

# Result Update

**CMP : Rs. 388**  
**Rating : Buy**  
**Target : Rs. 460**

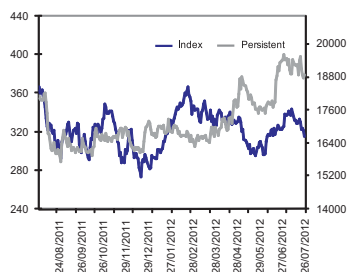
## KEY DATA

Market Cap (Rs. bn)	15.5
Market Cap (USD mn)	282.2
52 WK High / Low	409 / 281
Avg Daily Volume (BSE)	32619
Face Value (Rs.)	10

BSE Sensex	17236
Nifty	5229
BSE Code	533179
NSE Code	PERSISTENT
Reuters Code	PERS.BO
Bloomberg Code	PSYS IN

Shareholding %	3Q12	4Q12	1Q13
Promoters	39.0	39.0	39.0
MF/Banks/Indian FIs	8.0	12.0	13.0
FII/ NRIs/ OCBs	26.0	22.0	22.0
Indian Public	27.0	27.0	26.0

## Performance Chart



## PRICE PERFORMANCE (%)

	3 M	6 M	12 M
Absolute	7.4	18.2	6.3
Relative	10.3	21.7	16.0

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## Persistent Systems

Persistent Systems Ltd. (PSL) reported its Q1FY13 results which were inline on the revenue front but disappointed at the operating level. The revenue in \$ terms grew 1.3% sequentially and 9.8% Y-o-Y to \$54.9 mn due to higher IP-led revenues (grew 16.4% sequentially and 150.2% Y-o-Y to \$7.6 mn) however linear business remained muted.

EBITDA margin contracted by 166 bps sequentially to 26.8% compared to expectations of significant expansion on the back of rupee depreciation. This was primarily due to unexpected wage hike of 4.2% for onsite employees, product acquisition (leading to hiring of 72 people in Malaysia and 12 in US) and higher SG&A expenses. Offshore salary hike of 10% is due in Q2FY13 hence margins will be under pressure going forward.

Net profit stood at Rs 416 mn up 50.8% Y-o-Y and only 0.9% sequentially despite strong rupee depreciation of 9.7% in the quarter due to EBITDA margin contraction and forex loss of Rs 92 mn.

### Linear business performance modest but PSL's IP focus bearing fruit

IP revenues contributed to 13.9% of the total revenue as against 12.1% in Q4FY12 while it more than doubled Y-o-Y to \$7.65mn. The network performance management product acquired from IBM contributed to ~\$0.75mn while the full-quarter contribution from Openwave of ~US\$0.6mn also added to the incremental revenue sequentially. The linear business on the other hand continued to remain subdued as revenue declined 0.8% sequentially (0.6% Q-o-Q decline in volumes).

### Revenues from four focus areas grew faster at 5.3% sequentially

The four focus areas of cloud, collaboration, mobility, and BI contributed ~39% to the overall revenues in Q1FY13 and grew 5.3% sequentially.

### Wage hikes & headcounts

The company has given a wage hike of 4.4% to its onsite employees and a hike of 9.9% is in the offing to its offshore employees in the Q2FY13. Headcount declined for the 3rd quarter in a row with attrition increasing by ~60 bps sequentially to 18.9%. PSL absorbed the full employee cost (72 employees in Malaysia and 12 in the US) related to the end-of-life product acquisition from IBM (present for 2/3rds of the quarter) whereas revenue contribution from the same was modest in the quarter.

### The large Forex loss in Q1FY13 could reverse in H2FY13

PSL reported forex losses of ~Rs121mn comprising of Rs91mn loss on the hedges and Rs30mn loss on asset translation. However, given that the hedges in Q3-Q4FY13 are at favorable rates, i.e. upwards of Rs57/\$, we expect forex gains on hedges in H2FY13 if the exchange rate remains at similar levels.

### Management guidance

Management has guided that the company would surpass Nasscom's industry growth forecast of 11-14% Y-o-Y (USD revenue) for FY13 with incremental growth driven by growth from the key focus areas of cloud, analytics and collaboration from partnerships with companies such as Salesforce.com, IBM, Cisco etc. It expects to maintain or improve EBITDA margins. Though the IP revenues are expected to remain volatile going forward, the company expects good growth from it.

