

# ASHIKA STOCK BROKING LTD.

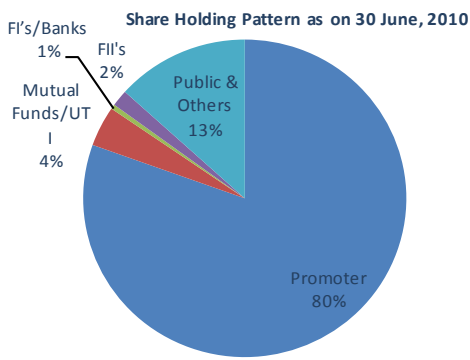
## Initiating Coverage on – Oracle Financial Services Software Ltd.

Software. Hardware. Complete.

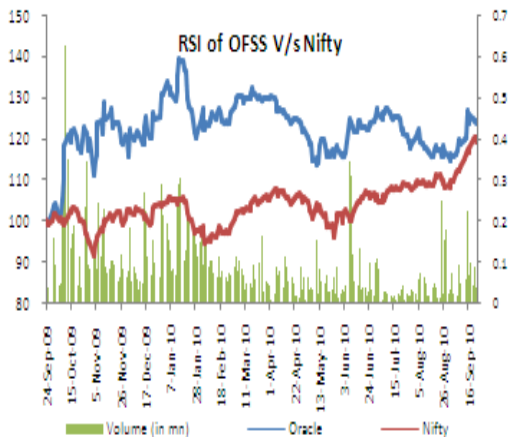
Industry: Information Technology

| Product Segment  | Service Segment | BPO Segment | 2010  |
|--|-----------------|-------------|---|
| <p><i>Oracle Financial Services Software Ltd. (OFSS) has a reputed market position through its technological world class banking software – Flexcube which is backed by Oracle’s brand value. The M&amp;A activity within the Banking, Financial Services &amp; Insurance is likely to help in improving the future business flows by its regulatory/compliance issues. We expect an accelerating economic recovery and relatively lower lead time for projects will enhance the top line of the company in future. OFSS has already started showing signs of recovery through its newly licensed contract worth \$7.2 mn and healthy new orders. We expect OFSS to improve its EBITDA margins and NPM in FY11E &amp; FY12E through its increasing contribution arising out of product segment. Oracle Global (Mauritius) Ltd, currently has an ownership of 80.46% in OFSS. However as per the recent announced guidelines on public holdings to 25%, OFSS has to either opt for equity dilution or de-list the company. We expect Oracle’s management may opt for the delisting route and there is a huge opportunity awaiting for lifting the stock prices if the company chooses a buyback offer. We expect OFSS to trade at a premium to its second line peer group. We value OFSS at a target price of ~Rs.2640 based on the forward P/E of 20x earnings on FY12E with strong fundamentals. We recommend a BUY achievable over a period of one year.</i></p> |                 |             | <p><b>RECOMMENDATION: BUY</b></p> <p><b>DATE: 01<sup>ST</sup> OCTOBER’2010</b></p> <p><b>CMP: Rs.2297/-</b></p> <p><b>TARGET: Rs.2640/-</b></p> <p><b>PERIOD: 12 MONTHS</b></p> |

| SNAPSHOT                          |             |
|-----------------------------------|-------------|
| BSE Code                          | 532466      |
| NSE Code                          | OFSS        |
| Bloomberg Code                    | OFSS IN     |
| Market Cap (Rs. crore)            | 19274       |
| 52-wk Hi/Lo (Rs)                  | 2550 / 1772 |
| Avg. daily volume (1 year on NSE) | 85569       |
| Face Value (Rs.)                  | 5.00        |



Source: NSE



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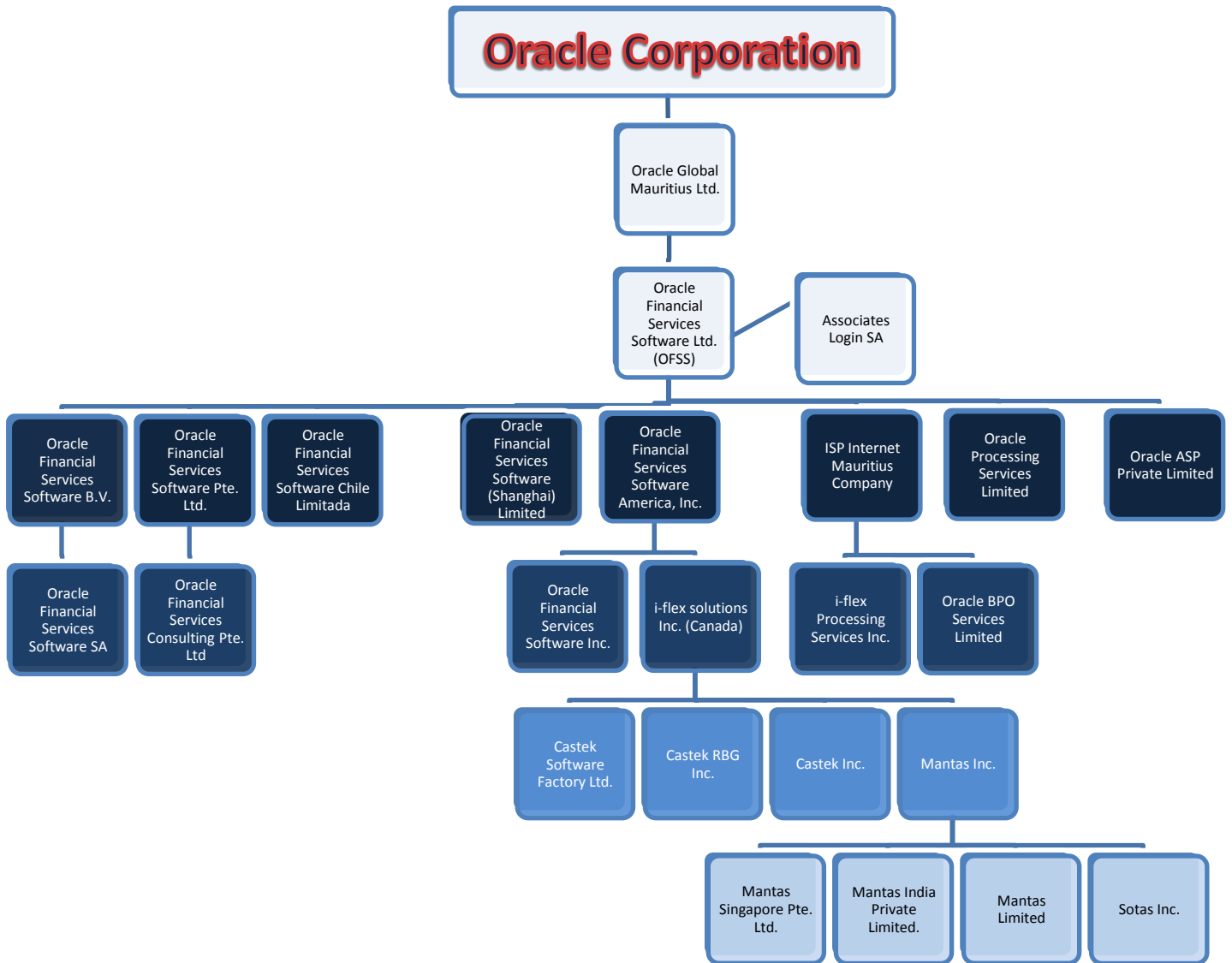
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| Particulars (Rs.Crore) | FY09    | FY10    | FY11E   | FY12E   |
|------------------------|---------|---------|---------|---------|
| Total Sales            | 2927.62 | 2873.97 | 3137.93 | 3504.64 |
| Total Sales Growth (%) | 23.00%  | -1.83%  | 9.18%   | 11.69%  |
| EBITDA                 | 775.47  | 1028.10 | 1171.37 | 1334.69 |
| EBITDA Margin          | 26.49%  | 35.77%  | 37.33%  | 38.08%  |
| Operating Margin (%)   | 24.58%  | 34.07%  | 35.63%  | 36.38%  |
| PAT                    | 736.55  | 773.66  | 953.86  | 1106.82 |
| Net Profit Margin (%)  | 25.25%  | 26.93%  | 30.40%  | 31.58%  |
| EPS                    | 87.94   | 92.32   | 113.72  | 131.95  |

