusted PAT after MI</b>	<b>173</b>	<b>963</b>	<b>1,892</b>	<b>2,663</b>
E/O items	171	(7)	-	-
<b>Reported PAT</b>	<b>344</b>	<b>956</b>	<b>1,892</b>	<b>2,663</b>
Growth (%)	(44.1)	178.0	97.8	40.8

## Cash Flow- Consolidated

Y/E, Mar (Rs. mn)	CY08(9M)	CY09	CY10E	CY11E
<b>PBT (Ex-Other income)</b>	<b>312</b>	<b>876</b>	<b>2,626</b>	<b>4,461</b>
Depreciation	580	539	650	700
Interest Provided	110	87	110	110
Other Non-Cash items	(480)	537	-	-
Chg in working cap	(1,228)	2,224	345	204
Tax paid	(184)	(578)	(1,167)	(1,728)
<b>Operating Cashflow</b>	<b>(890)</b>	<b>3,685</b>	<b>2,564</b>	<b>3,748</b>
Capital expenditure	(994)	(259)	(1,678)	(2,700)
<b>Free Cash Flow</b>	<b>(1,884)</b>	<b>3,426</b>	<b>887</b>	<b>1,048</b>
Other income	1,099	373	1,400	1,500
Investments	2,550	(2,879)	-	-
<b>Investing Cashflow</b>	<b>3,649</b>	<b>(2,506)</b>	<b>1,400</b>	<b>1,500</b>
Equity Capital Raised	-	(14)	-	-
Loans Taken / (Repaid)	(539)	(392)	-	-
Interest Paid	(110)	(87)	(110)	(110)
Dividend paid (incl tax)	(141)	(187)	(377)	(558)
Income from investments	-	-	-	-
Others	10,824	(961)	-	-
<b>Financing Cashflow</b>	<b>10,034</b>	<b>(1,641)</b>	<b>(487)</b>	<b>(668)</b>
<b>Net chg in cash</b>	<b>11,799</b>	<b>(720)</b>	<b>1,799</b>	<b>1,879</b>
Opening cash position	519	12,318	11,707	13,506
<b>Closing cash position</b>	<b>12,318</b>	<b>11,598</b>	<b>13,506</b>	<b>15,385</b>

Source: Company. Emkay Research

## Balance Sheet- Consolidated

Y/E, Mar (Rs. mn)	CY08(9M)	CY09	CY10E	CY11E
Equity share capital	281	267	267	267
Reserves & surplus	10,756	10,424	11,938	14,042
<b>Net worth</b>	<b>11,037</b>	<b>10,690</b>	<b>12,205</b>	<b>14,309</b>
<b>Minority Interest</b>	<b>5,305</b>	<b>5,747</b>	<b>6,714</b>	<b>8,285</b>
Secured Loans	1,088	735	735	735
Unsecured Loans	568	529	529	529
<b>Loan Funds</b>	<b>1,656</b>	<b>1,264</b>	<b>1,264</b>	<b>1,264</b>
Net deferred tax liability	(147)	142	142	142
<b>Total Liabilities</b>	<b>17,851</b>	<b>17,842</b>	<b>20,324</b>	<b>23,999</b>
Gross Block	6,783	7,437	8,237	9,137
Less: Depreciation	3,491	3,802	4,452	5,152
<b>Net block</b>	<b>3,292</b>	<b>3,635</b>	<b>3,785</b>	<b>3,985</b>
Capital work in progress	518	122	1,000	2,800
<b>Investment</b>	<b>62</b>	<b>2,941</b>	<b>2,941</b>	<b>2,941</b>
<b>Current Assets</b>	<b>19,011</b>	<b>18,121</b>	<b>23,853</b>	<b>28,058</b>
Inventories	3,381	2,190	3,532	4,326
Sundry debtors	1,802	2,325	3,751	4,594
Cash & bank balance	12,318	11,707	13,506	15,385
Loans & advances	1,510	1,900	3,065	3,754
Other current assets	-	-	-	-
<b>Current lia &amp; Prov</b>	<b>5,032</b>	<b>6,978</b>	<b>11,255</b>	<b>13,785</b>
Current liabilities	4,193	6,016	9,704	11,884
Provisions	839	962	1,552	1,901
<b>Net current assets</b>	<b>13,979</b>	<b>11,144</b>	<b>12,598</b>	<b>14,273</b>
Misc. exp	-	-	-	-
<b>Total Assets</b>	<b>17,851</b>	<b>17,842</b>	<b>20,324</b>	<b>23,999</b>

## Key Ratios- Consolidated

Y/E, Mar	CY08(9M)	CY09	CY10E	CY11E
<b>Profitability (%)</b>				
EBITDA Margin	5.8	5.1	7.7	9.7
Net Margin	2.1	4.8	6.5	7.8
ROCE	5.3	11.7	21.7	27.4
ROE	2.3	8.9	16.5	20.1
RoIC	9.9	24.0	92.0	159.0
<b>Per Share Data (Rs)</b>				
EPS	6.2	36.1	70.9	99.8
CEPS	26.8	56.3	95.2	126.0
BVPS	392.9	400.5	457.3	536.1
DPS	5.0	7.0	14.1	20.9
<b>Valuations (x)</b>				
PER	204.0	34.9	17.8	12.6
P/CEPS	46.9	22.4	13.2	10.0
P/BV	3.2	3.1	2.8	2.3
EV / Sales	1.4	0.8	0.5	0.4
EV / EBITDA	24.7	15.4	6.3	3.7
Dividend Yield (%)	0.4	0.6	1.1	1.7
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	(1.0)	(1.0)	(1.0)	(1.0)
Net Debt/EBITDA	(10.6)	(7.0)	(3.6)	(2.7)
Working Cap Cycle (days)	21.0	(18.6)	(20.0)	(20.0)



**Direct Tax Code**  
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**Emkay Global Financial Services Ltd.**

2<sup>nd</sup> September, 2010

- The Finance Ministry submitted the new Direct Tax Code Bill to the Parliament on August 30, 2010, offering much lower benefits than in the original proposal. The new code would now be applicable from April 1, 2012, instead of April 1, 2011, as earlier proposed by the finance minister.
- Proposed bill which was supposed to be a simplified version, is in fact much bulkier with 319 sections and 22 schedules against 298 sections and 14 schedules in existing IT Act.
- While the original DTC proposed sweeping changes in the tax structure for individuals and corporates offering significant reduction in tax liability, the new bill is a watered down version with lesser benefits.
- The proposed dividend distribution tax of 5% for both equity mutual funds (MFs) and unit linked insurance policies (ULIPs) is negative.
- The long-term capital gains exemption on listed equities along with Securities transaction tax (STT) remains as it is. Short-term capital gains will be taxed at half the slab rate that is 5-10-15%, depending on individual tax slabs. This is positive for capital markets, as the original document proposed to eliminate distinction between the two and imposed tax on it as per individual tax slabs.
- The new bill has retained most of the exemptions for income from employment and business in contrast to earlier document, which proposed to do away with most of the exemptions.
- Tax benefit on the principal component of housing loans to discontinue, however benefit continues for the Interest repayment.

# Individual tax proposals

- The bill proposes to raise the exemption limit on Income Tax from the current Rs1.6 lakh to Rs2 lakh and seeks to widen tax slabs to levy 10% rate on income between Rs2-5lakh, 20% on Rs 5-10 lakh and 30% above Rs10 lakh. In the new DTC, women would cease to enjoy additional exemptions benefits. Only senior citizens will get extra relief with tax exemption upto income of Rs.2.5 lakhs
- Tax slabs narrowed from what was initially proposed....

Tax Rate	Current	Original DTC	Revised
Nil	Upto 1,60,000	Upto 1,60,000	Upto 2,00,000
For Women/Senior citizens	1,90,000/2,40,000	1,90,000/2,40,000	200,000/2,50,000
10%	1,60,000 – 5,00,00	1,60,000 – 10,00,000	2,00,000 – 5,00,000
20%	5,00,000 – 8,00,000	10,00,000 – 25,00,000	5,00,000 – 10,00,000
30%	> 8,00,000	> 25,00,000	> 10,00,000

- Individuals earning between Rs 2-5 lakh, 5-10, and above 10 per annum will get tax benefit of Rs 7,660, 21,540, 41,040 respectively under the new tax system. However, the benefits would have been much more had the government retained the tax slabs proposed in the original DTC proposed in August 2009.
- The bill has dropped the earlier proposals of taxing long term savings like GPF, PPF and EPF at the time of withdrawal under the EET (Exempt-Exempt-Tax) mode.
- The Expenditure of up to `50,000 on tuition fees of children, pure life insurance premium and health insurance payments will be exempt from tax.

# Corporate tax proposals

- The bill does away with surcharge and cess, reducing the effective tax rate from 33.2% earlier to 30%, however falls short of earlier proposal of 25% in the original document.
- Dividend distribution tax (DDT) stays at 15%
- MAT proposed at 20% of book profits as against present rate of 18% plus cess and surcharge. Moreover the carried forward credit for the MAT would now be available for 15 years as against no tax credit set off proposed in the earlier proposal.
- Special Economic Zones developers will continue to get current tax breaks for all the zones notified up to March 2012. For SEZ units, the existing tax breaks will continue to be available if they commence operations on or before 31st March 2014. However, both MAT and dividend distribution tax will now be applicable on SEZs developers and SEZ units.

