Infinity.com Financial Securities Ltd
SMALL WORLD, INFINITE OPPORTUNITIES

PINC RESEARCH

Initiating Coverage
Sector: Power
BSE Sensex: 17,082

CESC

BUY
CMP Rs269
TP Rs346

Initiating Coverage

Inexpensive Generating Asset

CESC is one of the most efficient power utilities that operates at more than 85% PLF. We believe a robust base business would generate sufficient cash to fund capex of the consolidated entity and Spencer's losses. Even at our SoTP-based TP of Rs346/share, the base generating business will be available at 0.8x FY13 implied book. This makes CESC the most attractive generator in our coverage universe. We initiate coverage with a BUY rating on the stock.

17 October 2011

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Nearly doubling capacity by FY15

CESC targets to nearly double its installed capacity to 2.4GW by FY15 by adding 600MW each at Chandrapur and Haldia. It plans to sell power from these projects on both long-term and short- term basis.

Regulated model and fuel security are two key positives

Unlike peers, CESC currently has no merchant exposure and operates all existing units under a regulatory framework. This helps it generate steady cash flows. Additionally, all power generated is sold to its distribution arm, which reduces the backing-down risk. Further, it undertakes projects that are comfortably placed for fuel.

Spencer's – still burning cash

Spencer's continues to be a drag on the parent. We estimate the business to turn around by FY16 as the company focuses on higher-margin products and larger-format stores. We expect CESC to infuse Rs1.2bn during FY12.

VALUATIONS AND RECOMMENDATION

We expect CESC to trade at discounted valuation as the parent continues to fund Spencer's losses and capex of subsidiaries. We expect FY16 to be the key year as 1) capacity nearly doubles and 2) Spencer's would turn around for the first time since acquisition in FY08. We value the generation businesses using FCFE and ascribe nil value to its retail business to arrive at our SoTP-based target price of Rs346/share. Initiate coverage with a 'BUY' rating on the stock.

KEY FINANCIALS

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Net Sales	30,905	33,584	40,105	46,251	48,250
YoY Gr. (%)	9.0	8.7	19.4	15.3	4.3
Op. Profits	7,217	8,727	11,315	12,351	12,819
OPM (%)	23.4	26.0	28.2	26.7	26.6
Adjusted Net Profit	3,942	4,233	4,781	4,946	5,133
YoY Gr. (%)	22.5	7.4	12.9	3.5	3.8

KEY RATIO

	FY09	FY10	FY11	FY12E	FY13E
Dil. EPS (Rs)	31.4	33.7	38.1	39.4	40.9
ROCE (%)	10.3	10.0	11.2	11.3	10.8
RoE (%)	11.5	10.6	10.5	9.8	9.4
Core RoE (%)	14.3	13.0	14.7	14.7	14.6
PER (x)	8.6	8.0	7.1	6.8	6.6
P/B (x)	0.9	0.8	0.7	0.6	0.6

STOCK DATA

Market cap	Rs33.8bn
Book Value per share	Rs383
Shares O/S (F.V. Rs10)	125.6mn
Free Float	47.5%
Avg Trade Value (6 months)	Rs67.1mn
52 week High/Low	400/254
Bloomberg Code	CESC IN
Reuters Code	CESC.BO

TOP SHAREHOLDERS

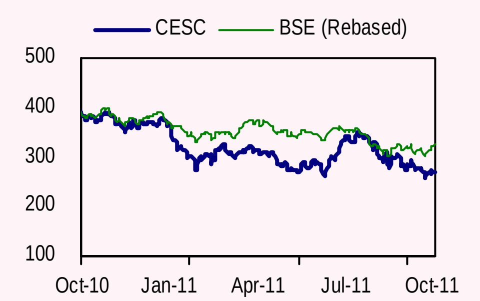
Name	% holding
Goldman Sachs Invest. Maur.	3.4
BNK Capital Markets	2.4
Matthews India Fund	1.9
ICICI Pru. Discovery Fund	1.8
Smallcap World Fund Inc.	1.4

** As on June 30, 2011*

PERFORMANCE (%)

	1M	3M	12M
Absolute	(5.2)	(20.8)	(31.0)
Relative	(6.1)	(13.9)	(17.2)

RELATIVE PERFORMANCE

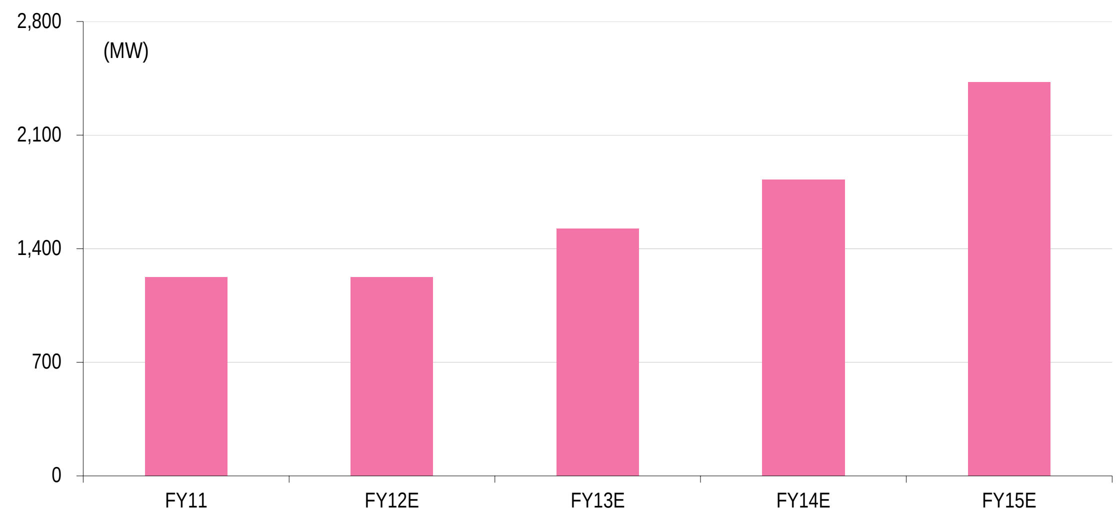


Generation business remains undervalued

Nearly doubling of capacity by FY15

CESC targets to nearly double its installed capacity to 2.4GW from 1.2GW by FY15 as it plans to add 600MW each at Chandrapur and Haldia. This will be done through its wholly-owned subsidiary CESC Infrastructure. This addition will entail an investment of ~Rs62bn, which would be funded through debt:equity mix of 75:25. We believe CESC's (regulated business) annual operating cash flow of ~Rs8bn will not only fully fund its equity contribution towards these projects but also the parent's annual capex plans of ~Rs5bn.

Exhibit 1 - To nearly double its capacity by FY15



Source: Company, PINC Research

I. 2x300MW sub-critical units at Chandrapur, Maharashtra

Dhariwal Infrastructure Ltd (DIL), a wholly-owned subsidiary of Haldia Energy, was acquired by CESC in FY10 for ~Rs3bn. CESC, through its subsidiary, plans to commission this Rs29bn coal-fired thermal power plant by FY14. It plans to fund this project through debt:equity mix of 75:25. The company is moving ahead smoothly on the project. It has acquired land and established fuel linkages with South Eastern Coalfields Ltd (SECL). Keeping in view the current coal scenario, we assume that only 50% of the linkage coal will materialise and the rest will be procured through a combination of e-auction and import. The project has received all statutory clearances including environmental clearances and has placed BTG and BoP orders with Shanghai Electric Power Company and Punj Lloyd respectively. The only milestone pending for the project is signing PPAs with beneficiaries.