### Investment Rationale

- OFSS previously known as I-Flex Solutions changed its name after an acquisition by Oracle effective from 14 August, 2008. The parent company has a strong global presence which also reflects a huge opportunity to grow in coming years.
- Shift in revenue mix towards Product Segment leading to higher margins due to increasing contribution from North America & Asia Pacific Regions to 22.5% & 26.16% in FY11E from 18% & 22% respectively compared to FY10.
- Demand from Flexcube is expected to robust in future. OFSS is continuously gaining a foothold by adding new client base and expanding its geographical reach.
- Service segment to remain buoyant with the larger contribution coming from North America region of ~60.48% and growing at a rate of ~10.50% in FY11E.
- KPO segment revenues likely to grow by ~18.83% & ~20% in FY11E & FY12E respectively, compared to FY10 of 17.61%. It will enhance its contribution in the overall revenue to ~3.10% & ~3.30% in FY11E & FY12E compared to 2.94% in FY10.
- During Q1FY11, OFSS added 11 new clients and successful deployed 6 new projects - leading to a better future revenue prospect.
- Employee Productivity is likely to increase to Rs.3.17 mn per employee & Rs.3.54 mn in FY11E & FY12E respectively from Rs.2.75 mn in FY10, thus leading to a growth of ~15.21% & 11.70% and also increases the operating margins.
- OFSS has currently increased its global presence to 137 countries in FY10 from a mere 74 countries in FY01, penetrating 7 countries p.a. on an average - focusing towards higher global presence in future.
- Cash & Bank Per Share expected to increase to ~Rs.367/- in FY12E from Rs.185/- in FY10.
- OFSS a debt free company.

**Oracle Financial Services Software Ltd. (OFSS) – Group Structure**



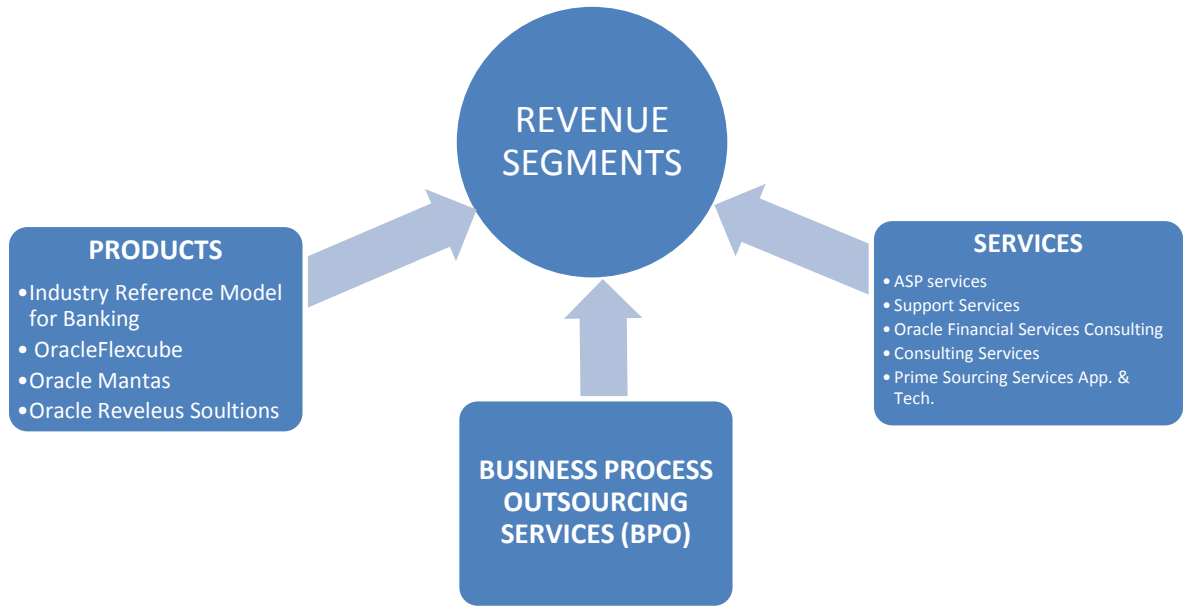
- Direct Subsidiaries ( OFSS Holds 100% Ownership in all Direct Subsidiaries)
- Subsidiaries Level (I) – Subsidiaries of Direct Subsidiaries
- Subsidiaries Level (II) – Subsidiaries of level (II) Subsidiaries
- Subsidiaries Level (III) – Subsidiaries of level (II) Subsidiaries

All Level (I), (II) & (III) are 100% Entities.