## Outlook

Revenue momentum should pick up in the next few quarters (from revenue contribution from the product acquisitions). We would expect margins to remain under pressure in Q2FY13 as well, given the impact of offshore wage hikes. We believe that the full-year revenue contribution from the Openwave location business (\$6-7mn) and the IBM product takeover (\$8-9mn) should together contribute nearly 6% to FY13 growth, lowering the burden on the organic business. PSL is into pure-play offshore product development (OPD), which is highly discretionary in nature and, thus, exposes the company to higher amount of risk as posed to its peers if situation deteriorates further. We revise our revenue and EPS estimates upwards from Rs 12.04bn/Rs 42.2 to Rs 12.04bn/Rs 42.2 respectively taking into account the depreciated Re and higher contribution from IP.

PSL is one of the cheapest midcaps which has operating margins much higher margins than its peers and comparable to some of the large caps. We believe PSL would in due course undergo a re-rating and trade inline with other good growth mid cap stocks like KPIT Cummins, Mindtree etc. However currently we value the company at 9x FY13E earnings, thus arriving at a target price of Rs 460, 9% higher than our earlier target of Rs 422.

## Comparative Valuation

Company	Sales		EPS		P/E		EV/EBITDA		EBIDTA		RoE		Annual	Annual	Div. Yield (%)	
	Rs	Rs bn	Rs bn	Rs bn	Rs	(x)	(x)	(%)	(%)	(%)	(%)	Growth	Growth			
	Price	Mcap	Cash	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	(13E/12E)		(13E/12E)
TCS	1,244	2,434	67.5	615	687	69.3	76.8	17.9	16.2	12.9	11.8	29.6	36.5	10.8	11.7	1.7
Infosys	2,227	1,279	208.4	393	428	164.3	177.9	13.6	12.5	8.7	8.2	31.2	25.9	8.3	8.8	2.2
Wipro	340	837	77.7	435	478	26.2	28.6	13.0	11.9	9.7	8.9	19.4	20.6	8.9	9.9	2.0
HCL	519	360	25.5	250	281	43.0	48.1	12.1	10.8	7.0	6.9	20.1	25.3	11.8	12.4	2.0
Oracle Fin. Services	2,555	215	65.5	35	38	124.4	140.8	20.5	18.2	14.6	13.4	36.6	14.8	13.1	10.9	0.0
Satyam	82	96	55.3	74	83	8.8	9.9	9.3	8.3	5.4	4.8	17.1	26.8	12.9	11.9	0.1
Tech Mahindra	713	91	2.4	61	66	72.0	80.1	9.9	8.9	9.1	8.9	17.5	21.7	11.3	7.6	0.7
Mphasis	398	83	20.7	55	58	37.2	39.1	10.7	10.2	8.0	7.5	19.0	18.7	5.0	6.8	1.6
Hexaware	114	33.8	4.6	19	22	10.8	12.4	10.6	9.2	7.1	6.3	21.8	28.8	14.5	16.1	4.6
Financial Tech.	719	33.1	21.1	5	NA	45.0	NA	16.0	NA	18.9	NA	45.6	8.3	-56.7	28.0	1.4
CMC	981	29.7	2.1	19	23	74.9	89.5	13.1	11.0	9.5	7.8	16.2	26.1	19.5	20.2	1.5
Redington	68	27.2	4.8	251	292	8.9	10.9	7.6	6.3	6.1	5.1	2.8	23.1	22.3	16.2	1.8
MindTree	631	25.8	0.6	23	25	73.7	82.5	8.6	7.7	5.7	5.0	19.9	27.4	12.0	9.7	0.8
KPIT Cummins	118	21.0	1.5	22	25	11.5	13.4	10.2	8.7	6.3	5.7	15.7	24.2	17.0	14.6	0.8
Eclerx	680	19.9	3.3	6	7	65.3	74.6	10.4	9.1	7.4	6.7	39.6	49.1	14.2	15.2	3.9
Vakrangee Software	40	19.6	0.4	14	NA	1.4	NA	27.9	NA	9.6	NA	17.8	18.3	46.5	52.1	0.3
Infotech Enterprises	176	19.7	4.6	19	22	20.6	23.1	8.6	7.7	4.3	4.0	18.4	17.7	12.0	12.8	1.6
NIIT Technologies	292	17.5	2.0	20	22	39.5	43.2	7.4	6.8	4.4	3.9	17.7	22.9	9.5	11.6	3.0
Persistent Systems	385	15.4	0.4	13	14	50.9	56.6	7.6	6.8	3.7	3.4	25.7	20.0	11.2	11.7	1.5
Zensar Technologies	269	11.7	2.2	22	24	44.4	49.7	6.1	5.4	3.7	3.4	14.1	27.3	12.1	10.8	NA
Polaris Financial Technologies	112	11.1	1.4	24	28	23.6	26.6	4.7	4.2	3.4	2.9	13.8	17.5	13.1	13.2	4.1
Volta India Ltd	68	11.0	1.4	19	21	18.0	16.9	3.8	4.0	3.7	3.6	40.5	13.6	-6.4	10.1	5.5