Exhibit 2 - Dhariwal targeted to commission by FY14

	MW	Tgt CoD	Land	Water	Fuel	PPA	MoEF
Chandrapur	600	FY14	✓	✓	✓	x	✓

Source: Company, PINC Research

CESC plans to sell 50% of the power from the project on long-term basis to Maharashtra at regulated rates and the balance in the short-term market. This project will provide CESC its first merchant exposure. We assume the long term PPA would earn 14% RoE and merchant sale at Rs4/unit starting FY14. We expect the project to contribute Rs23/share to our SoTP valuation.

II. 2x300MW sub-critical units at Haldia, West Bengal

CESC plans to add a 600MW coal-fired sub-critical project at Haldia, West Bengal by FY15. The company has acquired the required 345 acres land and received all statutory and regulatory clearances including environmental clearances. The project is secured for fuel with domestic linkage from Mahanadi Coalfields (MCL) already established. Here too we build in 50% linkage coal and the balance through a combination of e-auction and import. The equipment and BoP orders for the project have been recently placed with Shanghai Electric and Punj Lloyd respectively, thus achieving yet another milestone. The project will be funded by debt-equity mix of 75:25. The company plans to sell 450MW on long-term PPA basis to CESC and the balance 150MW in the merchant market. Short-term sale from this project will increase CESC's merchant exposure to 450MW. With the commissioning of Haldia, CESC's Kolkata distribution entity's power purchase requirement from the open market will reduce considerably – thereby improving the group's cash flow. The power purchase requirement declined in FY11 as Budge Budge III achieved full commercial operations.

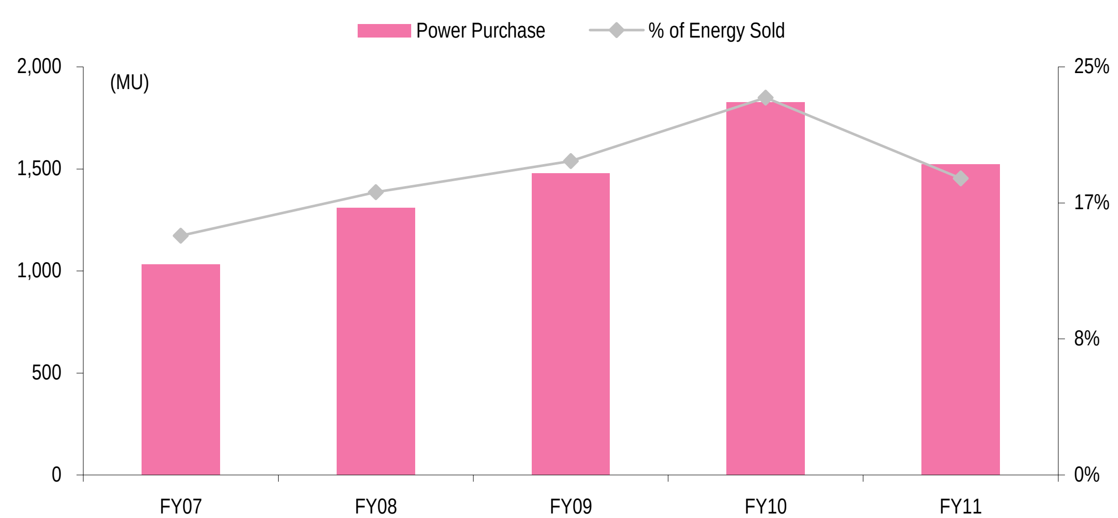
Exhibit 3 - Haldia is yet to commence construction activity

	MW	Tgt CoD	Land	Water	Fuel	PPA	MoEF
Haldia	600	FY15	✓	✓	✓	x	✓

Source: Company, PINC Research

CESC initiated the land acquisition process for the project in FY08 with the target to commission it by FY11. However, the land acquisition process has been significantly delayed due to various reasons. The management now targets to achieve CoD of the project by FY15. Despite most of the milestones having being achieved, we do not factor this project into our valuations as we wait for the company to sign PPA and commence the construction activity.

Exhibit 4 - Power Purchase declines as Budge Budge III commissions

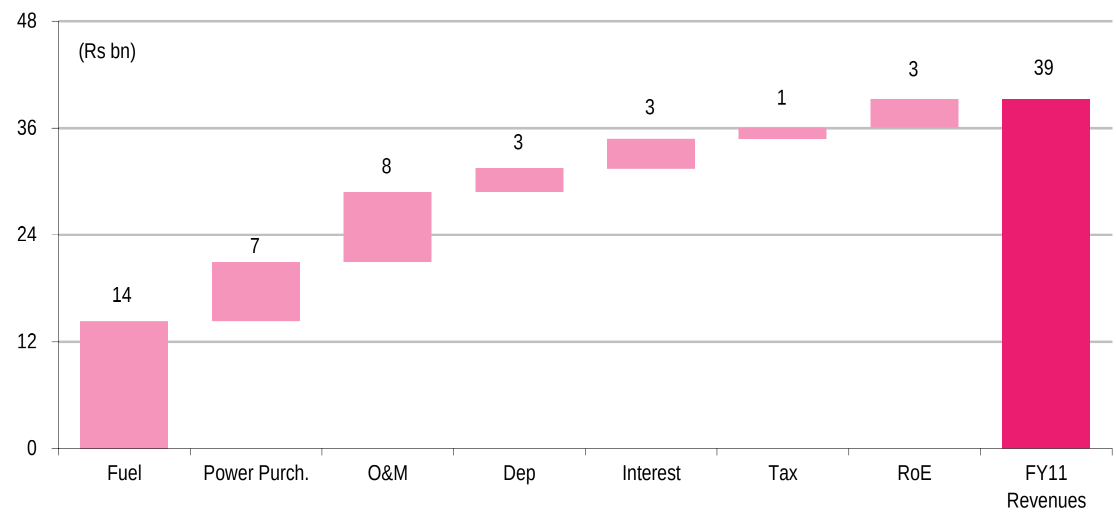


Source: Company, PINC Research

Existing operations – a cash cow

CESC's existing operations are governed under the regulatory framework of West Bengal Electricity Regulatory Commission (WBERC), which is modeled on the basis of CERC norms. As per WBERC norms, the generation company will be reimbursed all costs including taxes. The company earns 14% post tax RoE for its generating business and 15% for its distribution business (blended 14.5%). Incrementally, it benefits from energy exports where it is entitled to retain 40% of the profit earned from sale of surplus power. CESC sells surplus power in the open market during night hours when demand in its load center falls.