Oracle Global Mauritius Ltd. has 80.46% stake in OFSS

Oracle Financial Services Software Ltd. (OFSS) has 33% stake in Associates Login SA

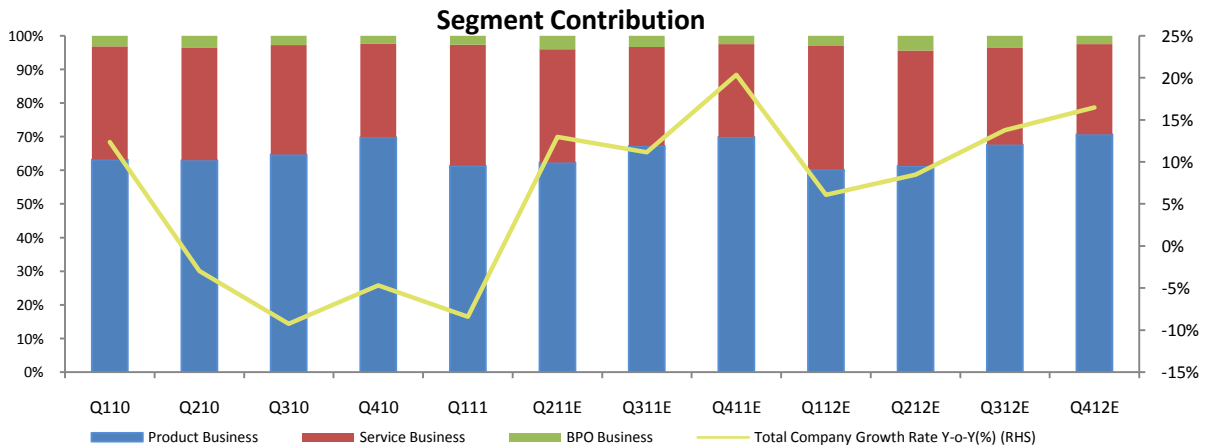
Source: Company



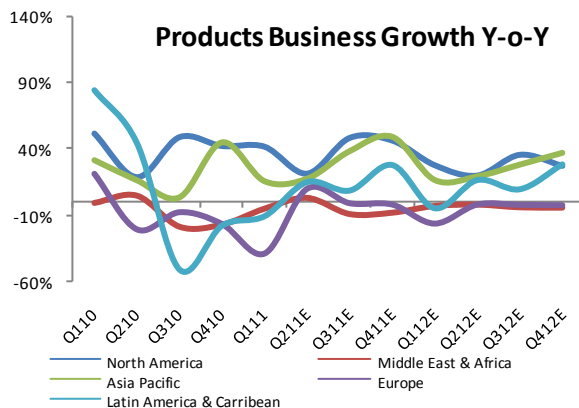
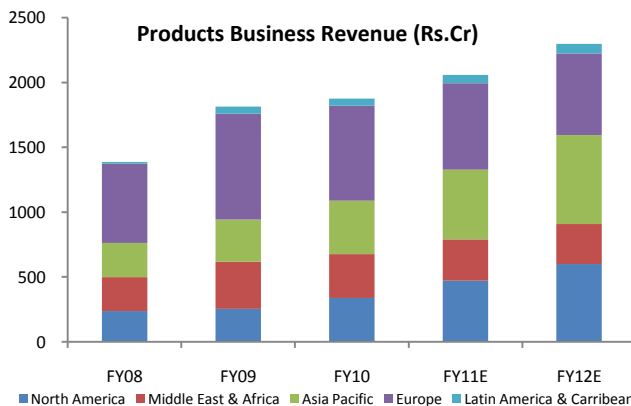
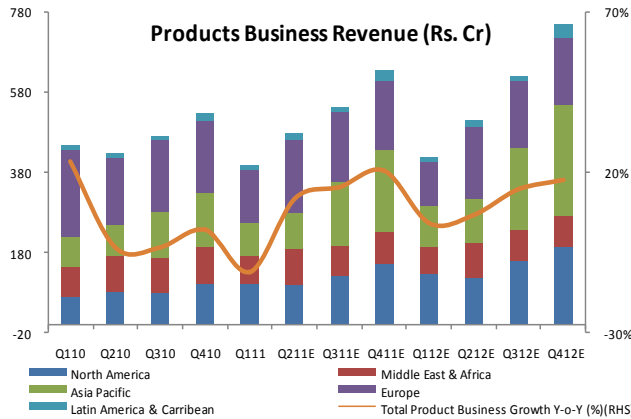
OFSS offers the world’s most comprehensive and contemporary banking applications and technology footprint. This footprint spans the distribution, manufacturing, risk and finance and corporate administration functions of a financial institution. Each solution in the financial services application footprint is best-of-breed, open and integrated. OFSS continuously updates its existing products and offers new products through its technological R&D efforts.

Oracle Financial Services Support offers support services for Oracle FLEXCUBE, Oracle Reveleus and Oracle Mantas. These services help customers accelerate adoption, reduce the time, effort, and cost of operating applications thereby allowing them to achieve a higher return on their investments. These services also enable the customers to manage their applications more effectively and take advantage of the latest technological enhancements.

OFSS’s BPO offering excels in providing cost effective and high quality BPO services ranging from complex back office work to contact centre services for the banking, capital markets, insurance and asset management domains. This comprehensive ecosystem of BPO services also draws upon software applications such as Oracle FLEXCUBE and is backed by a mature process and consulting framework.



**PRODUCT SEGMENT**



**Product segment is the major contributor** amongst all the segments with a highest share close to ~65.3% in FY10 compared to 61.93% in FY09 and reported ~61.3% in Q1FY11 compared to 63.16% in Q1FY10. The decline in Q1FY11 product segment revenue was attributed towards the lower business generating from the European, Latin America & Caribbean and Middle East & African markets. However, regions like North America & Asia Pacific is continuously reflecting positive performance over the quarters.

**The North America region** has posted a significant growth of 41.73% (y-o-y) and contributed 25.50% in product segment in Q1FY11 compared to 16% same period last year. Similarly, Asia Pacific regions have grown by 15.08% in Q1FY11 compared to Q1FY10 with the rising share of contribution to the product business of 22% in Q1FY11 compared to 17% in Q1FY10.

The European segment declined by ~40% in Q1FY11 compared to ~21% positive growth in same period last year with a contribution of 32.5% in Q1FY11 product segment compared to 48% in Q1FY10.

**Shift in Revenue Mix towards the Product Segment:** leads to higher EBITDA margins in the forthcoming years. We expect OFSS, to post a revenue growth of ~9.65% & ~11.71% for FY11E & FY12E respectively for product segment arising out of continuous increasing demand for Oracle’s Flexcube banking solutions & other products like Reveleus & Mantas are also gaining foothold experience with the leading banks.