### Average Valuations

Large Caps								15.4	13.9	10.6	9.8	27.4	24.6	10.6	10.7	1.6
Midcaps								10.1	7.6	6.6	5.1	21.2	23.4	10.2	15.5	2.1

Source: FQ Estimates, Bloomberg Estimates

## Quarterly Result Analysis

Per	Q1 FY13	Q1 FY12	Y-o-Y change %	Q4 FY12	Q-o-Q change %
Net Sales (in USD mn)	54.9	50.0	9.8%	54.2	1.3%
<b>Net Sales</b>	<b>3,007</b>	<b>2,238</b>	<b>34.4%</b>	<b>2,706</b>	<b>11.1%</b>
<b>Less:</b>					
Cost of services and sales	1,764	1,519	16.2%	1,613	9.4%
Gross Profit	1,243	719		1,093	
Administrative and other expenses	435	329	32.3%	321	35.5%
<b>Total Expenditure</b>	<b>2,200</b>	<b>1,848</b>	<b>19.0%</b>	<b>1,935</b>	<b>13.7%</b>
<b>EBIDTA</b>	<b>807</b>	<b>390</b>	<b>107.1%</b>	<b>771</b>	<b>4.6%</b>
Less: Depreciation	185	126	45.9%	186	(0.8%)
Add: Other income	75	59	26.3%	60	24.4%
<b>Profit Before Extra-ordinary items and Tax</b>	<b>697</b>	<b>322</b>	<b>116.2%</b>	<b>645</b>	<b>8.0%</b>
Extra-ordinaries	(122)	78	(256.4%)	(93)	31.2%
Less: Total Tax	160	125	28.1%	140	13.8%
<b>Profit After Tax</b>	<b>416</b>	<b>276</b>	<b>50.8%</b>	<b>412</b>	<b>0.9%</b>
<b>Profit After Tax Excl. extra-ordinaries</b>	<b>538</b>	<b>198</b>	<b>171.8%</b>	<b>505</b>	<b>6.4%</b>
<b>Diluted EPS (Rs.)</b>	<b>10.39</b>	<b>6.89</b>	<b>50.8%</b>	<b>10.30</b>	<b>0.9%</b>
Diluted EPS excl. extra-ordinaries (Rs.)	13.44	4.95	171.8%	12.63	6.4%
Diluted number of Shares (mn)	40	40		40	

Margin Analysis			Change in BPS		Change in BPS
Gross Profit Margin	41.3%	32.1%	919	40.4%	94
EBIDTA Margin	26.8%	17.4%	942	28.5%	(166)
Proforma NPM	17.9%	8.8%	904	18.7%	(78)
Effective Tax Rate	22.9%	38.7%	(1,576)	21.7%	116
<b>Cost Analysis</b>					
Cost of services and sales	58.7%	67.9%	(919)	59.6%	(94)
Administrative and other expenses	14.5%	14.7%	(23)	11.9%	260

On the margin front, GPM expanded by 94 bps. On the negative side it was impacted by three factors, increasing on-site salaries, the additional Visa cost and acquisition of people in U.S. and Malaysia which was offset by currency gains. On S&M front, the increase was mainly due to increase in on-site salaries and participation in couple of marketing events.

On employee related expenses, PSL witnessed 7.7% sequential increase, mainly due to 4.2% pay hike for its onsite delivery team effective April 1, 2012. As part of its acquisition of Network Performance Management product, PSL added 72 employees in Malaysia and 12 employees in USA.

PSL's project related expenses went up by 67% sequentially. A higher VISA fee coupled with higher VISA applications was the main reason for this increase. PSL's sales and marketing cost increased due to increments given to the sales team in U.S. effective April 1, 2012 and also due to the participation of some of the branding and marketing events in U.S. The administrative cost increased by 6% due to hiring of additional premises in the SEZ.

PSL's investment income for the quarter came in at Rs75 mn, which was offset by hedging losses of Rs 121 mn, thus resulting in a net loss of Rs 47 mn in the other income portfolio.