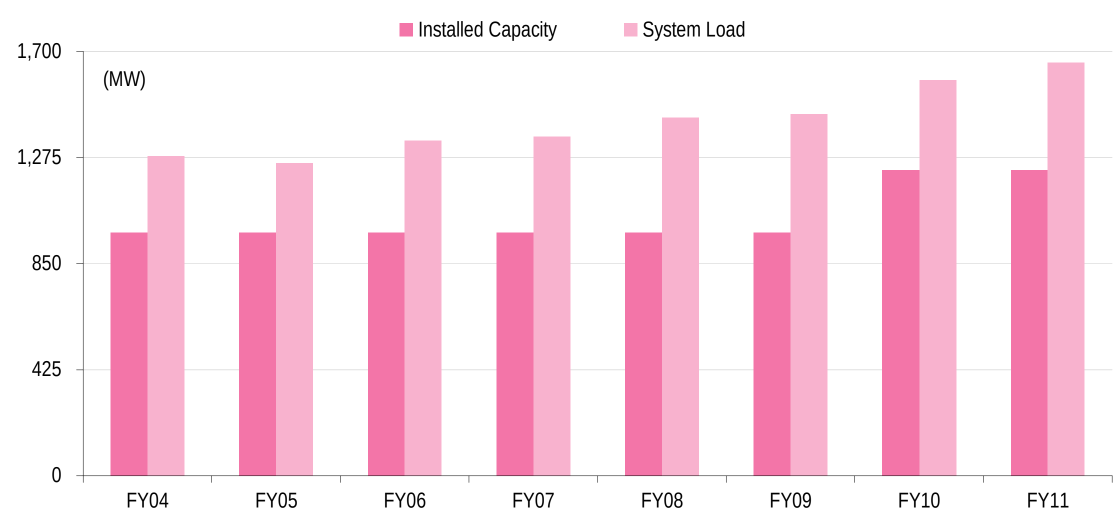
Exhibit 5 - Cost pass through as it operates under regulatory model



Source: Company, PINC Research

A recent change in regulation allows CESC to undertake monthly revision of tariff to adjust for any variation in fuel cost. We believe this will lead to an early reimbursement of increase in coal cost and aid cash flows in the interim.

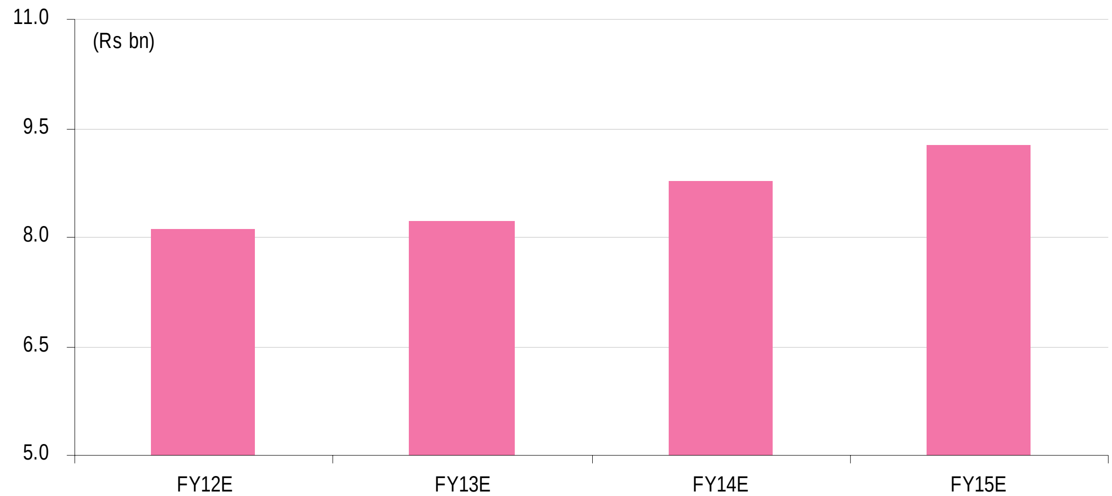
Exhibit 6 - No risk of backing down as system demand is higher than its capacity



Source: Company, PINC Research

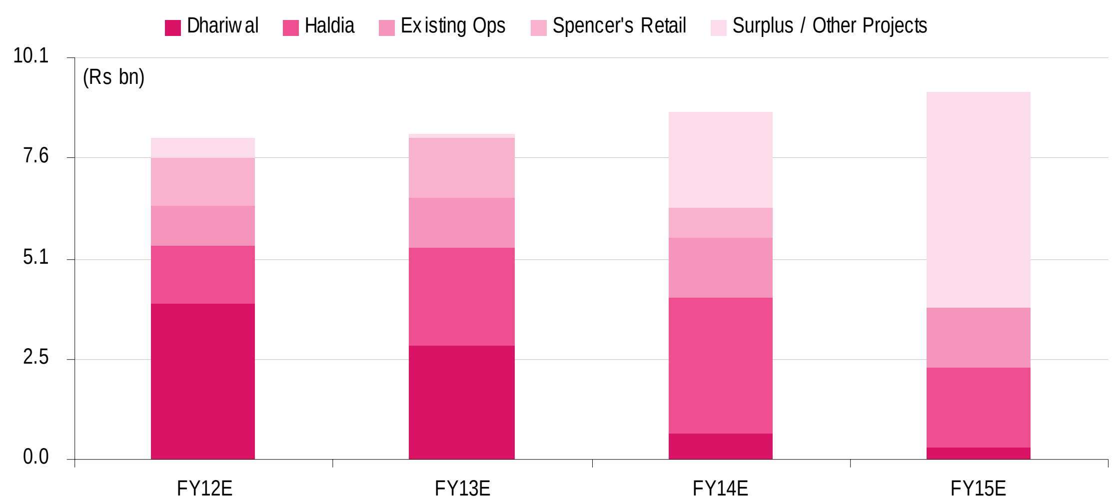
CESC's existing operations are a cash cow as they generate steady cash. With the commissioning of its Budge Budge III unit, its operating cash flow increased from Rs3.7bn in FY06 to Rs5.8bn in FY11. We expect this to further increase to ~Rs8bn/year due to improving working capital cycle. This could increase marginally with lower equity infusion in its subsidiaries (due to higher interest income on increased cash balance). We believe all the cash generated will be used to fund 1) equity contribution towards capex being undertaken by its subsidiaries and Kolkata business and 2) partly fund Spencer's losses.

Exhibit 7 - Steady operating cash flow business



Source: Company, PINC Research

Exhibit 8 - Strong cash flows to fully fund equity contribution of future capex



Source: Company, PINC Research

Offers greater security vis-à-vis peers

In the current scenario, where almost all generators sell power to state distribution companies, CESC is better placed as it sells all of its power to its own distribution arm in Kolkata. This secures the generating arm from backing down, delayed payments, and longer debtor days which most of its generating peers are facing. Moreover, CESC has been experiencing superior collection efficiency. Incrementally, CESC benefits from regular tariff revision as compared to many other distribution companies who are now filing petitions after a period of 2-3 years.