Particulars	Income tax Act, 1961	Original DTC	Revised DTC
Domestic Company	33.22%	25%	30%
Foreign Company	42.23%	25%	30%
Branch Profit Tax	-	15%	15%
MAT	19.93% on Book Profits	0.25%-2% of Gross Assets	20% on Book Profits
Dividend distribution tax (DDT)	16.61%	15%	15%
Wealth Tax	1% on Net Wealth exceeding Rs3mn	0.25% on Net Wealth exceeding Rs500mn	1% on Net Wealth exceeding Rs 10mn

\* Tax rates including surcharge and cess

# Information Technology Conference

## Pre-conference notes

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**Venue : Trident, Nariman Point, Mumbai**

**Date : 7th & 8th September, 2010**

**Time : 9 AM – 6 PM**

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Quality small cap set for the big league

September 2, 2010

**ACCUMULATE**

Price	Target Price
Rs 550	Rs 465
Sensex	18,238

**Price Performance**

(%)	1M	3M	6M	12M
Absolute	21	61	78	125
Rel. to Sensex	20	52	66	96

Source: Bloomberg

**Stock Details**

Sector	IT Services
Reuters	ECLX.BO
Bloomberg	ECLX@IN
Equity Capital (Rs mn)	286
Face Value(Rs)	10
No of shares o/s (mn)	29
52 Week H/L	589/220
Market Cap (Rs bn/USD mn)	15/320
Daily Avg Volume (No of sh)	151773
Daily Avg Turnover (US\$m)	1.4

**Shareholding Pattern (%)**

	J'10	M'10	D'09
Promoters	59.8	60.0	60.0
FII/NRI	17.9	22.3	24.7
Institutions	11.2	7.8	5.0
Private Corp	2.8	2.0	1.9
Public	8.3	8.0	8.4

Source: Capitaline

- eClerx is a niche KPO having presence in scalable segments which position it strongly to derive benefits from growth in offshore data analytics space
- Credit needs to be given to the company for weathering the late CY08/early CY09 economic scare well and strengthening the senior team which is now paying dividends
- Remain positive on co's credible execution, high return ratios (RoE's at 40%+) despite assuming ~300 bps EBITDA dip and increase in cash/share to Rs 79 in FY12E( V/s Rs 39 at FY10 end)
- Retain ACCUMULATE however see near term upsides capped post a 60%+ move in the past 3 months

**eClerx- Emerging stronger from the FY09 scare**

eClerx weathered the late CY08/early CY09 economic scare extremely well , emerging unscathed and stronger from a period wherein it saw one of it's top 5 clients go bankrupt and another through a M&A. The fact that eClerx's services were retained by the acquirer is a testimony to the co's position. Further eClerx used the downturn to strengthen it's senior and middle management team which has helped **the co post a +ive sequential growth in every quarter except Dec'08 (when it saw loss of clients). eClerx posted impressive ~40%/30% US\$ revenue growth in FY09/10.**

**Expect 23%/33% EBITDA/ earnings CAGR over FY10-12**

We expect eClerx to post a 29% US\$ revenue CAGR over FY10-12E driving a 23%/33% EBITDA and net profit CAGR over FY10-12E( note that we build in ~300 bps decline in margins over FY10-12E, FY10 margins at 39.1%). **It's worthwhile to note that while we saw significant sequential decline in margins at other mid tier peers, eClerx reported flat margins QoQ helped by G&A leverage.**

**Strong Return ratios, superior return ratios**

We remain positive on eClerx driven by company's credible execution , strong return ratios (ROE's to remain at 40%+ despite assuming ~300 bps decline in margins over FY10-12E and increase in cash/share to Rs 79 by FY12E end V/s ~Rs 39 at FY10 end) and superior cash generation profile. eClerx currently trades at ~14x/12x FY11E/FY12E earnings of ~Rs37.7/Rs 43.7 respectively. However we see near term upsides capped on account of fair valuations and a 60%+ upmove over the past 3 months. **We see investor focus on (1) revenue growth( eClerx's revenue growth continues to be impressive over the past few quarters), (2) margin outlook( given the increasing supply side pressures facing other peers, although eClerx did a commendable job in Q1FY11) and (3) update on new deal wins**

**Valuation Snapshot**

(in Rs mn)

Yr end Mar	Net Sales	EBITDA	EBITDA %	PAT	EPS (Rs)	ROE %	P/E(x)	EV/EBITDA (x)	P/B (x)
FY09	1,973	837	42.4	621	21.0	43.4	27.7	20.2	10.8
FY10	2,570	1,004	39.1	736	24.9	41.6	24.4	16.8	9.5
FY11E	3,389	1,234	36.4	1,115	37.7	51.2	16.1	13.1	7.3
FY12E	4,204	1,507	35.8	1,294	43.7	45.9	13.9	10.9	5.7

## Key Financials

## Income Statement

Y/E, Mar (Rs. m)	FY09	FY10E	FY11E	FY12E
<b>Net Sales</b>	1,973	2,570	3,389	4,204
Growth (%)		30	32	24
<b>Total Expenditure</b>	(1,136)	(1,567)	(2,155)	(2,697)
Growth (%)		38	38	25
<b>EBIDTA</b>	837	1,004	1,234	1,507
Growth (%)		20	23	22
<b>EBIDTA %</b>	42.4	39.1	36.4	35.8
Other Income	(67)	(105)	125	135
Depreciation	(73)	(70)	(81)	(101)
<b>EBIT</b>	<b>697</b>	<b>828</b>	<b>1,279</b>	<b>1,540</b>
Interest	-	-	-	-
<b>EBT</b>	<b>697</b>	<b>828</b>	<b>1,279</b>	<b>1,540</b>
Tax	(76)	(93)	(164)	(246)
<b>EAT</b>	<b>621</b>	<b>736</b>	<b>1,115</b>	<b>1,294</b>
Growth (%)		19	52	16
EAT (%)	31.5	28.6	32.9	30.8

## Balance Sheet

Y/E, Mar (Rs. m)	FY09	FY10E	FY11E	FY12E
Equity share capital	190	288	288	288
Reserves & surplus	1,466	1,592	2,185	2,874
Minority Interest	-	-	-	-
<b>Networth</b>	<b>1,657</b>	<b>1,880</b>	<b>2,473</b>	<b>3,161</b>
Secured Loans	-	-	-	-
Unsecured Loans	-	-	-	-
<b>Loan Funds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities</b>	<b>1,657</b>	<b>1,880</b>	<b>2,473</b>	<b>3,161</b>
Goodwill	108	101	101	101
Gross Block	383	473	644	841
Less: Depreciation	(182)	(252)	(332)	(434)
<b>Net block</b>	<b>309</b>	<b>323</b>	<b>413</b>	<b>509</b>
<b>Capital WIP</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Investment</b>	<b>851</b>	<b>775</b>	<b>775</b>	<b>775</b>
<b>Current Assets</b>	<b>970</b>	<b>1,246</b>	<b>2,160</b>	<b>3,000</b>
Inventories	-	-	-	-
Sundry debtors	451	392	557	691
Cash & bank balance	213	353	953	1,479
Loans & advances	101	211	279	346
Other current assets	205	290	371	484
<b>Current Liab &amp; Prov</b>	<b>482</b>	<b>471</b>	<b>882</b>	<b>1,129</b>
Current liabilities	231	220	436	564
Provisions	251	251	446	564
<b>Net current assets</b>	<b>488</b>	<b>775</b>	<b>1,278</b>	<b>1,871</b>
<b>Misc exps</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Deferred Tax</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>
<b>Total Assets</b>	<b>1,657</b>	<b>1,874</b>	<b>2,473</b>	<b>3,161</b>

## Cash Flow

Y/E, Mar (Rs. m)	FY09	FY10E	FY11E	FY12E
Net Profit after Tax	621	736	1,115	1,294
Add : Depreciation	73	70	81	101
Add : Misc exp w/off	201			
<b>Net changes in WC</b>	<b>(401)</b>	<b>(93)</b>	<b>(97)</b>	<b>(185)</b>
<b>Operational Cash Flows</b>	<b>493</b>	<b>713</b>	<b>1,276</b>	<b>1,326</b>
<b>Capital expenditure</b>	<b>(121)</b>	<b>(82)</b>	<b>(171)</b>	<b>(197)</b>
Investments				
<b>Investing Cash Flows</b>	<b>(121)</b>	<b>(82)</b>	<b>(171)</b>	<b>(197)</b>
Borrowings	(40)	-	-	-
dividend paid	(277)	(513)	(522)	(605)
Issue of shares	(12)	76	0	1
Share Premium				
<b>Financing Cash Flows</b>	<b>(329)</b>	<b>(437)</b>	<b>(522)</b>	<b>(604)</b>
changes in cash	<b>44</b>	<b>194</b>	<b>583</b>	<b>524</b>
Opening balance	<b>224</b>	<b>213</b>	<b>353</b>	<b>953</b>
<b>Closing balance</b>	<b>213</b>	<b>353</b>	<b>953</b>	<b>1,479</b>