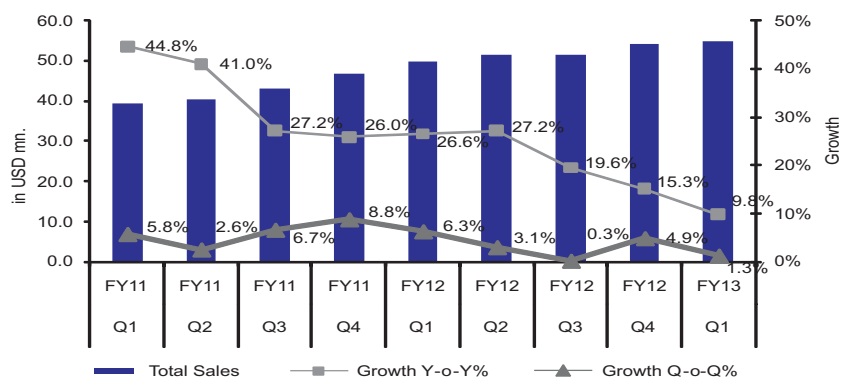
The effective tax rate for the quarter was 27.9%, higher sequentially which also impacted the PAT in Q1FY13.

PSL's PAT for the quarter came in at Rs 415.7 mn, up 1% sequentially.

As on 30th June, PSL's hedge position stood at Rs 107.75 mn at an average rate of Rs 52.91. The management mentioned that PSL has consistently followed the policy of hedging ~50% of its net open position on 12 months rolling basis.

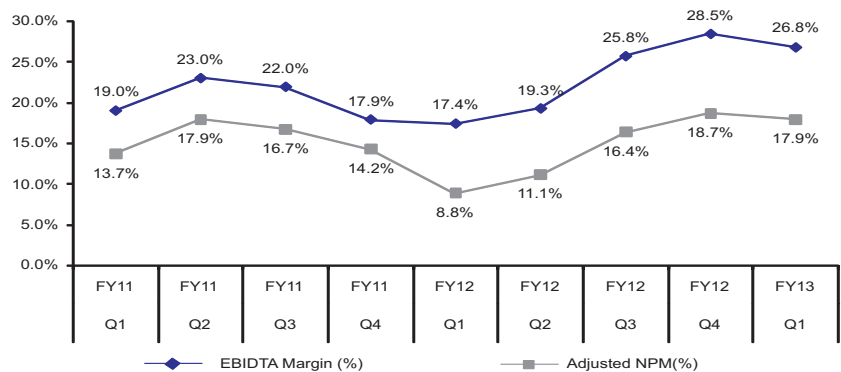
PSL's cash and investments as on 30th June stood at Rs 3,596 mn while the total CapEx for the quarter came in at Rs 104 mn. As PSL completed the Hinjawadi and Nagpur projects in Q4FY12 the CapEx for Q1FY13 was on a lower side.