Exhibit 9 - Regular tariff revisions and high collection efficiency benefit CESC

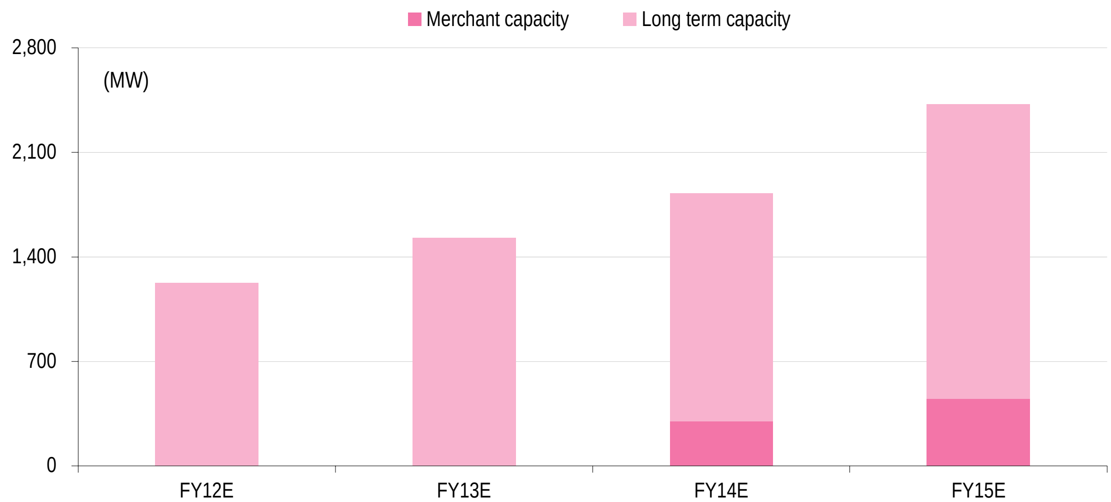
Source: Company, PINC Research

The company is better placed in terms of fuel security as most of the coal required to fire its existing stations comes from captive mine, Coal India and import. Since the FSA with Coal India was signed prior to March 2009, the penalty trigger level has been set at 90% of the ACQ. This coupled with captive coal should allow its existing stations to operate at ~92% PLF. For its future projects, the company has domestic linkages in place. However, keeping in view the current coal supply scenario we build in only 50% of the linkage coal to come through.

First true merchant exposure only in FY14

Although CESC sells surplus power from its Kolkata business in the open market at night, it will have its first full fledged merchant exposure (300MW) only in FY14 with the commissioning of its Chandrapur project. This will be further enhanced by 150MW in FY15 as it sells 25% of its Haldia project in the short term market. This will take its merchant exposure to 18.6% from nil currently. We believe, although, this exposure potentially allows CESC to earn higher profits, it simultaneously increases risk to its profitability.

Exhibit 10 - ~19% of FY15 capacity will be sold in the short term market



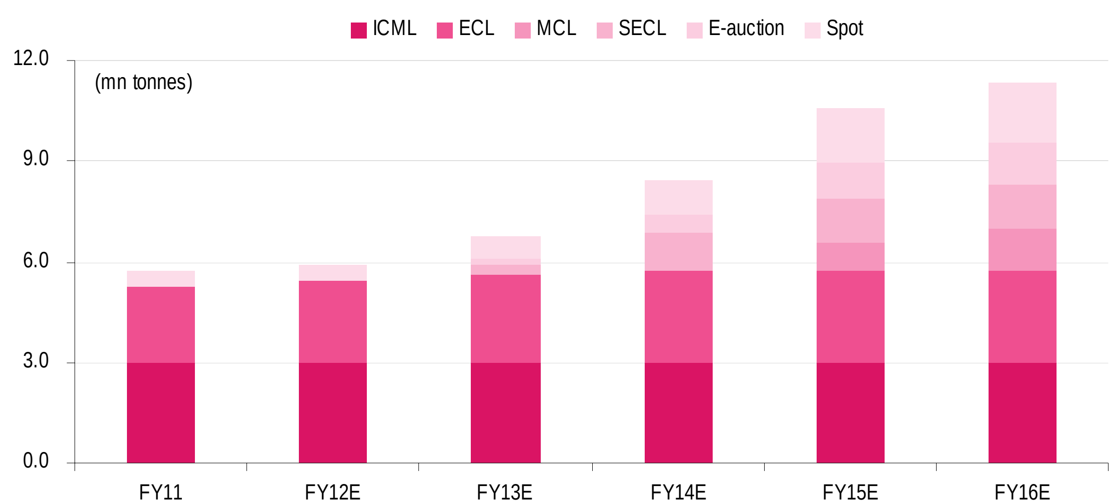
Source: Company, PINC Research

In the process of securing fuel for future projects

As for its existing capacity, CESC is fully secured for its fuel requirements. We estimate the company to consume ~6.3mn tonnes on a steady state basis to operate its existing capacity at 90% PLF. All of this coal will be sourced from the groups captive mine in Sarisatolli coal block (~3mn tonnes), linkage from ECL and imports.

With Dhariwal and Haldia expected to commission by FY14/15, its coal requirement will increase to ~11.4mn tonnes, i.e. an increase of ~5.1mn tonnes. The company has linkages in place for both these projects from SECL (Chandrapur project) and MCL (Haldia project). However, given the current coal scenario in the country and change in the penalty trigger by Coal India for its future FSAs to 50%, we assume only half of the required linkage coal to flow through to both these projects. Hence, we estimate the company will source the remaining ~2.6mn tonnes from e-auction and spot market.

Exhibit 11 - ~11.4mn tonnes of coal required on steady state basis



Source: Company, PINC Research

In addition to the above, CESC's coal requirement will increase further as it adds more capacity. CESC plans to add 1,320MW each at Orissa phase I, Orissa phase II and Balagarh; 600MW at Jharkhand; 300MW at Haldia phase II and 1,000MW at Pirpainty – thereby increasing its installed capacity to 8.3GW by FY18. Of these, Jharkhand is the only project which is fully secured for fuel as it has been allocated 110mn ton coal block. For the remaining projects, CESC is yet to tie up fuel.

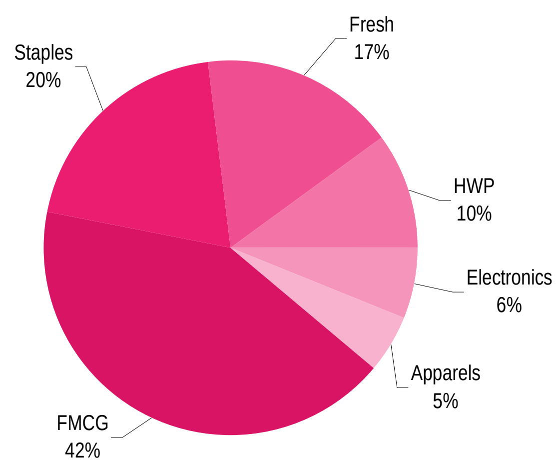
In order to partly meet its growing coal requirement, CESC through its group company and wholly owned subsidiary – Bantal Singapore Pte Ltd – acquired 11.6% stake in Australia listed mining company Resource Generation. This acquisition will provide CESC access to 139mn tonnes over 38 years – 73mn tonnes in phase I and 66mn tonnes in phase II – from the Boikarabelo mine in South Africa. Currently the mine is under development and is expected to commence operations from 2013 onwards.

Despite this arrangement, we believe the company will source coal from other sources – either e-auction or spot market to fulfill its requirement. We believe firm prices of coal could hamper project profitability if power tariffs continue to remain low going forward. Moreover, price of coal from the Boikarabelo mine will also be linked to an index – thus giving no material benefit to the company.

Spencer's to focus on large format stores and high margin products to turnaround

Spencer's Retail, CESC's retail venture, has pan India presence with over 220 stores spread across ~1mn sq ft. Spencer's primarily operates under the hyper and super format stores – accounting for over 60% of the area under operation. Spencer's, since FY07 has been reporting losses at the net level. This was due to 1) high contribution of low margin food and FMCG products, 2) rapid expansion of stores leading to high rentals and 3) stiff competition in a slowing economy. As a result, Spencer's gross margins contracted from 15.4% in FY07 to 11.1% in FY10. However, the margins expanded to 13.0% in FY11 as it shut many of its unviable small stores and average realizations improved to Rs915 from Rs770 in FY07.