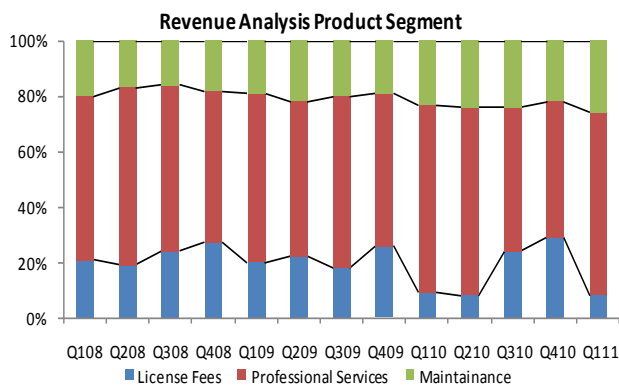
**We estimate product businesses likely to grow** in North America region by ~39.2% & 27.7% in FY11E & FY12E respectively backed by the parent company business and even improving demand from US. Even, Asia Pacific regions are estimated to grow at ~30% & 27% in FY11E & FY12E respectively due to expected strong economic growth in India & other Asia Pacific regions. The M&A activity within the Banking, Financial Services & Insurance (BFSI) is likely to help in improving the future business flows by its regulatory/compliance issues which may create demand for Oracle’s products.

| Particulars (Rs.Cr)    | FY09    | FY10    | FY11E   | FY12E   |
|------------------------|---------|---------|---------|---------|
| Product Revenue        | 1813.11 | 1876.67 | 2057.80 | 2298.72 |
| Cost of Revenue        | 744.52  | 700.86  | 751.10  | 804.55  |
| Sales & Marketing Exp. | 264     | 192.8   | 195.49  | 201.14  |
| General & Admin        | 124.35  | 119.25  | 129.64  | 142.52  |
| Dep. & Amort.          | 25.46   | 21.99   | 24.69   | 27.58   |
| Income from Operations | 654.78  | 841.77  | 956.88  | 1122.92 |
| Operating Margin       | 36.11%  | 44.85%  | 46.50%  | 48.85%  |

**The Middle East region is expected to accelerate** the declining trend continued over the consecutive past three quarters. We expect the negative trend in Middle East region to continue for the next two years. However, we have accelerated the revenue growth based on the contract signed with TAIB Bank for Oracle Reveleus; Mashreq Bank selects Oracle Flexcube for supporting the Islamic Banking products & reducing operational costs, etc.

**The European Markets are not looking lucrative** for the next few years due to Euro Zone crisis. We are expecting a negative y-o-y trend to post a growth of ~-8.95% & ~-5.52% in FY11E & FY12E respectively compared to -10.3% in FY10. However, if the current Euro zone crisis continues, it is likely that INR would be strong against Euro, which may limit the company's revenues in near future.

**We expect Latin America & Caribbean regions** to grow by ~13.8% & ~16.45% in FY11E & FY12E respectively compared to ~3.5% in FY10.

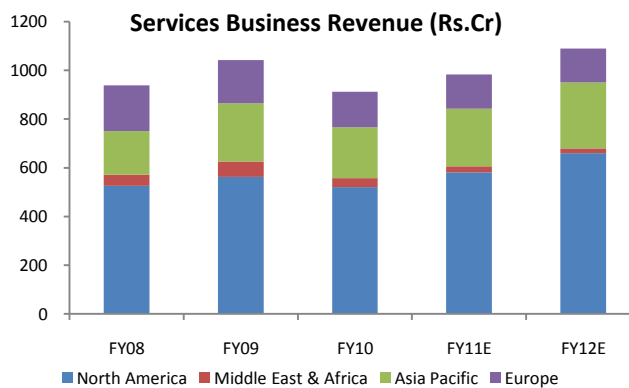
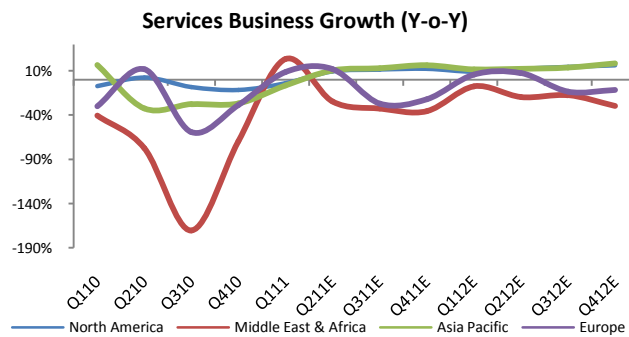
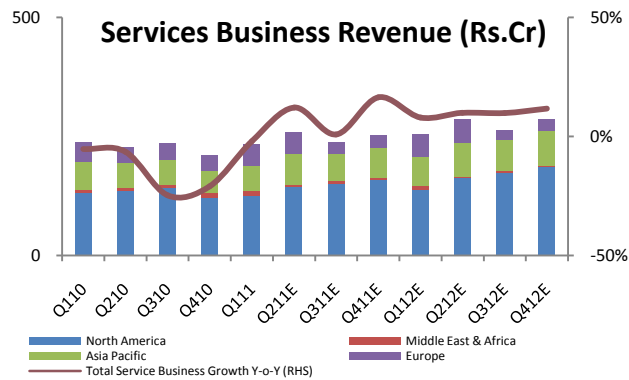


Source: Company

**The increasing contribution of license fees** posted a 29% of the revenue generated in the product segment during FY10 compared to 22% in FY09. This reflects a huge opportunity awaiting going forward as it is mainly based on the number of accounts, or applications users or subscribers, or asset under management processor based or a combination of these depending on the solutions deployed.

**Even the Annual Maintenance Contract fees (AMC)** is reflecting an increasing trend over the years, with the AMC contribution in the product segment showed a 22% share in FY10 compared to 20% in FY09. The AMC fees are generally based on technical support, maintenance, problem resolution and upgrades for licensed products. Whereas, the share of professional services has declined to 49% in FY10 compared to 58% FY09.

## SERVICE SEGMENT



| Particulars (Rs.Crore) | FY09   | FY10   | FY11E  | FY12E   |
|------------------------|--------|--------|--------|---------|
| Service Revenue        | 1042.6 | 912.73 | 982.77 | 1090.22 |
| Cost of Revenue        | 675.05 | 582.84 | 599.49 | 659.58  |
| Sales & Marketing Exp. | 66.12  | 33.38  | 35.87  | 40.34   |
| General & Admin        | 84.6   | 62.03  | 65.85  | 71.95   |
| Dep. & Amort.          | 20.51  | 18.6   | 19.66  | 21.80   |
| Income from Operations | 176.39 | 194.76 | 261.91 | 296.54  |
| Operating Margin       | 16.92% | 21.34% | 26.65% | 27.20%  |

**Service segment is the second highest contributor** in the total revenue generated by the company with a share of 31.76% in FY10 compared to 35.61% in FY09 and reported a 36.01% in Q1FY11 compared to 33.65% share in same period last year. The overall service segment recorded a negative growth of 2.02% in Q1FY11 compared to -5.29% in Q1FY10.