### Revenue and Growth



Source: Company, FQ Research

### Margin Analysis



Source: Company, FQ Research

## Business Highlights

### Segmental Performance

Consol Revenue in INR mn & Growth (%)	Q1 FY11	Q2 FY11	Q3 FY11	Q4 FY11	Q1 FY12	Q2 FY12	Q3 FY 12	Q4 FY 12	Q1 FY 13
<b>Infrastructure &amp; Systems</b>									
Revenue	1,299	1,298	1,272	1,454	1,519	1,602	1,797	1,830	1,840
Q-o-Q growth	8.5%	-0.1%	-2.0%	14.3%	4.5%	5.5%	12.1%	1.8%	0.5%
Y-o-Y growth	54.7%	46.0%	22.1%	21.4%	16.9%	23.4%	41.3%	25.9%	21.2%
% of total revenue	71.7%	69.4%	65.2%	68.3%	67.9%	67.3%	67.1%	67.6%	61.2%
Operating Profit	727	572	584	719	542	686	788	760	856
% of total Opr. Profit	71.8%	66.7%	59.6%	66.2%	57.2%	61.5%	59.4%	59.9%	57.6%
OPM (%)	56.0%	44.1%	46.0%	49.4%	35.7%	42.8%	43.8%	41.5%	46.5%
<b>Telecom &amp; Wireless</b>									
Revenue	336	373	450	436	497	529	546	565	838
Q-o-Q growth	-3.7%	11.2%	20.7%	-3.1%	14.0%	6.5%	3.1%	3.6%	48.1%
Y-o-Y growth	5.8%	8.2%	23.5%	25.1%	48.1%	41.9%	21.2%	29.6%	68.5%
% of total revenue	18.5%	20.0%	23.1%	20.5%	22.2%	22.2%	20.4%	20.9%	27.9%
Operating Profit	177	167	251	221	271	295	330	330	462
% of total Opr. Profit	17.5%	19.4%	25.6%	20.3%	28.6%	26.4%	24.9%	26.0%	31.0%
OPM (%)	52.9%	44.7%	55.7%	50.6%	54.5%	55.6%	60.4%	58.3%	55.1%
<b>Life Sciences &amp; Health Care</b>									
Revenue	177	199	227	238	222	250	335	310	329
Q-o-Q growth	2.9%	12.6%	14.4%	4.8%	-6.8%	12.6%	33.8%	-7.2%	6.0%
Y-o-Y growth	8.0%	27.4%	28.0%	38.8%	25.8%	25.8%	47.2%	30.4%	48.3%
% of total revenue	9.7%	10.6%	11.7%	11.2%	9.9%	10.5%	12.5%	11.5%	10.9%
Operating Profit	109	119	146	146	134	135	209	179	169
% of total Opr. Profit	10.7%	13.9%	14.9%	13.5%	14.1%	12.1%	15.7%	14.1%	11.3%
OPM (%)	61.6%	59.8%	64.1%	61.5%	60.3%	54.0%	62.4%	57.7%	51.2%
<b>Total Revenue</b>	<b>1,811</b>	<b>1,870</b>	<b>1,949</b>	<b>2,128</b>	<b>2,238</b>	<b>2,382</b>	<b>2,677</b>	<b>2,706</b>	<b>3,007</b>
Q-o-Q growth	5.4%	3.3%	4.2%	9.2%	5.2%	6.4%	12.4%	1.1%	11.1%
Y-o-Y growth	37.1%	34.5%	23.1%	23.9%	23.6%	27.4%	37.3%	27.1%	34.4%
Operating Profit	1,014	858	981	1,086	947	1,115	1,326	1,269	1,487
OPM (%)	56.0%	45.9%	50.3%	51.0%	42.3%	46.8%	49.5%	46.9%	49.4%

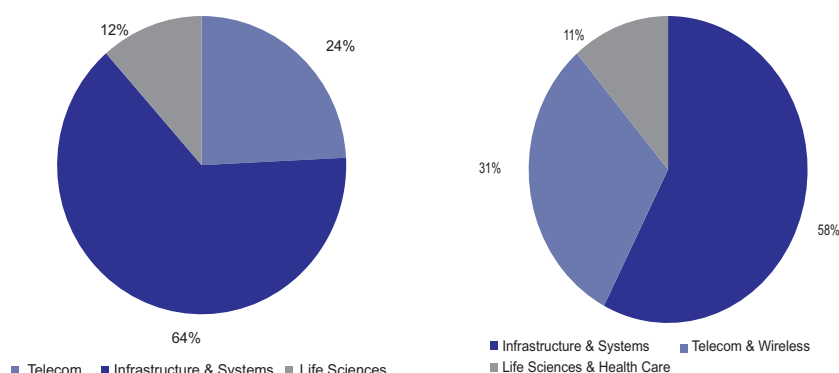
Source: Company, FQ Research

NA - Not Applicable

Telecom vertical registered was the star performer even in Q1FY13 as revenue grew by 48% Q-o-Q while Infrastructure and Systems revenues rose by a modest 0.5% sequentially. Revenue from Life Sciences and Healthcare rose 6% sequentially.

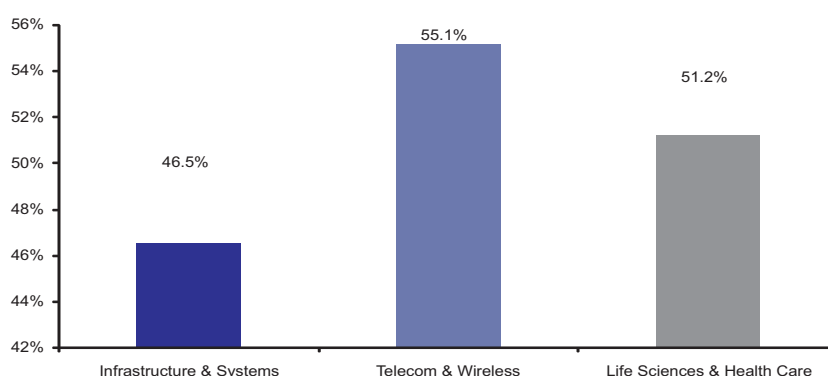
In terms of profitability, OPM from Infrastructure and Systems expanded by 500 bps to 46.5% Telecom and wireless contracted by 318 bps to 55.1% while that of Lifesciences and healthcare tanked by massive 653 bps to 51.2%.