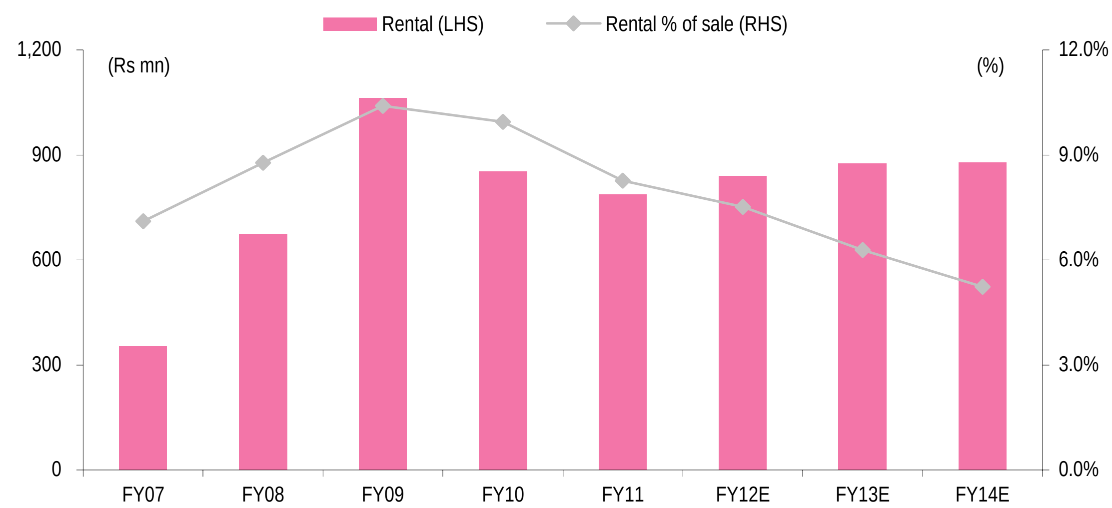
Exhibit 12 - 80% of the revenues come from low margin food segment



Source: Company, PINC Research

Spencer's accumulated losses of Rs7.8bn have been funded out of the cash generated by the parent. In its efforts to reduce losses, Spencer's closed many of its unviable stores, re-negotiated rentals, consolidated its back-end, de-layered its zonal structure and improved operational efficiencies. These measures translated into savings of ~Rs100mn/month. In its efforts to reduce rental expenditure, Spencer's has agreed to share ~3% of the store revenues with the property owners.

Exhibit 13 - 8% of FY11 revenues were towards paying rent



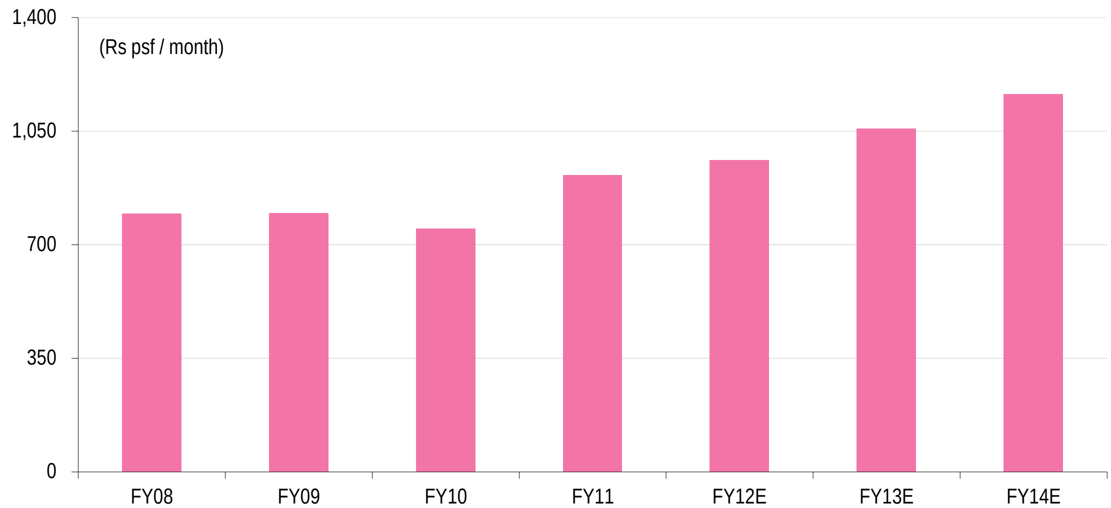
Source: Company, PINC Research

Exhibit 14 - Expect losses to reduce going forward

Source: Company, PINC Research

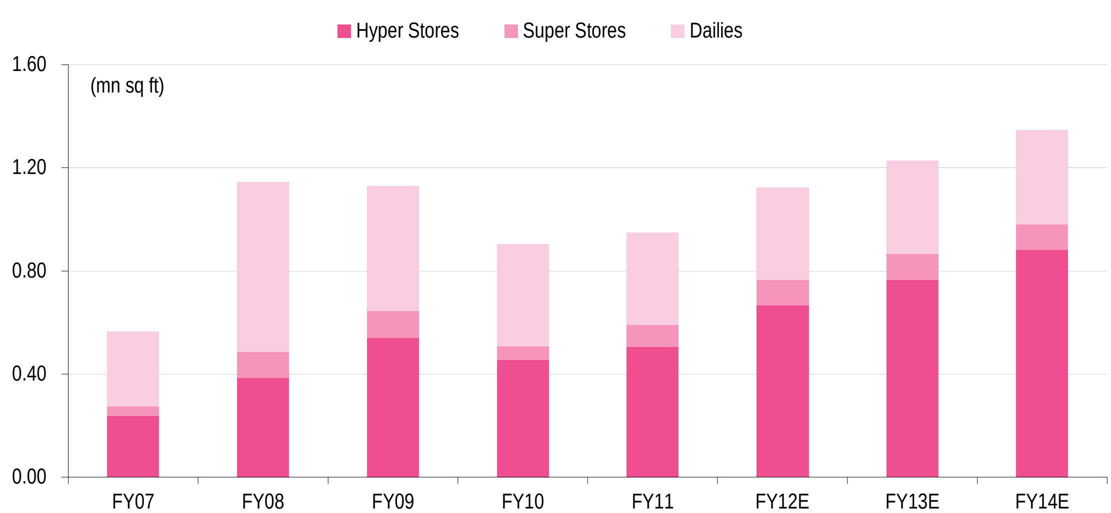
In order to turnaround, the management has redefined its business strategy and is shifting focus to higher margin products like private labels and apparel sales and improving same store sales. The management plans to focus on 1) improving realisations to over Rs1,000/sq ft/month, 2) operate more of large format stores like hyper and super, 3) increase sale of high margin products like private labels in food and non-food segments and apparels, 4) enter into turnover based rental agreement for new stores and 5) other cost control measures. Spencer's, targets to increase the share of apparels in the overall portfolio to 15% over the next 2-3 years from 5% currently.