## Key Ratios

Y/E, Mar	FY09	FY10E	FY11E	FY12E
EPS (Rs)	21.0	24.9	37.7	43.7
CEPS (Rs)	24.3	27.2	40.4	47.1
Book Value Per Share (Rs)	56.0	63.5	83.6	106.8
Dividend Per Share (Rs)	8.0	14.8	15.1	17.5
<b>Valuations Ratios (x)</b>				
PER	27.7	24.4	16.1	13.9
P/CEPS	18.3	16.3	11.0	9.4
P/BV	10.8	9.5	7.3	5.7
EV/EBIDTA	20.2	16.8	13.1	10.9
EV/Sales	8.6	6.5	4.8	3.9
M-Cap/sales	9.1	7.0	5.3	4.3
<b>Profitability Ratios (%)</b>				
RoCE	45.8	46.3	45.7	42.3
RoNW	43.4	41.6	51.2	45.9
EBITDA Margin	42.4	39.1	36.4	35.8
EBIT Margins	38.7	36.3	34.0	33.4
Net Profit Margin	31.5	28.6	32.9	30.8



September 2, 2010

### NOT RATED

Price Rs 26	Target Price NA
Sensex	18,238

### Price Performance

(%)	1M	3M	6M	12M
Absolute	0	(2)	(10)	(24)
Rel. to Sensex	(1)	(10)	(17)	(36)

Source: Bloomberg

### Stock Details

Sector	IT Services
Reuters	FISO.BO
Bloomberg	FSOL@IN
Equity Capital (Rs mn)	4298
Face Value(Rs)	10
No of shares o/s (mn)	430
52 Week H/L	40/24
Market Cap (Rs bn/USD mn)	11/232
Daily Avg Volume (No of sh)	2372416
Daily Avg Turnover (US\$m)	1.4

### Shareholding Pattern (%)

	J'10	M'10	D'09
Promoters	21.4	21.4	21.4
FII/NRI	46.5	47.1	48.6
Institutions	4.1	5.0	5.0
Private Corp	9.6	9.6	9.8
Public	18.4	17.0	15.2

Source: Capitaline

- Firstsource, India's premier BPO player expects strong growth in H2FY11 driven by improved pipeline, ramp ups in Telecom(~37% of revenues) and Banking(~24% of revenues)
- US healthcare reforms should drive cost optimization initiatives in both the payor and the payee segment and are a medium term opportunity for the company
- Co sees stability in Asia Pac business emerging and expects to be EBIT +ive which should improve overall company wide margins.
- Valuations in line with mid tier IT services company at ~8x FY10 EV/EBITDA, 10.5xP/E. Key areas of focus-improvement in op performance and balance sheet deleveraging

### Firstsource expects a much stronger H2FY11

Firstsource expects a much stronger growth in H2FY11 driven by rampups in existing clients in the telecom(37% of revenues) and the financial services vertical(~24% of revenues) after a more sedate H1FY11. **Co expects to reap the benefits of the healthcare reforms adopted in US as it drives cost optimization initiatives across both the payor as well as the payee segments.**

### Margin improvement a key focus area

Firstsource's EBITDA margins in Q1FY11 were flat sequentially at 13.9% despite the adverse hit from wage increments, seasonality impact on the collections business and currency headwinds through improvement in operational efficiency. **Co's Asia Pacific business(~10% of revenues) has is already cash positive in Q1FY11 and the co expects it to be EBIT positive by FY11 end which should aid overall co wide margin expansion as well**

### Valuations in line with mid tier Indian techs, focus on balance sheet deleveraging

Firstsource is trading at par with Indian mid cap techs at ~8x FY10 EV/EBITDA,10.5xP/E (at a significant discount to much smaller US listed peers on P/E basis). We expect investor focus on **(1) improvement in operational performance, (2) signs of growth in revenues (co expects growth to resume only in H2FY11 after a more sedate H1FY11), (3) attrition trends (attrition already spiked up in Q1FY11) and further steps on balance sheet deleveraging with D/E at 1.2 x.**

### Valuation Snapshot

(in Rs mn)

Yr end Mar (in Rs mn)	Net Sales	EBITDA %	EBITDA %	PAT	EPS (Rs)	ROE %	P/E(x) (x)	EV/EBITDA (x)	P/B (x)
FY07	8,347	1,650	19.8	1,032	2.1	18.0	12.3	6.2	1.1
FY08	12,988	2,329	17.9	1,492	2.9	15.1	8.8	10.2	1.6
FY09	17,494	2,311	13.2	507	0.7	2.9	36.2	11.0	0.8
FY10	19,708	2,721	13.8	1,603	2.8	9.7	9.1	8.8	0.9

## Key Financials

## Income Statement

Y/E, Mar (Rs. m)	FY07	FY08	FY09	FY10
<b>Net Sales</b>	8,347	12,988	17,494	19,708
Growth (%)		56	35	13
<b>Total Expenditure</b>	(6,697)	(10,659)	(15,183)	(16,987)
Growth (%)		59	42	12
<b>EBIDTA</b>	1,650	2,329	2,311	2,721
Growth (%)		41	(1)	18
<b>EBIDTA %</b>	19.8	17.9	13.2	13.8
Other Income	24	24	(868)	(246)
Depreciation	(641)	(861)	(936)	(873)
<b>EBIT</b>	<b>1,032</b>	<b>1,492</b>	<b>507</b>	<b>1,603</b>
Interest				
<b>EBT</b>	<b>1,032</b>	<b>1,492</b>	<b>507</b>	<b>1,603</b>
Tax	(60)	(127)	(199)	(238)
<b>EAT</b>	<b>972</b>	<b>1,366</b>	<b>308</b>	<b>1,365</b>
Growth (%)		40	(77)	344
EAT (%)	11.6	10.5	1.8	6.9

## Cash Flow

Y/E, Mar (Rs. m)	FY07	FY08	FY09	FY10
Net Profit after Tax	972	1,366	308	1,365
Add : Depreciation	641	861	936	873
Add : Misc exp w/off	865	1,099	574	1,011
<b>Net changes in WC</b>	<b>(1,565)</b>	<b>(1,058)</b>	<b>(71)</b>	<b>(1,533)</b>
<b>Operational Cash Flows</b>	<b>914</b>	<b>2,268</b>	<b>1,748</b>	<b>1,716</b>
<b>Capital expenditure</b>	<b>(4,046)</b>	<b>(14,145)</b>	<b>(880)</b>	<b>(1,472)</b>
Investments	-	-	-	-
<b>Investing Cash Flows</b>	<b>(4,046)</b>	<b>(14,145)</b>	<b>(880)</b>	<b>(1,472)</b>
Borrowings	(4,694)	15,468	(9,304)	(496)
dividend paid	0	0	0	0
Issue of shares	10,666	(3,265)	6,394	446
Share Premium				
<b>Financing Cash Flows</b>	<b>5,971</b>	<b>12,203</b>	<b>(2,910)</b>	<b>(50)</b>
changes in cash	<b>2,839</b>	<b>(1985)</b>	<b>(58)</b>	<b>251</b>
Opening balance	<b>170</b>	<b>3010</b>	<b>1,025</b>	<b>967</b>
<b>Closing balance</b>	<b>3,010</b>	<b>1,025</b>	<b>967</b>	<b>1,218</b>

## Balance Sheet

Y/E, Mar (Rs. m)	FY07	FY08	FY09	FY10
Equity share capital	4,251	4,273	4,282	4,292
Reserves & surplus	6,415	3,127	9,512	9,952
Minority Interest	43	36	55	50
<b>Networth</b>	<b>10,709</b>	<b>7,437</b>	<b>13,849</b>	<b>14,293</b>
Secured Loans	712	597	1,856	2,787
Unsecured Loans	1,264	11,955	12,090	10,792
<b>Loan Funds</b>	<b>1,976</b>	<b>12,552</b>	<b>13,946</b>	<b>13,578</b>
<b>Total Liabilities</b>	<b>12,684</b>	<b>19,989</b>	<b>27,795</b>	<b>27,872</b>
Goodwill	5,419	18,880	22,876	20,726
Gross Block	3,891	5,340	6,348	6,433
Less: Depreciation	(2,171)	(3,204)	(4,157)	(4,675)
<b>Net block</b>	<b>7,139</b>	<b>21,017</b>	<b>25,066</b>	<b>22,484</b>
<b>Capital WIP</b>	<b>82</b>	<b>89</b>	<b>70</b>	<b>80</b>
<b>Investment</b>	<b>1,153</b>	<b>221</b>	<b>18</b>	<b>1,005</b>
<b>Current Assets</b>	<b>5,680</b>	<b>4,529</b>	<b>5,139</b>	<b>6,513</b>
Inventories	-	-	-	-
Sundry debtors	1,364	2,054	2,379	2,611
Cash & bank balance	3,010	1,025	967	1,218
Loans & advances	1,306	1,451	1,792	2,684
Other current assets	-	-	-	-
<b>Current Liab &amp; Prov</b>	<b>1,369</b>	<b>6,052</b>	<b>2,639</b>	<b>2,265</b>
Current liabilities	1,256	1,433	2,030	1,620
Provisions	113	4,619	610	645
<b>Net current assets</b>	<b>4,311</b>	<b>(1,523)</b>	<b>2,499</b>	<b>4,248</b>
<b>Misc exps</b>	<b>-</b>	<b>0</b>	<b>-</b>	<b>-</b>
<b>Deferred Tax</b>	<b>(1)</b>	<b>184</b>	<b>141</b>	<b>55</b>
<b>Total Assets</b>	<b>12,684</b>	<b>19,989</b>	<b>27,795</b>	<b>27,872</b>