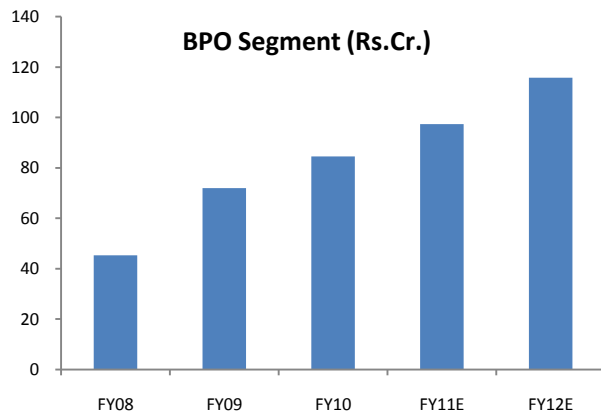
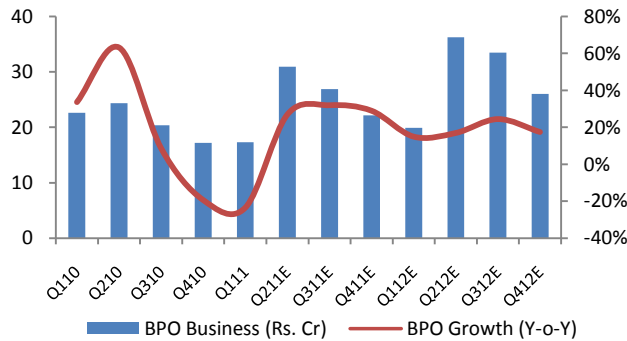
**We expect the service segment to post a positive growth** of ~7.13% & 9.86% in FY11E & FY12E respectively compared to -14.23% in FY10.

**In future, we expect the regions like North America** will likely to continue its increasing momentum share in service segment in FY11E & FY12E by ~59.16% & ~60.5% respectively compared to 57% in FY10 with the increase in growth rates by ~10.5% in FY11E y-o-y basis.

**The Asian region are expected to grow at** ~11.33% & ~12.44% in FY11E & FY12E respectively compared to -14.12% on the back of strong IT sector demand & economy recovery, where the share of Asia Pacific regions in FY11E & FY12E is expected to contribute nearly 24.09% & 24.08% respectively compared to 23% in FY09.

**However, we expect the regions like Europe & Middle East** is still underway to perform for the next two years. European market is expected to continue with its declining trend of contribution to 14.32% & 12.88% in FY11E & FY12E respectively compared to 16% in FY10. Even the Middle East regions are following the negative trend with the contribution in the service segment by 2.44% in FY11E compared to 4% in FY10.

## **BPO SEGMENT**

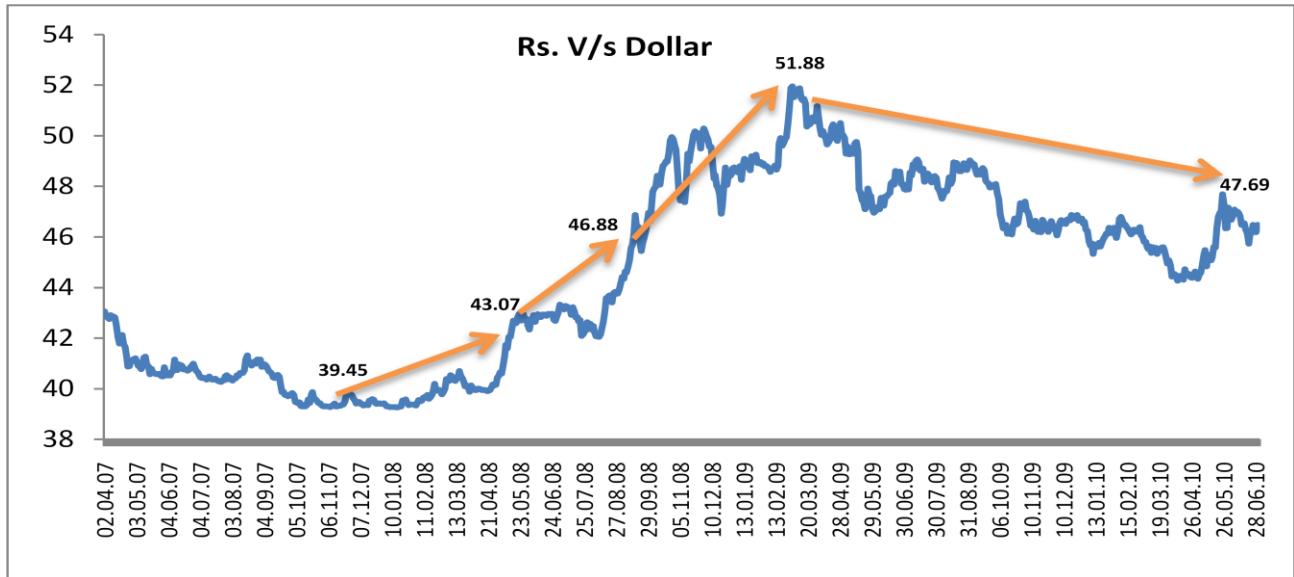


| Particulars (Rs.Crore)            | FY09   | FY10   | FY11E  | FY12E  |
|-----------------------------------|--------|--------|--------|--------|
| <b>BPO Revenue</b>                | 71.91  | 84.57  | 97.37  | 115.70 |
| <b>Cost of Revenue</b>            | 29.6   | 24.98  | 31.65  | 35.29  |
| <b>Sales &amp; Marketing Exp.</b> | 12.52  | 9.18   | 8.96   | 9.55   |
| <b>General &amp; Admin</b>        | 12.49  | 16.41  | 18.99  | 22.68  |
| <b>Dep. &amp; Amort.</b>          | 1.88   | 2.41   | 2.68   | 3.18   |
| <b>Income from Operations</b>     | 15.42  | 31.59  | 35.10  | 45.01  |
| <b>Operating Margin</b>           | 21.44% | 37.35% | 36.05% | 38.90% |

- The BPO business in the overall revenue generated by the company contributed ~3% in FY10 compared to ~2.5% in FY09.
- The BPO industry did not perform well and posted a negative growth of 23.39% in Q1FY11 compared to 33.69% in same period last year.
- We expect BPO businesses to get back on the track due to forthcoming increasing demand from the IT sector.
- We expect BPO business to post a growth of 15.13% & 18.83% in FY11E & FY12E respectively.
- Even the EBITDA margin in the BPO segment is likely to improve in the next two years due to decrease in sales & marketing expenses.
- The increasing demand & revenue generating from BPO business will also led to rise in BPO segment's contribution to ~3.1% & ~3.3% in FY11E & FY12E respectively in the overall revenue of the company.