Exhibit 15 - Targets to improve realisations to Rs1,000/sq ft/month



Source: Company, PINC Research

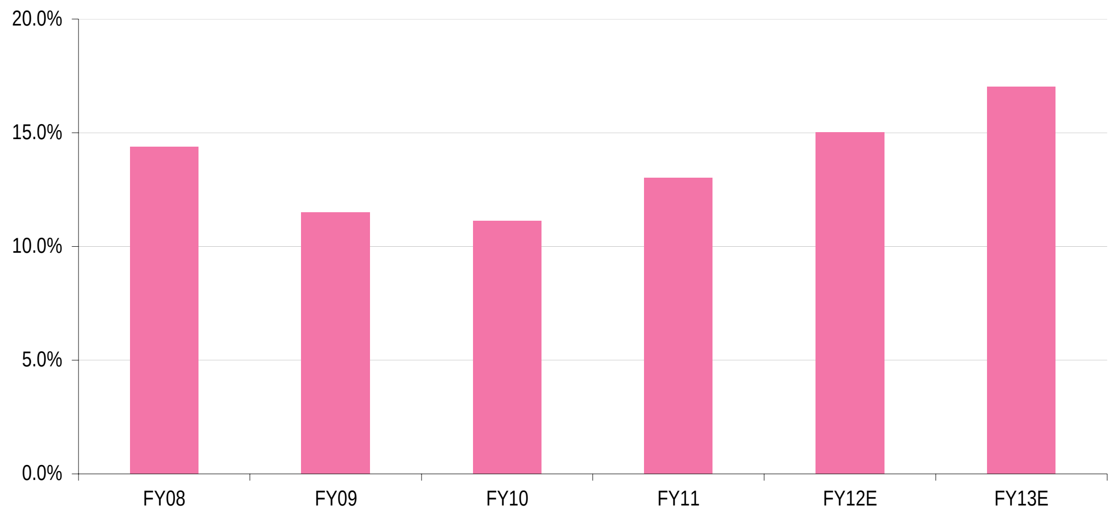
Exhibit 16 - Shift focus to hyper and super stores



Source: Company, PINC Research

The management began implementing this strategy since FY11, the results of which are visible from 11% decline in cash loss to Rs1,646mn in FY11 as against Rs1,856mn in FY10. We believe these actions shall expand gross margin to 17% by FY13 – management targets 30% gross margins – from 11.1% in FY10 and further reduction in cash losses.

Exhibit 17 - Change in product mix will improve gross profit margin



Source: Company, PINC Research

Exhibit 18 - Financial snapshot of Spencer's Retail

Rs mn	FY09	FY10	FY11	FY12E	FY13E
Net Sales	10,665	8,944	9,968	11,646	14,319
YoY Gr. (%)	32.3	(16.1)	11.4	16.8	23.0
Op. Profits	(2,962)	(2,056)	(1,619)	(1,312)	(977)
OPM (%)	(27.8)	(23.0)	(16.2)	(11.3)	(6.8)
Adjusted Net Profit	(2,483)	(1,971)	(1,658)	(1,448)	(1,218)
YoY Gr. (%)	176.1	(20.6)	(15.9)	(12.7)	(15.9)
Dil. EPS (Rs)	(95.5)	(75.8)	(63.7)	(55.7)	(46.8)
Debt/Equity (x)	0.9 x	1.2 x	1.2 x	1.5 x	1.4 x

Source: Company, PINC Research

Better placed vis-à-vis its private sector peers

We believe CESC is placed ahead of its private sector peers like JSW Energy and Adani Power on the following counts:

1) **Zero merchant exposure:** Although the company sells a small part of its power in the open market during non-peak hours, its actual merchant exposure as of date remains nil. This is expected to increase to ~19% with the commissioning of its new projects – Chandrapur and Haldia. Since long term sale (regulatory business) will continue to form a larger part of the earnings, we believe CESC's earnings will be a lot less volatile vis-à-vis its peers.

2) **Fuel secured:** CESC's existing operations are fully secured for fuel through its captive mine, linkage and imports. Its strategy has been to secure the required quantity of fuel before commencing construction of a new plant. It has linkages for its Chandrapur and Haldia projects and a captive mine for its Jharkhand project. In order to secure itself for its future capacity, it acquired 14.6% stake in Resource Generation. This shall reduce the company's dependence to procure coal from other sources.

3) **Regulatory business:** Unlike its peers, JSW Energy and Adani Power, CESC operates under a regulatory framework which helps it generate steady and safe cash flow. CESC's Kolkata business (generation + distribution) earns a fixed 14.5% post tax RoE with cost as pass through. However, its peers sell power on the riskier model of either merchant or Case-I basis, where the cost escalation has to be borne by the developer.
4) **Lower risk of backing down:** Since CESC sells all its power to its own distribution business in Kolkata – where base load is higher than its generation capacity – it insulates the generation business from the risk of backing down, which has been seen in the case of NTPC and other developers.
5) **No payment risk:** Unlike its peers who sell power to the state owned distribution companies, CESC sells power to its own distribution arm. Moreover, its distribution arm has been filing tariff petitions with the regulator on a regular basis. This secures CESC from the ill-effects of weak SEB financial health. This shall also translate into low debtor days as compared to its peers who have been witnessing longer debtor days.

Key risks:

1) **Restricted tariff hikes:** The biggest risk to CESC's earnings is a change in regulation and restriction on raising tariffs. This could be possible due to change in the CERC tariff regulations and imposition of that on states. Also, as tariffs become high there is a possibility the regulator may not allow CESC to undertake frequent tariff revisions.
2) **Limited coal supply for its expansions:** In the event of restricted domestic coal for its expansions, CESC will have to consume either e-auction or spot imported coal. Further, any delays in commissioning the Boikarabelo mine in South Africa will dampen earnings, compress RoE and lower valuations.
3) **New projects risk RoE contraction:** In order to maintain earnings and RoE, it is imperative for CESC to sign new PPAs which will be robust to fully or materially cover any escalation in costs going forward and remaining competitive at the same time. Hence, in the event of lower than expected tariffs could lead to lower RoE for the project – thus contracting consolidated RoE. For instance, Chandrapur tariff will need to be competitive to cover the cost of expensive e-auction and imported coal, which we estimate will require ~1.3mn tonnes on a steady state basis.
4) **Higher than expected cash infusion into Spencer's:** Two key risks faced by Spencer's are 1) longer than expected turnaround time and 2) delay in bringing in a strategic partner, could require the parent to keep infusing cash for a longer period of time. This will leave lesser deployable cash for other projects of CESC.

Parent business available at discounted valuations, Initiate with BUY

CESC is one of the most efficient power generators and distributors in the country with its stations being available for over 90%. We expect the company will continue to trade at discounted valuation given the loss funding of Spencer's Retail by the cash cow generating business. However, we believe the parent shall be able to generate sufficient cash to fund losses of Spencer's and undertake capex of various projects.

We expect FY16 to be the turnaround year as 1) it will be the first full year of operations of CESC's expanded capacity and 2) Spencer's generates PAT for the first time since acquisition. We estimate the parent's earnings to be at Rs4.9bn and Rs5.1bn during FY12 and FY13 respectively. We value the generating business on FCFE basis – existing business at Rs302/share and Chandrapur at Rs23/share, assign Rs2/share to CESC Properties, Rs18/share for its non-strategic investments and nil value to its retail business to arrive at our

SoTP based target price of Rs346/share. Initiate coverage with a 'BUY' rating on the stock with a target price of Rs346/share, implying an upside of 29%.