### Latest Snapshot - Segmental Revenue and Profits



Source: Company, FQ Research

### Segmental Operating Margins - Q1FY13



Source: Company, FQ Research

### Billing Rates and Volume

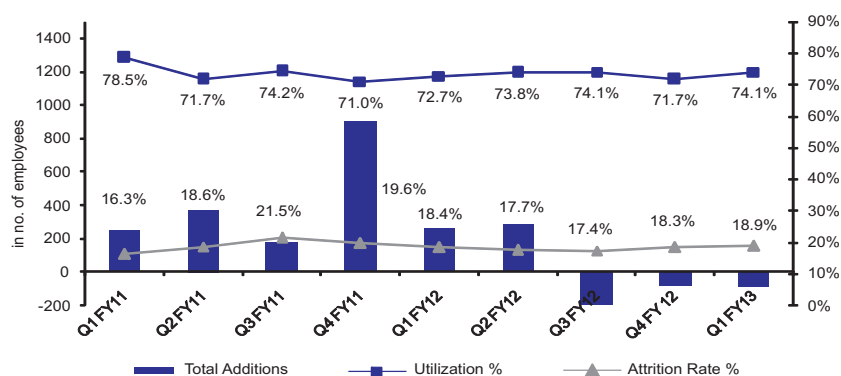
#### Annual Trend

	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13
Onsite	77.9	78.2	81.9	79.8	81.5	79.2	77.4	78.8	79.9
Growth Q-o-Q%	-0.7%	0.4%	4.7%	-2.6%	2.1%	-2.8%	-2.2%	1.7%	1.5%
Growth Y-o-Y%	0.5%	1.0%	8.7%	1.6%	4.5%	1.2%	-5.4%	-1.3%	-1.9%
Offshore	20.8	20.7	21.2	21.4	21.8	21.8	21.8	22.5	22.5
Growth Q-o-Q%	1.7%	-0.4%	2.1%	1.1%	1.6%	0.0%	0.2%	3.1%	0.1%
Growth Y-o-Y%	3.2%	1.3%	1.5%	4.6%	4.5%	4.9%	2.9%	5.0%	3.4%
<b>Total Effort (in man months)</b>	<b>4,134</b>	<b>4,415</b>	<b>4,442</b>	<b>5,010</b>	<b>5,104</b>	<b>5,233</b>	<b>5,245</b>	<b>5,563</b>	<b>5,512</b>
Volume Growth(Q-o-Q)	5.7%	6.8%	0.6%	12.8%	1.9%	2.5%	0.2%	6.1%	-0.9%

Source: Company, FQ Research

The company's onsite as well as offshore billing rates saw some improvement of 1.5% and 0.1% Q-o-Q to \$79.9/hr and \$22.5/hr, respectively, due to increased IP-led revenue. As such, management indicated that pricing will be stable going ahead. However, volume declined by ~1% sequentially.

## Hiring, Utilization and Attrition



Source: Company, FQ Research

Attrition (on LTM basis) increased from 18.9% in Q1FY13 to 18.3% in Q4FY12 while utilization levels increased due to attrition and negative net additions. The change in PSL's business mix has allowed it to generate more revenues from fewer people because of the platform sales and also IP revenues that the company is working on.

## Client contribution to revenue

Revenue Concentration %	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13
Top 1	13.6%	16.3%	14.4%	19.4%	15.1%	16.0%	15.9%	17.2%	17.8%
Top 5	38.2%	37.9%	36.8%	41.5%	37.6%	38.6%	37.0%	36.6%	33.5%
Top 10	49.2%	49.5%	48.0%	52.8%	48.2%	49.4%	48.3%	48.8%	45.3%

Source: Company, FQ Research

Contribution from the top 5 clients has declined from 36.6% in Q4FY12 to 33.5% in Q1FY13. PSL mentioned that it had projects from Wells Fargo Bank which have been going down steadily as they were completed. The last segments of that project actually finished in Q1FY13. So there is some of the revenue in this quarter from that particular project, but the management mentioned that there were other projects that were coming in. But overall, the revenue from that one particular customer is down and is the reason why the contribution from top 5 customers was down.