## Key Ratios

Y/E, Mar	FY07	FY08	FY09	FY10
EPS (Rs)	2.1	2.9	0.7	2.8
CEPS (Rs)	3.5	4.8	2.9	4.7
Book Value Per Share (Rs)	23.2	16.1	32.3	29.8
Dividend Per Share (Rs)	-	-	-	-
<b>Valuations Ratios (x)</b>				
PER	12.3	8.8	36.2	9.1
P/CEPS	7.4	5.4	9.0	5.6
P/BV	1.1	1.6	0.8	0.9
EV/EBIDTA	6.2	10.2	11.0	8.8
EV/Sales	1.2	1.8	1.5	1.2
M-Cap/sales	1.5	1.0	0.7	0.6
<b>Profitability Ratios (%)</b>				
RoCE	15.6	7.9	5.2	6.5
RoNW	18.0	15.1	2.9	9.7
EBITDA Margin	19.8	17.9	13.2	13.8
EBIT Margins	12.1	11.3	7.9	9.4
Net Profit Margin	11.6	10.5	1.8	6.9

September 2, 2010

### NOT RATED

Price <b>Rs 160</b>	Target Price <b>N.A</b>
<b>Sensex</b>	<b>18,238</b>

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(8)	(5)	(19)	N.A
Rel. to Sensex	(9)	(13)	(26)	N.A

Source: Bloomberg

### Stock Details

Sector	IT Services
Reuters	INFI.BO
Bloomberg	ICSL@IN
Equity Capital (Rs mn)	440
Face Value(Rs)	10
No of shares o/s (mn)	44
52 Week H/L	223/153
Market Cap (Rs bn/USD mn)	7/150
Daily Avg Volume (No of sh)	103306
Daily Avg Turnover (US\$m)	0.4

### Shareholding Pattern (%)

	J'10	M'10	D'09
Promoters	63.8	63.8	63.8
FII/NRI	19.7	20.1	12.1
Institutions	4.3	4.1	5.3
Private Corp	2.1	1.9	2.7
Public	10.1	10.1	16.2

Source: Capitaline

- Infinite has seen a significant pick up in financial performance as it has seen revenue/EBITDA/profit CAGR of 22%/95%/97% over FY07-10.
- Mgns have expanded ~1300 bps over FY07-10 driven by increased cont from new services (44% rev CAGR over FY07-10 V/s 14% for ADM) and higher fixed bid/IP led engagements
- Co's FY11 rev guidance of US\$ 190-195 mn (+35-38% YoY)/profits of Rs 990-1040 mn translates to a 6.3-8.1% rev CQGR/1-4.3% CQGR over Q2-Q4FY11
- Inexpensive valuations with co trading at <7x FY11E earnings and ROE's of ~35%.

### Infinite- Significant pickup in financial profile

Infinite has seen a significant pick up in operational profile as it has transitioned itself from being a 'me too primarily onsite centric staff augmentation' player to becoming a 'partner of choice' through aggressive investments in (1) new service lines-namely Remote Infrastructure Management, Testing and IP Led product development (**revenues from new service lines has grown at a 44% CAGR over FY07-10 V/s ~14% for ADM services and now account for ~40% of revenues**) and (2) new engagement models (**read fixed bid, revenue sharing**) as company's share of revenues through fixed bid, revenues share has increased to ~50% (V/s ~21% in FY07).

The above mentioned steps have helped Infinite report a significant pick up in financial performance with a revenue/EBITDA/net profit CAGR of 22%/95%/97% over FY07-10 driven by ~1300 bps expansion in operating margins to 17.2% in FY10.

### Company remains confident on achieving aggressive FY11 guidance

**Infinite remains confident of achieving it's aggressive FY11 guidance of revenues of US\$ 190-195 mn (+35-38% YoY) and profits of Rs 990-1,040 mn(+24-30%) which translates to a 6.3-8.1% revenue CQGR and a 1-4.3% profit CQGR over Q2-Q4FY11.** Co expects continued growth within it's top 10 clients with significant revenue ramp ups in Fujitsu and Motorola (co expects revenues of ~US\$ 20 mn during FY11 from the client with revenues reaching ~US\$ 40 mn p.a from from FY12E under a 10 yr revenue sharing arrangement wherein Infinite would be provident support and development for Motorola's SMS and MMS solutions)

### Inexpensive valuations amongst mid tier techs

Infinite is trading at <7x FY11E earnings (co.guidance of Rs 22.5-Rs 23.6) as compared to other mid tier peers trading at ~8x-14x which appear inexpensive despite the higher dependence on a single vertical ( telecom and media a/c for ~60% of revenues). **We expect investor focus on (1) sustainability of revenue growth rates, and (2) supply side pressures( akin to issues facing other mid tier techs)**

### Valuation Snapshot

(in Rs mn)

Yr end Mar (in Rs mn)	Net Sales	EBITDA	EBITDA %	PAT	EPS (Rs)	ROE %	P/E(x)	EV/EBITDA (x)	P/B (x)
FY07	3,477	151	4.3	131	2.3	14.2	69.4	45.7	7.4
FY08	3,401	250	7.4	229	4.0	16.7	40.2	28.3	6.2
FY09	4,894	580	11.9	594	10.2	33.9	15.6	12.1	4.6
FY10	6,646	1,143	17.2	1,047	18.2	35.4	8.3	5.4	2.2

## Key Financials

## Income Statement

Y/E, Mar (Rs. m)	FY07	FY08	FY09	FY10
<b>Net Sales</b>	3,477	3,401	4,894	6,646
Growth (%)		(2)	44	36
<b>Total Expenditure</b>	(3,326)	(3,151)	(4,314)	(5,504)
Growth (%)		(5)	37	28
<b>EBIDTA</b>	151	250	580	1,143
Growth (%)		65	132	97
<b>EBIDTA %</b>	4.3	7.4	11.9	17.2
Other Income	12	14	64	(29)
Depreciation	32	35	50	67
<b>EBIT</b>	<b>131</b>	<b>229</b>	<b>594</b>	<b>1,047</b>
Interest	5	18	19	22
<b>EBT</b>	<b>126</b>	<b>210</b>	<b>576</b>	<b>1,025</b>
Tax	25	35	125	226
<b>EAT</b>	<b>102</b>	<b>175</b>	<b>451</b>	<b>800</b>
Growth (%)		72	158	77
EAT (%)	2.9	5.1	9.2	12.0

## Cash Flow

Y/E, Mar (Rs. m)	FY07	FY08	FY09	FY10
Net Profit after Tax	102	175	451	800
Add : Depreciation	32	35	50	67
Add : Misc exp w/off	-	-	-	-
<b>Net changes in WC</b>	<b>(30)</b>	<b>89</b>	<b>(448)</b>	<b>(417)</b>
<b>Operational Cash Flows</b>	<b>104</b>	<b>299</b>	<b>53</b>	<b>449</b>
<b>Capital expenditure</b>	<b>(54)</b>	<b>(508)</b>	<b>(60)</b>	<b>(647)</b>
Investments	-	-	-	(764)
<b>Investing Cash Flows</b>	<b>(54)</b>	<b>(508)</b>	<b>(60)</b>	<b>(1,411)</b>
Borrowings	66	123	17	321
dividend paid	-	-	-	-
Issue of shares	11	43	83	947
Share Premium				
<b>Financing Cash Flows</b>	<b>78</b>	<b>166</b>	<b>100</b>	<b>1,268</b>
changes in cash	<b>128</b>	<b>(43)</b>	<b>93</b>	<b>305</b>
Opening balance	<b>65</b>	<b>193</b>	<b>150</b>	<b>243</b>
<b>Closing balance</b>	<b>193</b>	<b>150</b>	<b>243</b>	<b>548</b>

## Balance Sheet

Y/E, Mar (Rs. m)	FY07	FY08	FY09	FY10
Equity share capital	380	381	382	440
Reserves & surplus	572	757	1,141	2,830
Minority Interest	-	-	-	-
<b>Networth</b>	<b>952</b>	<b>1,138</b>	<b>1,523</b>	<b>3,269</b>
Secured Loans	67	190	207	161
Unsecured Loans	0	-	-	316
<b>Loan Funds</b>	<b>67</b>	<b>190</b>	<b>207</b>	<b>477</b>
<b>Total Liabilities</b>	<b>1,019</b>	<b>1,328</b>	<b>1,730</b>	<b>3,746</b>
Goodwill	3	415	410	546
Gross Block	444	578	743	1,133
Less: Depreciation	(96)	(198)	(258)	(320)
<b>Net block</b>	<b>351</b>	<b>795</b>	<b>895</b>	<b>1,359</b>
<b>Capital WIP</b>	<b>61</b>	<b>90</b>	-	<b>117</b>
<b>Investment</b>	-	-	-	<b>764</b>
<b>Current Assets</b>	<b>1,707</b>	<b>1,886</b>	<b>3,116</b>	<b>4,165</b>
Inventories	-	-	-	-
Sundry debtors	1,219	1,488	2,469	2,194
Cash & bank balance	193	150	243	548
Loans & advances	173	202	276	500
Other current assets	122	45	128	922
<b>Current Liab &amp; Prov</b>	<b>1,136</b>	<b>1,495</b>	<b>2,346</b>	<b>2,731</b>
Current liabilities	1,130	1,440	2,130	2,403
Provisions	6	55	216	328
<b>Net current assets</b>	<b>571</b>	<b>391</b>	<b>770</b>	<b>1,434</b>
<b>Misc exps</b>	<b>0</b>	<b>0</b>	-	-
<b>Deferred Tax</b>	<b>37</b>	<b>51</b>	<b>64</b>	<b>72</b>
<b>Total Assets</b>	<b>1,019</b>	<b>1,328</b>	<b>1,730</b>	<b>3,746</b>