## Appreciation in INR remains a challenge



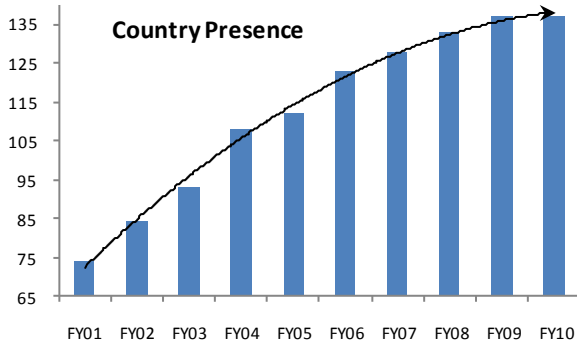
Source: Newswire18

The larger revenue of the Indian IT sector & OFSS comes from North America & European countries. These players are excessively exposed to the currency movement fluctuation arising out of INR against these markets. Oracle generates ~64% of its revenue in FY10 from North America and European regions compared to 63% in FY09. OFSS posted a foreign exchange gain in FY09 of worth Rs.104.41 cr, where the INR depreciate during the same period by ~28.14%, closing value of INR against dollar stands at Rs.39.94 on 1<sup>st</sup> April 2008 compared to Rs.51.18 as on 30<sup>th</sup> March 2009. However, the company faced a foreign exchange loss of ~Rs.157 cr during FY10. During the same period, closing price of INR against dollar stands at Rs.50.34 on 2<sup>nd</sup> April 2009 compared to Rs.44.9 on 31<sup>st</sup> March 2010, which reflects the rupee appreciation against dollar by ~10.8% during FY10.

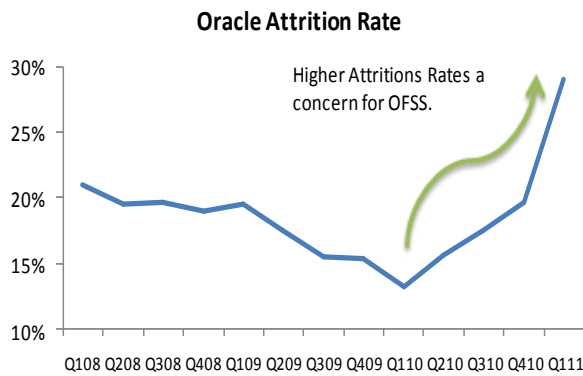
We expect any adverse or drastic appreciation in INR against US dollar, may negatively impact the profitability of OFSS in the coming years. However, we have taken into consideration the likely appreciation in INR against dollar in future. We are expecting an INR appreciation of 3.18% during FY11E compared to FY10, where the closing INR against dollar has been expected at Rs.43.47 against the closing price of Rs.44.9 as on 31<sup>st</sup> March 2010. Therefore, we are expecting OFSS may face a loss to the tune of ~Rs.102 cr during FY11E.

### **Euro Zone Crisis a Concern**

Even, the current Euro zone crisis is also affecting the revenue generating from the European countries. If the current Euro Zone crisis continues, it is likely that INR would be strong against Euro, which may limit the company's revenues in near future.



Source: Company

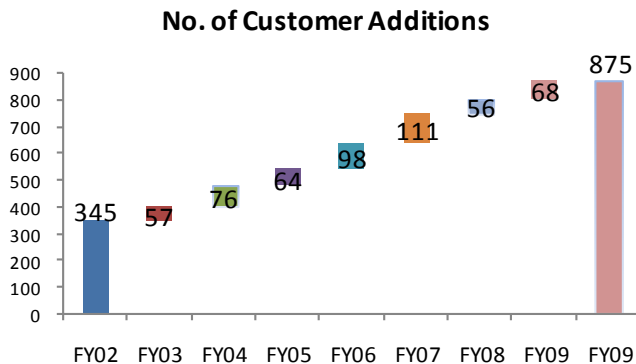


Source: Company

OFSS has achieved the global presence to 137 countries in FY10 from a mere 74 countries in FY01, penetrating 7 countries p.a. on an average - focusing towards higher global presence in future.

Alarming attrition rate from 13% in Q1FY10 to 29% in Q1FY11 is creating a concern for future.

### Increasing No. of Clients Added



Source: Company

OFSS is continuously increasing its customer's base and has reached to 875 clients in FY09 from just 345 clients in FY02. OFSS through its advanced technology and increasing no. of focus products like Oracle Flexcube derived the company to achieve its client's base.

Citigroup & its various affiliate companies – is the largest client of OFSS. Over the years Citigroup has increased its share of contribution in the total revenue to 25% in Q1FY11 compared to 20% in Q1FY10. Whereas, top customer is contributing in the total revenue to 9% in Q1FY11 compared to 7% in Q1FY10

## Strengths:

- Unmatched solutions portfolio with depth of offering in the retail, corporate and investment banking, funds, cash management, trade, treasury, payments, lending, private wealth management, asset management and business analytics areas.
- Superior quality and cost-efficient, end-to-end service capability, from business consulting, to application development and deployment, IT management, to Business Process Outsourcing.
- Continued momentum in new customer additions
- Extensive global client base.
- High quality manpower resources.
- Strong R&D capability.

## Opportunities:

- Increasing momentum in the acquisition of core banking systems by large and global financial institutions.
- Entry into hitherto untapped markets.
- Evolving needs due to regulatory pressures and economic outlook.
- Expanding solutions portfolio and entry into new market segments Consumer finance, business analytics, Basel II, Anti-Money Laundering, Private Wealth Management, Islamic banking, among others.
- The need for banks to improve performance and efficiency through effective use of information technology solutions.

## SWOT ANALYSIS

## Weaknesses:

- Exposure to various economies.
- Lack of local resources in new markets/opportunities.

## Threats:

- Unfavorable conditions in global markets.
- Customers negotiating harder as the financial position in many markets have changed.
- Restrictions by governments on the movement of people to protect local employment.
- Cross currency volatility.