## Client Pyramid

	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13
Large > \$ 3mn	9	9	9	9	9	10	10	11	13
Medium > \$ 1mn < \$3mn	22	21	29	26	32	32	27	26	35
Small Upto \$ 1 mn	165	171	169	194	198	211	236	251	243
<b>Total</b>	<b>196</b>	<b>201</b>	<b>207</b>	<b>229</b>	<b>239</b>	<b>253</b>	<b>273</b>	<b>288</b>	<b>291</b>

Source: Company, FQ Research

The number of billed clients increased meaningfully from 288 to 291 in Q1FY13. PSL added 2 clients in the >\$3mn range while it added 9 clients in the \$1-\$3mn range.

## Onsite-Offshore mix by Revenue and Effort

Onsite: Offshore Mix %	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13
Onsite	19.3%	20.2%	22.2%	22.3%	22.6%	21.7%	21.2%	20.3%	22.5%
Offshore	80.7%	79.8%	77.8%	77.7%	77.4%	78.3%	78.8%	79.7%	77.5%

Source: Company, FQ Research

The offshore contribution has started to decline as some of the work PSL has got off late has been on the onsite side.

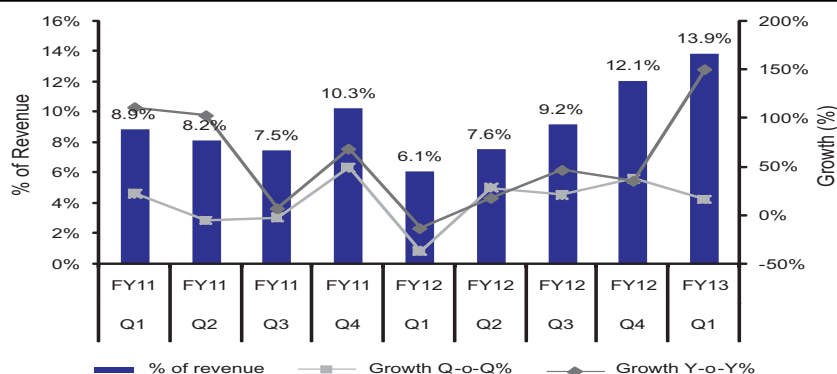
### Revenue by Project Type

Revenue Mix %	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13
T&M	81.3%	81.1%	78.6%	74.2%	79.8%	80.4%	79.0%	79.8%	78.6%
FPP	9.8%	10.7%	13.9%	15.5%	14.1%	12.0%	11.8%	8.1%	7.5%
IP driven	8.9%	8.2%	7.5%	10.3%	6.1%	7.6%	9.2%	12.1%	13.9%

Source: Company, FQ Research

Time and Material (T&M) contracts form the major part of the orders for PSL. However PSL's strategy of increasing the IP driven revenues has bore fruit with its contribution increasing from 8.9% in Q1FY11 to 13.9% in Q1FY13.

### IP revenue contribution and growth



Source: Company, FQ Research

IP-drive business has continued its impressive growth since the past 4 quarters. IP-driven revenues grew 16% sequentially (in US\$ terms) in Q1FY13 and contributed to 13.9% of revenues in the quarter.

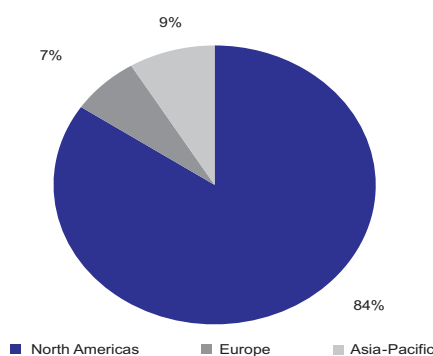
### Geographic break-up of revenue

Geography %	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13
North Americas	85.1%	85.5%	85.4%	86.3%	82.8%	82.0%	82.9%	82.4%	84.4%
Europe	6.5%	6.0%	5.3%	5.8%	7.4%	7.8%	7.2%	6.8%	6.9%
Asia-Pacific	8.4%	8.5%	9.3%	7.9%	9.8%	10.2%	9.9%	10.8%	8.7%

Source: Company, FQ Research

Geography wise, the company's growth was led by North America as revenue rose 3.8% sequentially while Europe also grew 2.8%. Majority of the company's incremental growth is also expected to come from the U.S.