Exhibit 19 - SoTP based value of Rs346/share

	Rs bn	Rs/share	Comments
Operational Projects	37	297	
Existing Units	38	302	FCFE, Terminal growth rate of 3%, Ke 14%
Under Construction Projects	3	23	
Dhariwal Infra	3	23	FCFE, Terminal growth rate of 3%, Ke 15%
CESC Properties	0	2	
Spencer's Retail	0	0	
Investments	2	18	FY11 balance sheet figure
Total		346	

Source: PINC Research

Exhibit 20 - Trades at implied PBV of 0.8x

Particulars	Rs bn
Current market cap	43
Less: Estimated market cap of retail venture	0
Implied market cap of power	43
Implied P/B (x)	0.8

Source: PINC Research

Annexure

Company Background

CESC, the flagship company of RPG-Sanjiv Goenka group, commands monopoly in generation, transmission and distribution in Kolkata. It caters to ~2.5mn customers in its regulated area of 567 sq km with maximum system demand of 1,657MW. CESC owns and operates 1,225MW through its four coal fired stations – of which its 100MW New Cossipore plant is being used as a peaking station.

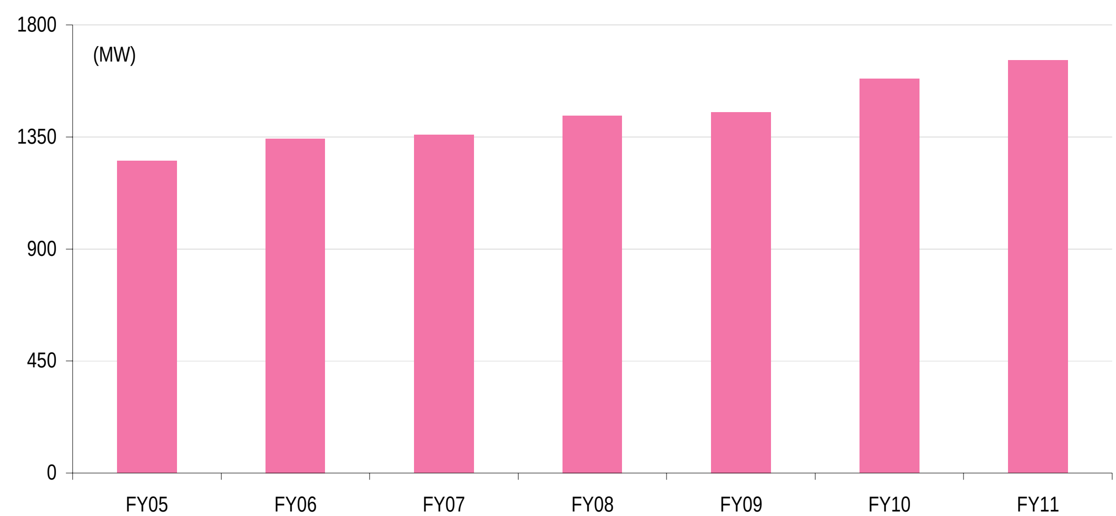
Its entire fuel requirement of ~5.7mn tonnes is met through a mix of captive coal (~3mn tonnes), linkage coal (ECL) and imports. The captive coal mine, owned by its group company Integrated Coal Mining Ltd., supplies grade D coal at the price which is in line with that of Coal India.

Exhibit 21 - CESC's existing profile

Stations	MW
Budge Budge	750
Southern	135
Titagarh	240
New Cossipore	100
Total	1,225
Transmission Network (ckt)	17,832
No. of customers (mn)	2.5

Source: Company, PINC Research

Exhibit 22 - System load grew at 4.8% CAGR over FY05-11



Source: Company, PINC Research

CESC plans to enhance its capacity to 8,294MW by FY18 with one 9MW solar unit in Gujarat. All the remaining projects will be coal based projects. However, the company is yet to achieve key milestones for all projects except Chandrapur and Haldia – both of which have achieved financial closure. All these projects will be executed by the company via different SPVs.

Exhibit 23 - Most of the projects are yet to achieve key milestones

	MW	CoD	Land	Water	Fuel	PPA	MoEF
Under Construction							
Chandrapur	600	FY14	✓	✓	✓	X	✓
Haldia-I	600	FY15	✓	✓	✓	X	✓
Under Implementation & Planning							
Orissa-I	1,320	FY16	✓	✓	X	X	Envtl ToR received and EIA completed
Solar	9	FY12	✓	✓	✓	✓	
Balagarh	1,320	FY17	✓	X	X	X	Envtl ToR received
Jharkhand	600	FY17	X	✓	✓	X	Envtl ToR received
Haldia-III	300	FY18	✓	X	X	X	X
Orissa-II	1,320	FY18	✓	X	X	X	X
Pirpainty	1,000	FY18	X	X	X	X	Envtl ToR received

Source: Company, PINC Research

CESC diversified into non-core operations like retail and real estate. Its real estate venture is being carried out by its wholly owned subsidiary, CESC Properties. Through this subsidiary, CESC is currently developing a 0.4mn sq ft luxury mall on a 3 acre land parcel in Central Kolkata. The mall being constructed by Larsen & Toubro is expected to commence operations by CY12.

Resource Generation – CESC holds 11.6%

Resource Generation (RG), an Australian and South African listed company has interests in coal and energy resource projects in three countries. These projects are located in the Waterberg coalfields of South Africa (coal), Tasmania (thermal coal) and Cameroon (uranium). RG's primary focus is the development of an open cut coal mine in Waterberg region of South Africa with a target to commission the mines by January 2013. The Boikarabelo project and Boikarabelo Extended project contain probable resources and reserves of 3.2bn tonnes (~50% saleable coal) and 745mn tonnes respectively.

RG, in September 2010, signed its first offtake contract for 37mn tonnes of thermal coal over 20 years with Integrated Coal Mining Ltd – RPG group company. As per this contract, it will supply 1mtpa for the first three years and 2mtpa for the remaining 17 years to CESC. This was recently increased to 139mn tonnes over 38 years – 73mn tonnes in phase-I and 66mn tonnes in phase-II. CESC currently holds 11.6% in RG.

The Boikarabelo tenements are ~40 kms from an existing rail system which provides access to domestic markets and three ports i.e. Maputo, Richards Bay and Durban to ship out the coal to other countries.

Financial Summary of Spencer's Retail

Exhibit 24 - Income Statement

(Rs mn)	2009	2010	2011	2012E	2013E
Revenues	10,665	8,944	9,968	11,646	14,319
Growth (%)	*32.3*	*(16.1)*	*11.4*	*16.8*	*23.0*
Operating Profit	(2,962)	(2,056)	(1,619)	(1,312)	(977)
Other Income	26	133	45	12	8
EBITDA	(2,935)	(1,923)	(1,574)	(1,300)	(969)
Growth (%)	*178.6*	*(34.5)*	*(18.1)*	*(17.5)*	*(25.4)*
Depreciation & Amortization	408	486	508	456	428
EBIT	(3,343)	(2,409)	(2,083)	(1,756)	(1,397)
Interest Charges	249	281	327	350	375
PBT (Before E/o items)	(3,592)	(2,689)	(2,410)	(2,105)	(1,771)
Tax provision	(1,109)	(718)	(752)	(657)	(553)
Pre-exceptional PAT	(2,483)	(1,971)	(1,658)	(1,448)	(1,218)
Extra-ordinary items	707	(614)	(273)	0	0
Net Profit	(1,777)	(2,585)	(1,931)	(1,448)	(1,218)
Growth (%)	*98.9*	*45.5*	*(25.3)*	*(25.0)*	*(15.9)*
Basic EPS (Rs)	(95.5)	(75.8)	(63.7)	(55.7)	(46.8)
Diluted EPS (Rs)	(95.5)	(75.8)	(63.7)	(55.7)	(46.8)
Growth (%)	*178.1*	*(20.6)*	*(15.9)*	*(12.7)*	*(15.9)*