## Key Ratios

Y/E, Mar	FY07	FY08	FY09	FY10
EPS (Rs)	2.3	4.0	10.2	18.2
CEPS (Rs)	3.0	4.8	11.4	20.8
Book Value Per Share (Rs)	21.6	25.9	34.6	74.3
Dividend Per Share (Rs)	-	-	-	-
<b>Valuations Ratios (x)</b>				
PER	69.4	40.2	15.6	8.3
P/CEPS	52.8	33.5	14.1	7.7
P/BV	7.4	6.2	4.6	2.2
EV/EBIDTA	45.7	28.3	12.1	5.4
EV/Sales	2.0	2.1	1.4	0.9
M-Cap/sales	2.0	2.1	1.4	1.1
<b>Profitability Ratios (%)</b>				
RoCE	17.4	17.9	31.5	35.2
RoNW	14.2	16.7	33.9	35.4
EBITDA Margin	4.3	7.4	11.9	17.2
EBIT Margins	3.8	6.3	10.8	16.2
Net Profit Margin	2.9	5.1	9.2	12.0

## Decent mid tier play, positive outlook

September 2, 2010

### NOT RATED

Price <b>Rs 180</b>	Target Price <b>N.A</b>
<b>Sensex</b>	<b>18,238</b>

#### Price Performance

(%)	1M	3M	6M	12M
Absolute	(1)	3	2	44
Rel. to Sensex	(1)	(6)	(5)	23

Source: Bloomberg

#### Stock Details

Sector	IT Services
Reuters	NITT.BO
Bloomberg	NITEC@IN
Equity Capital (Rs mn)	589
Face Value(Rs)	10
No of shares o/s (mn)	59
52 Week H/L	204/113
Market Cap (Rs bn/USD mn)	11/235
Daily Avg Volume (No of sh)	192557
Daily Avg Turnover (US\$m)	0.8

#### Shareholding Pattern (%)

	J'10	M'10	D'09
Promoters	39.6	39.6	39.6
FII/NRI	20.8	19.6	16.9
Institutions	9.8	9.8	10.4
Private Corp	8.5	9.1	10.8
Public	21.4	21.9	22.3

Source: Capitaline

- NIIT Tech, a mid tier tech svcs company is focused on Insurance, transportation verticals primarily and derives equal proportion of business from US, Europe and AsiaPac
- Co has renewed focused on domestic business with co winning a US\$ 50 mn order from BSF recently. Sees strong demand, expects quarterly net add of ~200 over next 3-4 qtrs
- Hangover from forex losses to recede as old hedges set to expire by FY11 end
- Stock trading at inexpensive valuations of ~6.6x FY11E/7x FY12E earnings of Rs 27.4/Rs 26 respectively.

#### NIIT Tech- A steady ship, looks to address growth challenges

NIIT Tech is a mid tier IT services company focusing primarily on BFSI (~42% of revenues), Transportation (~30% of revenues) and Manufacturing & Retail verticals (~10% of revenues) as well as derives an equal proportion of revenues across US, Europe And Asia Pac. Co has renewed focus on the domestic business and recently secured a US\$ 50 mn order from BSF which should boost revenues during FY11.

**Revenue growth at NIIT Tech continues to be more modest (as compared to other peers) however due credit needs to be given to the company management for maintaining its margin profile in a narrow range (18-21%) over the past 5 yrs** wherein it has seen currency vagaries, significant forex losses (**note that NIIT Tech has booked hedging losses of ~Rs 540 mn/Rs 561 mn in FY09/FY10 in the revenue line on a/c of co's large hedge position booked at <Rs 42\$**). We also highlight that NIIT Tech's margins in Q1FY11 were also down by ~40 bps QoQ (*adjusted for H/w revenues from the BSF contract despite partial implementation of wage increments as compared to a much larger impact from salary hikes at other mid tier peers*)

#### Near term outlook positive

NIIT Tech remains confident of growth prospects picking up as company sees no concerns around volume growth from Europe (~35% of revenues, though currency impacting realizations here) as well as decent pipeline from US and Asia Pac. **Further co's executable order book position is up by ~50% YoY to US\$ 149 mn further validated by co's hiring outlook of ~200/qtr for FY11.**

#### Stock trading at inexpensive valuations

NIIT Tech is trading at ~6.6x/7x FY11E/FY12E earnings of Rs 27.5/Rs 26 respectively which appear attractive in our view and expect stock to deliver positive returns as the hangover from hedging losses subside (*note that co's forex hedge position is down to US\$ 73 mn at Q1FY11 end V/s US\$ 236 mn in March'08 which would expire completely by FY11 end*)

#### Valuation Snapshot

(in Rs mn)

Year end Mar.	Net Sales	EBITDA	EBITDA %	PAT	EPS (Rs)	ROE %	P/E (x)	EV/ EBITDA (x)	P/B (x)
FY07	8,859	1,803	20.4	1,292	22.7	40.2	7.8	5.2	2.7
FY08	9,416	1,763	18.7	1,353	23.3	33.0	7.6	5.8	2.4
FY09	9,800	1,765	18.0	1,148	19.8	27.8	9.0	5.1	2.7
FY10	9,138	1,889	20.7	1,263	21.7	26.2	8.2	4.6	1.8

## Key Financials

## Income Statement

Y/E, Mar (Rs. m)	FY07	FY08	FY09	FY10
<b>Net Sales</b>	8,859	9,416	9,800	9,138
Growth (%)		6	4	(7)
<b>Total Expenditure</b>	(7,056)	(7,653)	(8,035)	(7,249)
Growth (%)		8	5	(10)
<b>EBIDTA</b>	1,803	1,763	1,765	1,889
Growth (%)		(2)	0	7
<b>EBIDTA %</b>	20.4	18.7	18.0	20.7
Other Income	148	135	47	(109)
Depreciation	(435)	(389)	(423)	(360)
<b>EBIT</b>	<b>1,516</b>	<b>1,509</b>	<b>1,389</b>	<b>1,420</b>
Interest				
<b>EBT</b>	<b>1,516</b>	<b>1,509</b>	<b>1,389</b>	<b>1,420</b>
Tax	(186)	(137)	(225)	(144)
<b>EAT</b>	<b>1,292</b>	<b>1,353</b>	<b>1,148</b>	<b>1,263</b>
Growth (%)		5	(15)	10
<b>EAT (%)</b>	<b>14.6</b>	<b>14.4</b>	<b>11.7</b>	<b>13.8</b>

## Balance Sheet

Y/E, Mar (Rs. m)	FY07	FY08	FY09	FY10
Equity share capital	585	589	589	588
Reserves & surplus	3,113	3,699	3,287	5,210
Minority Interest	149	49	22	28
<b>Networth</b>	<b>3,847</b>	<b>4,463</b>	<b>3,898</b>	<b>5,826</b>
Secured Loans	793	623	334	217
Unsecured Loans	-	23	13	-
<b>Loan Funds</b>	<b>793</b>	<b>646</b>	<b>348</b>	<b>217</b>
<b>Total Liabilities</b>	<b>4,640</b>	<b>5,109</b>	<b>4,246</b>	<b>6,043</b>
Goodwill	-			
Gross Block	3,709	4,359	4,737	4,845
Less: Depreciation	2,216	2,499	2,632	2,992
<b>Net block</b>	<b>1,493</b>	<b>1,859</b>	<b>2,105</b>	<b>1,853</b>
<b>Capital WIP</b>	<b>37</b>	<b>518</b>	<b>1,052</b>	<b>1,287</b>
<b>Investment</b>	<b>649</b>	<b>1,311</b>	<b>0</b>	<b>0</b>
<b>Current Assets</b>	<b>4,195</b>	<b>3,648</b>	<b>4,606</b>	<b>4,996</b>
Inventories	6	6	11	-
Sundry debtors	1,856	2,178	1,935	1,851
Cash & bank balance	1,739	660	1,585	1,895
Loans & advances	422	710	904	-
Other current assets	172	93	171	1,250
<b>Current Liab &amp; Prov</b>	<b>1,808</b>	<b>2,295</b>	<b>3,952</b>	<b>2,200</b>
Current liabilities	1,446	1,566	3,257	2,200
Provisions	362	729	695	-
<b>Net current assets</b>	<b>2,387</b>	<b>1,353</b>	<b>654</b>	<b>2,796</b>
<b>Misc exps</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>-</b>
<b>Deferred Tax</b>	<b>73</b>	<b>67</b>	<b>435</b>	<b>107</b>
<b>Total Assets</b>	<b>4,640</b>	<b>5,109</b>	<b>4,246</b>	<b>6,043</b>