## Outlook & Valuations:

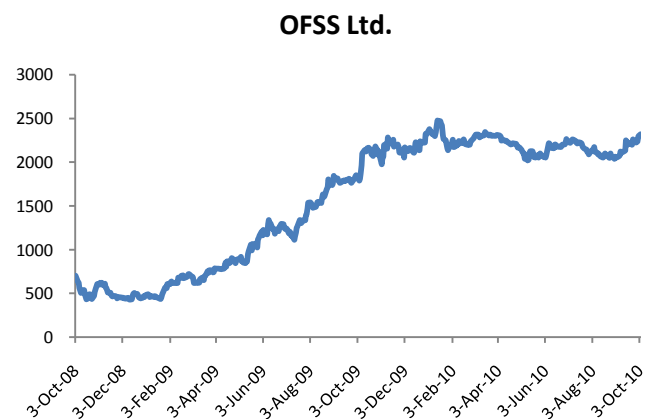
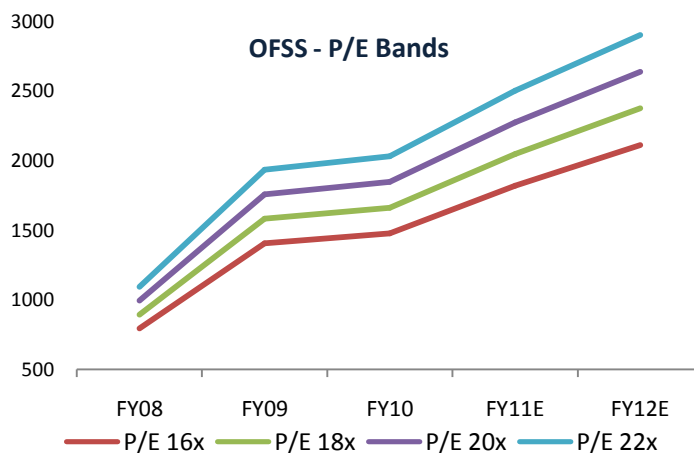
At the current market price of Rs.2297, OFSS is trading at a P/E of ~20.2x & ~17.41x based on the earnings of ~Rs.114 & ~Rs.131.95 in FY11E & FY12E respectively. During the FY10, OFSS traded at a P/E of ~24.9x, which reveals a premium to the second line, Indian IT stocks. Going forward, to arrive at a target multiple, we value OFSS at a 20% discount to the P/E of FY10, which resulted in achieving the target P/E of ~20x based on the earnings of FY12E, to arrive at a target price of ~Rs.2640 for OFSS. Our target price reflects a ~15% upside potential return from the current market price. We maintain a BUY recommendation achievable over a period of one year.

Oracle Global (Mauritius) Ltd, currently has a stake of 80.46% in OFSS. However as per the recent announced guidelines on public holdings to 25%, OFSS has to either opt for equity dilution or de-list the company. We expect Oracle's management may opt for the delisting route and there is a huge opportunity awaiting for lifting the stock prices if the company chooses a buyback offer.

OFSS's product segment with its strong product base and rising contribution of product segment in the overall revenue leads to a higher EBITDA margins. However, we have considered the conservative revenue growth rates of only 9.18% & 11.69% in FY11E & FY12E. If the emerging economies growth rates revised upwards in the coming years, then the company may perform better than our expectations. OFSS, over the years has adopted a no dividend policy, thereby accumulating the cash & bank balance reserves. The cash & bank per share has also increased to Rs.185/- in FY10 compared to Rs.107/- in FY09 and expected to increase to ~Rs.367/- in FY12E.

OFSS previously known as I-Flex Solutions changed its name after an acquisition by Oracle effective from 14 August, 2008. The parent company has a strong global presence and advance technology, which also reflects a huge opportunity to grow in coming years under the guidance of parent company.

Considering the above factors and important delisting route are the key triggers for the stock to outperform.



# Financial Statements

| Particulars (Rs.Crore)              | FY09          | FY10           | FY11E          | FY12E          |
|-------------------------------------|---------------|----------------|----------------|----------------|
| <b>Net Sales</b>                    | <b>2927.6</b> | <b>2873.97</b> | <b>3137.93</b> | <b>3504.64</b> |
| Growth %                            | 23.00%        | -1.83%         | 9.18%          | 11.69%         |
| <b>Total exp.</b>                   | <b>2152.2</b> | <b>1845.87</b> | <b>1966.57</b> | <b>2169.96</b> |
| Cost of Revenue                     | 1449.16       | 1308.69        | 1383.48        | 1499.42        |
| Selling & Distribution              | 345.17        | 235.36         | 240.47         | 251.02         |
| Administrative Expenses             | 357.82        | 301.82         | 342.62         | 419.51         |
| <b>EBITDA</b>                       | <b>775.47</b> | <b>1028.1</b>  | <b>1171.37</b> | <b>1334.69</b> |
| Dep.                                | 55.79         | 48.88          | 53.20          | 59.85          |
| <b>EBIT/Operating income</b>        | <b>719.68</b> | <b>979.22</b>  | <b>1118.17</b> | <b>1274.83</b> |
| <b>EBITDA Margin %</b>              | <b>26.49%</b> | <b>35.77%</b>  | <b>37.33%</b>  | <b>38.08%</b>  |
| Foreign Exchange Loss/ (Gain)       | -104.41       | 156.86         | 101.96         | 113.90         |
| Int Expense / (Gain)                | -77.06        | -69.96         | -79.30         | -104.00        |
| <b>Adj. PBT</b>                     | <b>822.63</b> | <b>893.61</b>  | <b>1096.39</b> | <b>1264.93</b> |
| <b>PAT before Minority Interest</b> | <b>739.1</b>  | <b>773.84</b>  | <b>953.86</b>  | <b>1106.82</b> |
| <b>Reported PAT</b>                 | <b>736.55</b> | <b>773.66</b>  | <b>953.86</b>  | <b>1106.82</b> |

| Balance Sheet (Rs. crore)                   | FY 08          | FY 09          | FY 10          | FY 11E         | FY 12E         |
|---|----------------|----------------|----------------|----------------|----------------|
| Gross Asset                                 | 1108.83        | 1205.28        | 1200.02        | 1296.67        | 1442.24        |
| Accumulated Depreciation                    | 257.50         | 336.04         | 363.68         | 416.88         | 476.73         |
| <b>Net Fixed Asset</b>                      | <b>851.33</b>  | <b>869.24</b>  | <b>836.34</b>  | <b>879.79</b>  | <b>965.51</b>  |
| Capital WIP                                 | 131.35         | 101.33         | 130.41         | 123.18         | 129.80         |
| <b>Investments</b>                          | <b>5.49</b>    | <b>0.96</b>    | <b>1.00</b>    | <b>1.00</b>    | <b>1.00</b>    |
| Deferred Tax Assets                         | 23.03          | 32.59          | 39.97          | 39.97          | 39.97          |
| <b>Current Asset</b>                        | <b>2383.89</b> | <b>3208.10</b> | <b>3888.05</b> | <b>4834.43</b> | <b>5912.21</b> |
| Cash  | 896.56         | 1548.95        | 2204.58        | 3075.95        | 4050.01        |
| Trade Debtors                               | 845.39         | 840.23         | 678.24         | 697.32         | 737.82         |
| Loans and Advances                          | 529.25         | 644.23         | 772.45         | 815.05         | 854.79         |
| Other Current Assets                        | 112.69         | 174.69         | 232.78         | 246.11         | 269.59         |
| Current Asset Excluding Cash                | 1487.33        | 1659.15        | 1683.47        | 1758.48        | 1862.20        |
| <b>Current Liabilities &amp; Provisions</b> | <b>616.94</b>  | <b>703.36</b>  | <b>602.08</b>  | <b>631.64</b>  | <b>694.94</b>  |
| Current Liabilities                         | 559.16         | 609.50         | 499.04         | 506.12         | 539.18         |
| Provisions                                  | 57.78          | 93.86          | 103.04         | 125.52         | 155.76         |
| <b>Net Current Asset</b>                    | <b>1766.95</b> | <b>2504.74</b> | <b>3285.97</b> | <b>4202.79</b> | <b>5217.27</b> |
| Net Current Asset Excluding Cash            | 870.39         | 955.79         | 1081.39        | 1126.84        | 1167.26        |
| <b>Capital Employed</b>                     | <b>2778.15</b> | <b>3508.86</b> | <b>4293.69</b> | <b>5246.73</b> | <b>6353.55</b> |
| <b>Non-Current Liabilities</b>              |                |                |                |                |                |
| Minority Interest                           | 0.63           | 1.92           | 0.00           | 0.00           | 0.00           |
| Deferred Tax Liabilities                    | 0.47           | 2.07           | 3.29           | 3.29           | 3.29           |
| Share Capital                               | 41.87          | 41.88          | 41.93          | 41.93          | 41.93          |
| Reserve and Surplus                         | 2735.15        | 3462.98        | 4247.66        | 5201.52        | 6308.33        |
| <b>Total Stock Holder's Equity</b>          | <b>2777.02</b> | <b>3504.86</b> | <b>4289.59</b> | <b>5243.45</b> | <b>6350.26</b> |
| Share application money pending allc        | 0.03           | 0.01           | 0.81           | 0.00           | 0.00           |
| <b>Capital Employed</b>                     | <b>2778.15</b> | <b>3508.86</b> | <b>4293.69</b> | <b>5246.74</b> | <b>6353.55</b> |