Source: Company, PINC Research

Exhibit 25 - Balance Sheet

(Rs mn)	2009	2010	2011	2012E	2013E
Equity Share Capital	260	260	260	260	260
Reserves & Surplus	4,100	2,999	2,996	2,746	3,027
Shareholders' Funds	4,360	3,259	3,256	3,007	3,287
Total Debt	3,763	4,072	3,913	4,613	4,528
Deferred Tax liability	(1,745)	(2,463)	(3,215)	(3,873)	(4,426)
Capital Employed	6,378	4,868	3,953	3,746	3,389
Fixed Assets	4,392	3,362	2,781	2,571	2,272
Cash & cash eq.	277	135	177	175	107
Net current assets	906	489	33	38	47
Investments	803	883	963	963	963
Total Assets	6,378	4,868	3,953	3,746	3,389

Source: Company, PINC Research

Standalone Financials

Year Ended March (Figures in Rs mn)

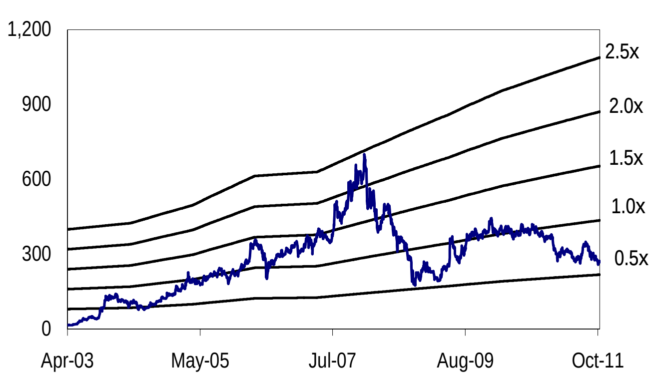
INCOME STATEMENT	2009	2010	2011	2012E	2013E
Revenues	30,905	33,584	40,105	46,251	48,250
Growth (%)	*9.0*	*8.7*	*19.4*	*15.3*	*4.3*
Operating Profit	7,217	8,727	11,315	12,351	12,819
Other Income	953	806	714	654	668
EBITDA	8,170	9,533	12,030	13,005	13,487
Growth (%)	*13.5*	*16.7*	*26.2*	*8.1*	*3.7*
Depreciation & Amortization	1,749	2,056	2,674	2,765	2,808
EBIT	6,421	7,476	9,356	10,240	10,679
Interest Charges (Net)	1,927	2,356	3,317	3,878	4,006
PBT (Before E/o items)	4,494	5,120	6,039	6,362	6,674
Tax provision	552	888	1,259	1,415	1,540
Pre-exceptional PAT	3,942	4,233	4,781	4,946	5,133
Extra-ordinary items	155	100	104	0	0
Net Profit	4,097	4,333	4,884	4,946	5,133
Growth (%)	*15.3*	*5.8*	*12.7*	*1.3*	*3.8*
Basic EPS (Rs)	31.4	33.7	38.1	39.4	40.9
Diluted EPS (Rs)	31.4	33.7	38.1	39.4	40.9
Growth (%)	*10.9*	*7.4*	*12.9*	*3.5*	*3.8*

CASH FLOW STATEMENT	2009	2010	2011	2012E	2013E
Pre-tax profit	4,494	5,120	6,039	6,362	6,674
Depreciation	1,749	2,056	2,674	2,765	2,808
Total tax paid	(552)	(888)	(1,259)	(1,415)	(1,540)
Chg in working capital	3,681	(709)	(1,787)	395	282
Other items	155	100	104	0	0
Cash from oper. (a)	9,527	5,681	5,770	8,107	8,223
Capital expenditure	(13,519)	(9,510)	(6,159)	(2,278)	(5,000)
Chg in investments	(3,354)	(3,444)	(5,470)	(5,714)	(5,677)
Other items					
Cash from inv. (b)	(16,873)	(12,955)	(11,629)	(7,992)	(10,677)
Free cash flow (a+b)	(7,346)	(7,274)	(5,859)	115	(2,454)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	8,720	4,652	2,439	2,381	4,726
Minority Interest	0	0	0	0	0
Dividend (incl. tax)	(585)	(585)	(583)	(581)	(588)
Other items	2,094	1,657	1,193	(7)	(22)
Cash from fin. (c)	10,229	5,724	3,049	1,793	4,116
Net chg in cash (a+b+c)	2,883	(1,550)	(2,809)	1,908	1,662

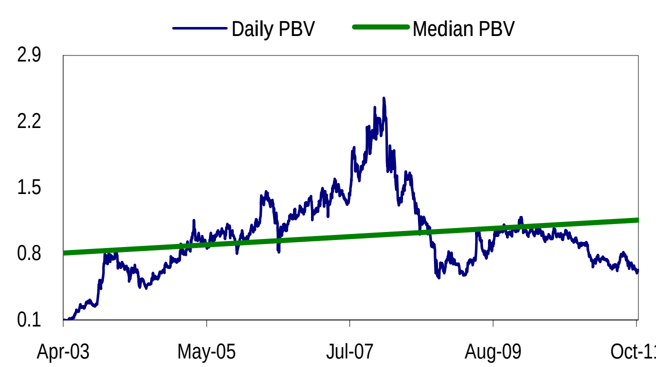
BALANCE SHEET	2009	2010	2011	2012E	2013E
Equity Share Capital	1,256	1,256	1,256	1,256	1,256
Reserves & Surplus	35,965	41,371	46,865	51,223	55,746
Shareholders' Funds	37,221	42,627	48,121	52,479	57,002
Minority Interest	0	0	0	0	0
Total Debt	32,430	37,082	39,520	41,902	46,628
Deferred Tax liability	0	0	0	0	0
Capital Employed	69,651	79,708	87,642	94,381	103,630
Fixed Assets	53,919	61,373	64,858	64,371	66,564
Cash & cash eq.	12,747	11,198	8,388	10,296	11,958
Net current assets	(8,566)	(7,857)	(6,069)	(6,465)	(6,747)
Investments	11,551	14,995	20,464	26,179	31,856
Total Assets	69,651	79,708	87,642	94,381	103,630

KEY RATIOS	2009	2010	2011	2012E	2013E
OPM (%)	23.4	26.0	28.2	26.7	26.6
Net Margin (%)	12.8	12.6	11.9	10.7	10.6
Dividend Yield (%)	1.7	1.7	1.7	1.7	1.7
Net Debt/Equity (x)	0.5	0.6	0.6	0.6	0.6
Net working capital (days)	(99.8)	(84.2)	(54.5)	(50.3)	(50.3)
ROACE (%)	10.3	10.0	11.2	11.3	10.8
ROANW (%)	11.5	10.6	10.5	9.8	9.4
EV/Sales (x)	1.7	1.8	1.6	1.4	1.4
EV/EBIDTA (x)	6.5	6.3	5.4	5.0	5.1
PER (x)	8.6	8.0	7.1	6.8	6.6
PCE (x)	5.8	5.3	4.5	4.4	4.3
Price/Book (x)	0.9	0.8	0.7	0.6	0.6

P/BV Band



Median PBV v/s Daily PBV



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