Cash Flow	FY07	FY08	FY09	FY10
Net Profit after Tax	1,292	1,353	1,148	1,263
Add : Depreciation	435	389	423	360
Add : Misc exp w/off	(0)	(0)	-	-
<b>Net changes in WC</b>	<b>60</b>	<b>(277)</b>	<b>1,704</b>	<b>(1,246)</b>
<b>Operational Cash Flows</b>	<b>1,787</b>	<b>1,465</b>	<b>3,275</b>	<b>377</b>
<b>Capital expenditure</b>	<b>(1,016)</b>	<b>(1,236)</b>	<b>(1,203)</b>	<b>(343)</b>
Investments	-	(662)	1,311	-
<b>Investing Cash Flows</b>	<b>(1,016)</b>	<b>(1,898)</b>	<b>108</b>	<b>(343)</b>
<b>Borrowings</b>	<b>373</b>	<b>(147)</b>	<b>(298)</b>	<b>(131)</b>
dividend paid	(297)	(446)	(446)	(482)
Issue of shares	(847)	(52)	(1,715)	888
Share Premium	-	-	-	-
<b>Financing Cash Flows</b>	<b>(771)</b>	<b>(646)</b>	<b>(2,459)</b>	<b>275</b>
changes in cash	<b>(0)</b>	<b>(1,079)</b>	<b>924</b>	<b>310</b>
Opening balance	<b>1,739</b>	<b>1,739</b>	<b>660</b>	<b>1,585</b>
<b>Closing balance</b>	<b>1,739</b>	<b>660</b>	<b>1,585</b>	<b>1,895</b>

Key ratios	FY07	FY08	FY09	FY10
EPS (Rs)	22.7	23.3	19.8	21.7
CEPS (Rs)	30.2	29.9	26.9	27.8
Book Value Per Share (Rs)	65.8	75.7	66.2	99.1
Dividend Per Share (Rs)	4.3	6.5	6.5	7.0
<b>Valuations Ratios (x)</b>				
PER	7.8	7.6	9.0	8.2
P/CEPS	6.0	6.0	6.7	6.5
P/BV	2.7	2.4	2.7	1.8
EV/EBIDTA	5.2	5.8	5.1	4.6
EV/Sales	1.1	1.1	0.9	0.9
M-Cap/sales	1.2	1.1	1.1	1.2
<b>Profitability Ratios (%)</b>				
RoCE	32.2	25.4	24.9	27.8
RoNW	40.2	33.0	27.8	26.2
EBITDA Margin	20.4	18.7	18.0	20.7
EBIT Margins	15.4	14.6	13.7	16.7
Net Profit Margin	14.6	14.6	11.9	14.0

September 2, 2010

### NOT RATED

Price Rs 128	Target Price N.A
Sensex	18,238

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(6)	(4)	(2)	9
Rel. to Sensex	(6)	(12)	(8)	(7)

Source: Bloomberg

### Stock Details

Sector	IT Services
Reuters	NSEL.BO
Bloomberg	NCS@IN
Equity Capital (Rs mn)	324
Face Value(Rs)	10
No of shares o/s (mn)	32
52 Week H/L	178/99
Market Cap (Rs bn/USD mn)	4/85
Daily Avg Volume (No of sh)	164337
Daily Avg Turnover (US\$m)	0.5

### Shareholding Pattern (%)

	J'10	M'10	D'09
Promoters	59.5	59.6	59.6
FII/NRI	10.1	9.6	10.1
Institutions	7.4	6.7	5.3
Private Corp	3.8	3.6	4.5
Public	19.2	21.9	22.3

Source: Capitaline

- After a disappointing FY10 and a weak Q1FY11, Nucleus expects to see improvement ahead driven by pickup in product revenues
- Co sees greater traction for products ahead helped both by macro recovery and higher investments in sales also vindicated by the highest product order wins since Dec'07 qtr
- Co's overall order book stands at Rs 1901 mn (+15% QoQ) helped by increase in product wins( product order book up ~34% QoQ to Rs 1568 mn
- Valuations remain attractive at ~11x FY10EPS, <5x FY10 EV/EBITDA for a clean balance sheet (cash at ~Rs 55/share) and upcoming revival in financial fortunes

### Nucleus Software- Revival in fortunes ahead

After a disappointing FY10 (co wide revenues down by ~11% driven by a 21% decline in product revenues) and a weak Q1FY11 (revenues down by ~8.5% QoQ, EBITDA margins slipping by ~1200 bps QoQ on a/c of lower revenues, salary increases, substantial investments in sales and marketing and one off bump up in G&A costs), Nucleus looks forward to a revival in fortunes propelled by a macro recovery and an uptick in product business. **Co has won 15 new product orders during Q1FY11 (V/s 34 for FY10 put together) which includes a significant win from a top 10 European bank for Cash Management Solution.**

### Significant pick up in order book

Nucleus's overall order book at June'10 end stood at Rs 1901 mn (+16% QoQ) propelled by ~34% sequential increase in product order book to Rs 1568 mn. **We note that Nucleus has won product orders worth Rs 828 mn during June'10 quarter, which is the highest ever since Dec'07 levels.** Co expects revival in fortunes helped by pickup in products business from macro revival as well as increased sales and marketing efforts (co has continued to make investments in sales and marketing build up with June'10 end S&M staff end at 104 V/s 70 at Dec'09)

### Attractive valuations, clean balance sheet

Nucleus Software went through difficult times through H2FY09/FY10 driven by order cancellations within existing clients, extended decision making cycles. At CMP of Rs 130, Nucleus Software is trading at ~11x FY10 earnings, <5x FY10 EV/EBITDA and 1.5x FY10 P/B for a clean balance sheet (net cash at ~Rs 55/share) which in our view are attractive given the upcoming revival in financial fortunes driven by uptick in product revenues helped both by the macro recovery and increased sales and marketing efforts. **We expect investor focus on (1) order pipeline( co has bagged a Cash management solution deal from a European top 10 bank in Q1FY11 itself), (2) any inorganic moves( given significant cash lying with the company**

### Valuation Snapshot

(in Rs mn)

Year end March	Net Sales	EBITDA	EBITDA %	PAT	EPS (Rs)	ROE %	P/E (x)	EV/EBITDA (x)	P/B (x)
FY07	2,212	632	28.6	573	16.7	39.1	7.8	5.3	2.6
FY08	2,887	722	25.0	645	18.9	32.3	6.9	4.4	2.0
FY09	3,284	496	15.1	349	9.9	14.1	13.1	6.2	1.8
FY10	2,920	540	18.5	439	11.8	15.0	11.0	4.9	1.6

## Key Financials

## Income Statement

Y/E, Mar (Rs. m)	FY07	FY08	FY09	FY10
<b>Net Sales</b>	2,212	2,887	3,284	2,920
Growth (%)		31	14	(11)
<b>Total Expenditure</b>	(1,579)	(2,165)	(2,788)	(2,380)
Growth (%)		37	29	(15)
<b>EBIDTA</b>	632	722	496	540
Growth (%)		14	(31)	9
<b>EBIDTA %</b>	28.6	25.0	15.1	18.5
Other Income	56	83	58	16
Depreciation	(116)	(160)	(205)	(118)
<b>EBIT</b>	<b>573</b>	<b>645</b>	<b>349</b>	<b>439</b>
Interest	-	-	-	-
<b>EBT</b>	<b>573</b>	<b>645</b>	<b>349</b>	<b>439</b>
Tax	(22)	(27)	(26)	(55)
<b>EAT</b>	<b>551</b>	<b>617</b>	<b>323</b>	<b>384</b>
Growth (%)		12	(48)	19
<b>EAT (%)</b>	<b>24.9</b>	<b>21.4</b>	<b>9.8</b>	<b>13.1</b>

## Balance Sheet

Y/E, Mar (Rs. m)	FY07	FY08	FY09	FY10
Equity share capital	162	324	324	324
Reserves & surplus	1,498	1,836	2,085	2,390
Minority Interest	-	-	-	-
<b>Networth</b>	<b>1,660</b>	<b>2,160</b>	<b>2,409</b>	<b>2,714</b>
Secured Loans	-	-	-	-
Unsecured Loans	-	-	-	-
<b>Loan Funds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities</b>	<b>1,660</b>	<b>2,160</b>	<b>2,409</b>	<b>2,714</b>
Goodwill	-	-	-	-
Gross Block	685	950	1,120	1,126
Less: Depreciation	(266)	(379)	(481)	(584)
<b>Net block</b>	<b>420</b>	<b>571</b>	<b>639</b>	<b>542</b>
<b>Capital WIP</b>	<b>131</b>	<b>20</b>	<b>3</b>	<b>5</b>
<b>Investment</b>	<b>690</b>	<b>906</b>	<b>163</b>	<b>959</b>
<b>Current Assets</b>	<b>1,097</b>	<b>1,351</b>	<b>2,384</b>	<b>1,847</b>
Inventories				
Sundry debtors	553	678	801	577
Cash & bank balance	268	175	1,061	667
Loans & advances	95	167	228	293
Other current assets	182	332	294	310
<b>Current Liab &amp; Prov</b>	<b>676</b>	<b>689</b>	<b>795</b>	<b>670</b>
Current liabilities	625	487	601	466
Provisions	51	202	195	204
<b>Net current assets</b>	<b>421</b>	<b>663</b>	<b>1,589</b>	<b>1,178</b>
<b>Misc exps</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Deferred Tax</b>	<b>(3)</b>	<b>0</b>	<b>15</b>	<b>30</b>
<b>Total Assets</b>	<b>1,660</b>	<b>2,160</b>	<b>2,409</b>	<b>2,714</b>