| RATIOS                                      | FY 09   | FY 10   | FY 11E | FY 12E |
|---|---------|---------|--------|--------|
| Return on Assets                            | 17.55%  | 15.81%  | 16.23% | 15.70% |
| Return on Equity                            | 21.02%  | 18.04%  | 18.19% | 17.43% |
| Return on Capital Employed                  | 20.51%  | 22.81%  | 21.31% | 20.06% |
| <b>DU Pont</b>                              |         |         |        |        |
| PAT/PBT (Tax Efficiency)                    | 0.84    | 0.87    | 0.87   | 0.88   |
| PBT/EBIT (Interest Burden)                  | 1.21    | 0.91    | 0.98   | 0.99   |
| EBIT/Sales (Operating Margin)               | 0.25    | 0.34    | 0.36   | 0.36   |
| Sales/Total Assets (Asset Turnover)         | 0.72    | 0.61    | 0.55   | 0.51   |
| Total Assets/Net Worth (Financial Leverage) | 1.16    | 1.10    | 1.09   | 1.08   |
| Return on Equity (DU PONT MODEL)            | 21.02%  | 18.04%  | 18.19% | 17.43% |
| EPS   | 87.94   | 92.32   | 113.72 | 131.95 |
| OPM   | 24.58%  | 34.07%  | 35.63% | 36.38% |
| NPM   | 25.25%  | 26.93%  | 30.40% | 31.58% |
| Book Value Per Share                        | 418.44  | 511.88  | 625.11 | 757.07 |
| CEPS  | 94.60   | 98.16   | 120.06 | 139.09 |
| Cash & Bank Per Share                       | 107.141 | 184.927 | 263.08 | 366.71 |
| <b>VALUATION PARAMETERS</b>                 |         |         |        |        |
| P/E   | 8.44    | 24.91   | 20.20  | 17.41  |
| P/CEPS                                      | 7.84    | 23.43   | 19.13  | 16.51  |
| P/BV  | 1.77    | 4.49    | 3.67   | 3.03   |
| EV/EBITDA                                   | 6.02    | 16.60   | 13.82  | 11.40  |
| EV/Sales                                    | 1.59    | 5.94    | 5.16   | 4.34   |

| Cash Flow (Rs. crore)                            | FY 09          | FY 10           | FY 11 E        | FY 12 E        |
|--|----------------|-----------------|----------------|----------------|
| <b>Cash Flow from Operating Activities</b>       |                |                 |                |                |
| Profit before provisions of Taxes                | 822.63         | 893.61          | 1096.39        | 1264.93        |
| Depreciation                                     | 55.79          | 48.88           | 53.20          | 59.85          |
| Interest Expense / (Income)                      | -77.06         | -69.96          | -79.30         | -104.00        |
| <b>Operating Profit Before WC Changes</b>        | <b>801.36</b>  | <b>872.53</b>   | <b>1070.29</b> | <b>1220.78</b> |
| Changes in Current Assets (excluding cash)       | (171.82)       | (24.32)         | (75.01)        | (103.72)       |
| Changes in Current Liabilities                   | 86.42          | (101.28)        | 29.56          | 63.30          |
| <b>Changes In WC</b>                             | <b>(85.40)</b> | <b>(125.60)</b> | <b>(45.45)</b> | <b>(40.42)</b> |
| <b>Cash Generated From Operations</b>            | <b>715.96</b>  | <b>746.93</b>   | <b>1024.84</b> | <b>1180.37</b> |
| Direct Taxes Paid                                | 83.53          | 119.77          | 142.53         | 158.12         |
| <b>Net Cash Generated From Operations</b>        | <b>632.43</b>  | <b>627.16</b>   | <b>882.31</b>  | <b>1022.25</b> |
| <b>Cash Flow from Investing Activities</b>       |                |                 |                |                |
| Capital Expenditure (CAPEX)                      | (66.43)        | (23.82)         | (89.42)        | (152.19)       |
| Investments                                      | 4.53           | (0.04)          | 0.00           | 0.00           |
| Interest Paid/(Receive)                          | 77.06          | 69.96           | 79.30          | 104.00         |
| <b>Net Cash Used In Investing Activities</b>     | <b>19.02</b>   | <b>21.90</b>    | <b>(10.93)</b> | <b>(48.19)</b> |
| <b>Cash Flow from Financing Activities</b>       |                |                 |                |                |
| Issue of Shares against ESOP                     | 1.05           | 6.99            | 0.00           | 0.00           |
| <b>Net Cash used in Financing Activities</b>     | <b>0.94</b>    | <b>6.57</b>     | <b>0.00</b>    | <b>0.00</b>    |
| <b>Net Increase in Cash and Cash Equivalents</b> | <b>652.39</b>  | <b>655.63</b>   | <b>871.37</b>  | <b>974.06</b>  |
| Cash and cash equivalents At the beginning       | 896.56         | 1,548.95        | 2,204.58       | 3,075.95       |
| <b>Net Increase in Cash and Cash Equivalents</b> | <b>652.39</b>  | <b>655.63</b>   | <b>871.37</b>  | <b>974.06</b>  |
| Cash and cash equivalents At the end             | 1548.95        | 2204.58         | 3075.95        | 4050.01        |

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