Cash Flow	FY07	FY08	FY09	FY10
Net Profit after Tax	551	617	323	384
Add : Depreciation	116	160	205	118
Add : Misc exp w/off	-	-	-	-
<b>Net changes in WC</b>	<b>(205)</b>	<b>(565)</b>	<b>(113)</b>	<b>9</b>
<b>Operational Cash Flows</b>	<b>461</b>	<b>212</b>	<b>415</b>	<b>510</b>
<b>Capital expenditure</b>	<b>(329)</b>	<b>(201)</b>	<b>(256)</b>	<b>(23)</b>
Investments	(76)	(216)	743	(796)
<b>Investing Cash Flows</b>	<b>(406)</b>	<b>(416)</b>	<b>487</b>	<b>(819)</b>
Borrowings	-	-	-	-
dividend paid	(53)	(51)	(15)	(83)
Issue of shares	6	161	(1)	(3)
Share Premium				
<b>Financing Cash Flows</b>	<b>(47)</b>	<b>111</b>	<b>(15)</b>	<b>(85)</b>
changes in cash	<b>8</b>	<b>(94)</b>	<b>886</b>	<b>(394)</b>
Opening balance	<b>301</b>	<b>268</b>	<b>175</b>	<b>1,061</b>
<b>Closing balance</b>	<b>268</b>	<b>175</b>	<b>1,061</b>	<b>667</b>

Key ratios	FY07	FY08	FY09	FY10
EPS (Rs)	16.7	18.9	9.9	11.8
CEPS (Rs)	20.2	23.8	16.2	15.4
Book Value Per Share (Rs)	50.3	66.2	73.9	83.2
Dividend Per Share (Rs)	1.7	3.0	2.5	1.7
<b>Valuations Ratios (x)</b>				
PER	7.8	6.9	13.1	11.0
P/CEPS	6.4	5.5	8.0	8.5
P/BV	2.6	2.0	1.8	1.6
EV/EBIDTA	5.3	4.4	6.2	4.9
EV/Sales	1.5	1.1	0.9	0.9
M-Cap/sales	1.9	1.5	1.3	1.5
<b>Profitability Ratios (%)</b>				
RoCE	34.9	27.5	11.7	15.3
RoNW	39.1	32.3	14.1	15.0
EBITDA Margin	28.6	25.0	15.1	18.5
EBIT Margins	23.4	19.5	8.9	14.5
Net Profit Margin	24.9	21.4	9.8	13.1



September 2, 2010

## ACCUM

Price	Target Price
Rs 460	NA
Sensex	18,238

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(1)	(15)	(6)	11
Rel. to Sensex	(2)	(23)	(12)	(6)

Source: Bloomberg

### Stock Details

Sector	IT Services
Reuters	PTNI.BO
Bloomberg	PATNI@IN
Equity Capital (Rs mn)	262
Face Value(Rs)	2
No of shares o/s (mn)	131
52 Week H/L	552/346
Market Cap (Rs bn/USD mn)	60/1,281
Daily Avg Volume (No of sh)	1250095
Daily Avg Turnover (US\$m)	13.8

### Shareholding Pattern (%)

	J'10	M'10	D'09
Promoters	46.3	46.5	46.5
FII/NRI	43.3	43.6	42.6
Institutions	6.5	7.0	7.0
Private Corp	1.8	1.0	1.2
Public	2.2	2.1	2.6

Source: Capitaline

## Fair Valuations, stake sale remains upside risk

- Patni has made significant investments in strengthening in senior/middle management over the past 6 quarters however revenue growth continues to trail other mid tier peers
- Patni's margin show has been extremely credible with margins resilient despite lower revenue growth, currency swings (infact expanded by ~500 bps from June'08 levels)
- Stake Sale buzz by promoter's continues to hurt business prospects, high employee churn akin to CY07
- Valuations are reasonable at ~11.5x/11x CY11E/CY12E earnings of Rs 39.9/40.6 respectively with the potential stake sale by promoters being a key upside trigger

### Patni-Improvement in revenue growth continues to be 'WIP'

Patni's struggle at achieving industry level revenue growth continues after exhibiting a 3-4% QoQ growth during Q2CY09/Q3CY09. **We note that revenue growth at Patni has continued to disappoint especially in an environment wherein Tier 1's as well as other mid tier peers have already started seeing revenue growth momentum build up.** Per discussions with the top management, we contend that improvement in client mining still remains 'work in progress' despite significant investments in senior management over the past 6 quarters and co doesn't expect to revert to a sustainable 3-4% QoQ growth rate before 2-3 quarters (albeit for a acquisition led 5-6% QoQ growth that we expect for Sep'10)

### Credible cost containment until now, however see margin pressures ahead

With due credit to the Patni top management, operating margins have been more resilient and consistent as they have improved by ~500 bps from June'08 levels despite the pressure on revenue growth, currency swings. However **we see several margin headwinds ahead emanating from (1) another round of wage increments (as co attempts to address attrition, not attrition in the 3-5 yr experience band at ~30%, (2) upfront investments in transition and platform redevelopment on some of the recent deal wins and IP buyouts.**

### Reasonable Valuations, stake sale remains an upside risk

Patni is currently trading at ~11.5x/11x CY11E/CY12E earnings of Rs 39.9/Rs 40.6 respectively which are fair in our view given Patni's struggle at revenue growth as well as the upcoming margin headwinds. Co recently announced a special dividend of Rs 63 /share. However a potential stake sale by promoters (as has been speculated by media over the past 2-3 quarters) remains an upside risk to our call. **We expect investor focus on (1) pick up in revenue growth, (2) margin outlook ( given increasing supply side headwinds) and (3) ramp ups on large deals.**

### Valuation Snapshot

(in Rs mn)

Year end Dec	Net Sales	EBITDA	EBITDA %	PAT	EPS (Rs)	ROE %	P/E (x)	EV/ EBITDA (x)	P/B (x)
FY10	31,620	6,442	20.4	5,723	43.6	18.3	11.7	6.9	1.9
FY11E	32,181	6,542	20.3	5,424	40.7	17.3	12.6	7.8	2.4
FY12E	37,300	7,458	20.0	5,317	39.9	17.6	12.8	6.2	2.1
FY13E	41,393	7,713	18.6	5,414	40.6	15.7	12.6	5.5	1.9

## Key Financials

## Income Statement

Y/E, Mar (Rs. m)	CY09	CY10E	CY11E	CY12E
<b>Net Sales</b>	31,620	32,181	37,300	41,393
Growth (%)		2	16	11
<b>Total Expenditure</b>	(25,178)	(25,640)	(29,843)	(33,680)
Growth (%)		2	16	13
<b>EBIDTA</b>	6,442	6,542	7,458	7,713
Growth (%)		2	14	3
<b>EBIDTA %</b>	20.4	20.3	20.0	18.6
Other Income	970	796	735	998
Depreciation	(1,169)	(1,222)	(1,322)	(1,395)
<b>EBIT</b>	<b>6,243</b>	<b>6,116</b>	<b>6,871</b>	<b>7,316</b>
Interest	-	-	-	-
<b>EBT</b>	<b>6,795</b>	<b>6,620</b>	<b>7,009</b>	<b>7,316</b>
Tax	(1,072)	(1,196)	(1,692)	(1,902)
<b>EAT</b>	<b>5,723</b>	<b>5,424</b>	<b>5,317</b>	<b>5,414</b>
Growth (%)		(5)	(2)	2
<b>EAT (%)</b>	<b>18.1</b>	<b>16.9</b>	<b>14.3</b>	<b>13.1</b>

## Balance Sheet

Y/E, Mar (Rs. m)	CY09	CY10E	CY11E	CY12E
Equity share capital	265	265	265	265
Reserves & surplus	34,397	27,879	32,039	36,181
Minority Interest	-	-	-	-
<b>Networth</b>	<b>34,662</b>	<b>28,144</b>	<b>32,304</b>	<b>36,446</b>
Secured Loans	-	-	-	-
Unsecured Loans	-	-	-	-
<b>Loan Funds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Deferred Tax Liability</b>	<b>1,048</b>	<b>1,048</b>	<b>1,048</b>	<b>1,048</b>
<b>Total Liabilities</b>	<b>35,711</b>	<b>29,193</b>	<b>33,352</b>	<b>37,495</b>
Goodwill	-	-	-	-
Gross Block	16,797	18,410	19,330	20,455
Less: Depreciation	(5,830)	(7,052)	(8,374)	(9,769)
<b>Net block</b>	<b>10,967</b>	<b>11,358</b>	<b>10,957</b>	<b>10,687</b>
<b>Capital WIP</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Investment</b>	<b>17,827</b>	<b>8,717</b>	<b>8,717</b>	<b>8,717</b>
<b>Current Assets</b>	<b>10,815</b>	<b>14,563</b>	<b>20,219</b>	<b>25,505</b>
Inventories	-	-	-	-
Sundry debtors	5,077	5,202	6,029	6,691
Cash & bank balance	2,944	5,870	10,408	14,618
Loans & advances	775	749	818	907
Other current assets	2,019	2,742	2,964	3,289
<b>Current Liab &amp; Prov</b>	<b>6,104</b>	<b>7,652</b>	<b>8,746</b>	<b>9,620</b>
Current liabilities	6,104	7,211	8,235	9,053
Provisions	-	441	511	567
<b>Net current assets</b>	<b>4,711</b>	<b>6,912</b>	<b>11,473</b>	<b>15,885</b>
<b>Misc exps</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Deferred Tax</b>	<b>2,205</b>	<b>2,205</b>	<b>2,205</b>	<b>2,205</b>
<b>Total Assets</b>	<b>35,711</b>	<b>29,193</b>	<b>33,352</b>	<b>37,494</b>

Cash Flow	CY09E	CY10E	CY11E	CY12E
Net Profit after Tax	5,723	5,424	5,317	5,414
Add : Depreciation	1,169	1,222	1,322	1,395
Add : Misc exp w/off				
<b>Net changes in WC</b>	<b>(2,179)</b>	<b>2,617</b>	<b>(1,548)</b>	<b>(1,094)</b>
<b>Operational Cash Flows</b>	<b>6,125</b>	<b>7,517</b>	<b>7,513</b>	<b>7,325</b>
<b>Capital expenditure</b>	<b>(316)</b>	<b>(1,613)</b>	<b>(920)</b>	<b>(1,125)</b>
Investments	(5,578)	9,109	-	-
<b>Investing Cash Flows</b>	<b>(5,895)</b>	<b>7,497</b>	<b>(920)</b>	<b>(1,125)</b>
<b>Borrowings</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
dividend paid	(461)	(10,467)	(622)	(633)
Issue of shares	2,615	0	-	-
Share Premium	-	-	-	-
<b>Financing Cash Flows</b>	<b>(208)</b>	<b>(12,088)</b>	<b>(2,306)</b>	<b>(2,287)</b>
changes in cash	23	2,925	4,287	3,912
Opening balance	2,922	2,944	5,870	10,408
<b>Closing balance</b>	<b>2,944</b>	<b>5,870</b>	<b>10,408</b>	<b>14,618</b>

Key Ratios	CY09	CY10E	CY11E	CY12E
EPS (Rs)	43.6	40.7	39.9	40.6
CEPS (Rs)	52.5	49.8	49.8	51.0
Book Value Per Share (Rs)	264.0	211.0	242.2	273.2
Dividend Per Share (Rs)	3.0	67.1	4.0	4.1
<b>Valuations Ratios (x)</b>				
PER	11.7	12.6	12.8	12.6
P/CEPS	11.9	11.1	11.7	12.3
P/BV	1.9	2.4	2.1	1.9
EV/EBIDTA	6.9	7.8	6.2	5.5
EV/Sales	1.4	1.6	1.2	1.0
M-Cap/sales	2.1	2.0	1.8	1.6
<b>Profitability Ratios (%)</b>				
RoCE	17.8	17.2	19.5	18.4
RoNW	18.3	17.3	17.6	15.7
EBITDA Margin	20.4	20.3	20.0	18.6
EBIT Margins	19.7	19.0	18.4	17.7
Net Profit Margin	18.1	16.9	14.3	13.1

## Indices

Indices	Today's close	% chg
Sensex	18,238	0.18
Nifty	5486	0.26
S&P CNX 500	4610	0.16
BSE 500	7,423	0.39
BSE Mid-Cap	7,783	0.78
BSE Small-Cap	9,820	1.11
BSE Auto	8,890	0.59
BSE Health	5,597	0.26
BSE FMCG	3,452	0.79
BSE IT	5,446	-0.67
BSE PSU	9,771	-0.29
BSE Bankex	12,448	0.79
BSE Oil & Gas	10,036	-0.35
BSE Metal	15,515	0.55
BSE Cons Dur	5,819	1.10
BSE Cap Good	14,732	0.47
BSE Realty	3,444	0.41
BSE Power	3,066	0.12

## Levels to watch

	Sensex	Nifty
Day's High	18355	5513
Day's Low	18215	5471
21 EDMA	18137	5450
55 EDMA	17923	5384

## Trend Tracker

	Up/ Down	Sensex/ Nifty	Sensex/ Nifty
		Target	Reversal
Short Term*	-	-	-
Mid Term*	↓	16200/4900	18500/5550
ST: 0-14 Days		MT: 14-45 Days	

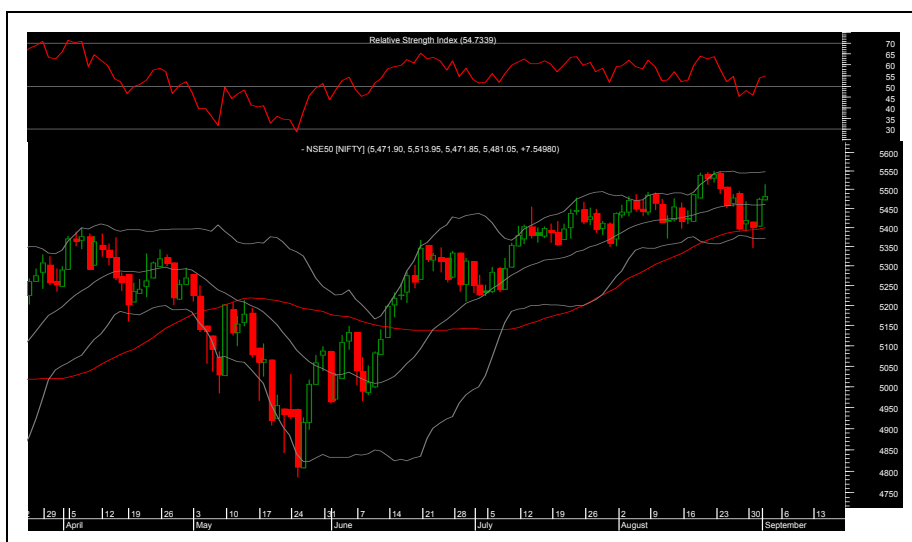
## Nifty Intraday levels to watch

	Support	Resistance
Nifty	5478/5455	5500/5520

## TechCheck

## Shooting Star at 78.6% retracement

Nifty started the day on a positive note amidst positive global cues. Thereon, for the entire session market turned choppy to finally shut the day with a gain of 14 odd points. However, today's move was pretty depressing and dismal from the bulls' point of view, as they were unable to take the charge of the market, even in the midst of strong global cues. Moreover, we have witnessed the formation of a Shooting Star candlestick line with long upper shadow, which is considered bearish and can be a concern to any bull, as it has a potential to reverse the past two days of relief rally. Additionally, today's Shooting Star is observed at 78.6% (of 5549-5348), Fibonacci resistance level, which again votes in the favor of the bears. Apart from this, a Head-and-shoulders pattern is also visible on the daily chart of Nifty. Since, the pattern has not yet matured, one should just keep it at the back of one's mind, with an aim to reap from the correction as and when it sets in.



## Sectoral Speak

## BSE Bankex:

After taking support at 21DEMA, BSE Bankex index recovered some of its losses and finally closed at 12448 with a gain of 0.79%. On the daily chart this index had already retraced 61.80% of the recent fall from 12647 to 12094, thus now going forward we can see rally continuing till 12647. However downside this index has support at 12094 levels.



## Technical Recommendations

### EPT Calls

Date	Stocks	Action	Reco. Price	Stop-loss	Target	Current price	% change	Comment
09.08.10	<b>Gati</b>	Buy	82.50	68.70	100/114	<b>73.95</b>	-10.36	
16.08.10	<b>GMR Infra</b>	Sell	61.00	58.10	56/51	<b>57.85</b>	5.45	Profit Booked
28.08.10	<b>DLF</b>	Sell	316.00	314.00	286/256	<b>311.70</b>	1.38	

### EMT Calls

Date	Stocks	Action	Reco. Price	Stop-loss	Target	Current price	% change	Comment
26.08.10	<b>Gtlinfra</b>	Buy	46.50	44.60	48.60/50	<b>45.25</b>	-2.69	
27.08.10	<b>Hindalco</b>	Buy	166.65	160.00	174/180	<b>175.50</b>	5.31	Profit Booked
27.08.10	<b>Sail</b>	Buy	188.30	184.00	195/200	<b>191.75</b>	1.83	
30.08.10	<b>Power Grid</b>	Buy	107.85	104.00	112/115	<b>107.50</b>	-0.32	
30.08.10	<b>Bharat Forge</b>	Sell	350.00	364.00	335/321	<b>360.00</b>	-2.78	
01.09.10	<b>Maruti</b>	Buy	1271.00	1221.00	1325/1375	<b>1276.00</b>	0.39	
01.09.10	<b>Mphasis</b>	Buy	632.60	610.30	660/670	<b>629.10</b>	-0.55	
01.09.10	<b>Ster</b>	Buy	155.00	149.50	162/167	<b>158.95</b>	2.55	Profit Booked
01.09.10	<b>Cairn</b>	Buy	338.50	328.00	350/355	<b>336.00</b>	-0.74	
01.09.10	<b>Sesagoa</b>	Buy	323.00	313.50	335/345	<b>322.30</b>	-0.22	
02.09.10	<b>ACC</b>	Buy	896.00	858.00	934/950	<b>894.00</b>	-0.22	
02.09.10	<b>Axis bank</b>	Buy	1385.00	1310.00	1460/1500	<b>1386.00</b>	0.07	

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