### Latest Snapshot: Geographical break-up of Revenues



Source: Company, FQ Research



## Key Financials

### Profit and Loss Statement

YE March 31 (Rs. mn)	FY10	FY11	FY12	FY13E	FY14E
<b>Total Revenues</b>	<b>6,012</b>	<b>7,758</b>	<b>10,003</b>	<b>12,630</b>	<b>14,082</b>
Revenue Growth (Y-o-Y)	1.2%	29.1%	28.9%	26.3%	11.5%
<b>Total Expenditure</b>	<b>4,548</b>	<b>6,175</b>	<b>7,693</b>	<b>9,374</b>	<b>10,550</b>
<b>EBIDTA</b>	<b>1,464</b>	<b>1,583</b>	<b>2,310</b>	<b>3,256</b>	<b>3,532</b>
<b>EBIDTA Margin (%)</b>	<b>24.3%</b>	<b>20.4%</b>	<b>23.1%</b>	<b>25.8%</b>	<b>25.1%</b>
EBIDTA Growth (Y-o-Y)	60.2%	8.2%	45.9%	40.9%	8.5%
<b>Other Income</b>	<b>112</b>	<b>344</b>	<b>258</b>	<b>400</b>	<b>495</b>
<b>Depreciation/Amortization</b>	<b>335</b>	<b>424</b>	<b>611</b>	<b>800</b>	<b>881</b>
<b>PBT</b>	<b>1,241</b>	<b>1,505</b>	<b>2,188</b>	<b>2,856</b>	<b>3,146</b>
<b>PBT Margin (%)</b>	<b>20.6%</b>	<b>19.4%</b>	<b>21.9%</b>	<b>22.6%</b>	<b>22.3%</b>
<b>Net Profit</b>	<b>1,150</b>	<b>1,397</b>	<b>1,637</b>	<b>2,062</b>	<b>2,297</b>
<b>Net Profit Excl. extra-ordinaries</b>	<b>1,150</b>	<b>1,396</b>	<b>1,406</b>	<b>2,062</b>	<b>2,297</b>
Net Profit Growth Excl. extra-ordinaries (Y-o-Y)	70.2%	21.3%	0.7%	46.7%	11.4%

### Ratios

Particulars	FY10	FY11	FY12	FY13E	FY14E
<b>Valuation Ratios</b>					
P/E (x)			9.5x	7.6x	6.9x
P/BV (x)			1.7x	1.4x	1.2x
EV/EBIDTA (x)			5.7x	3.6x	2.9x
Market Cap./ Sales (x)			1.5x	1.2x	1.1x
Net cash/Market Cap (%)			28.9%	40.8%	54.6%
Dividend Yield (%)			1.6%	1.9%	2.1%
<b>Leverage Ratios</b>					
Debt/Equity (x)	0.0x	0.0x	0.0x	0.0x	0.0x
<b>Per Share Data</b>					
Diluted EPS Excl. extra-ordinaries (Rs.)	32.1	34.9	35.1	51.2	55.9
Diluted EPS (Rs.)	32.1	34.9	40.9	51.2	55.9
Diluted Cash EPS	41.4	45.5	56.2	71.0	77.3
<b>Dividend per share</b>					
Book Value Per share (Rs.)	178.1	186.8	226.2	277.6	326.9
<b>Returns</b>					
RoE (%)	22.0%	19.8%	16.7%	20.1%	18.4%
RoCE (%)	21.9%	19.7%	16.7%	20.0%	18.3%
Dividend Payout (%)	10.0%	18.4%	17.1%	16.0%	16.8%
<b>Dupont Analysis</b>					
EBIDTA/Sales (%)	24.3%	20.4%	23.1%	25.8%	25.1%
Sales/Operating Assets (x)	1.9x	2.1x	2.1x	2.4x	2.5x
EBIDTA/Operating Assets (%)	46.8%	42.9%	48.7%	60.7%	62.9%
Operating Assets/ Net Assets(x)	0.6x	0.5x	0.6x	0.5x	0.5x
Net Earnings/ EBIDTA (%)	78.6%	88.2%	60.9%	63.3%	65.0%
Net Assets/ Equity (x)	1.0x	1.0x	1.0x	1.0x	1.0x
Return on Equity (%)	22.0%	19.8%	16.7%	20.1%	18.4%
<b>Margins (%)</b>					
EBIDTA (%)	24.3%	20.4%	23.1%	25.8%	25.1%
PBT Margin (%)	20.6%	19.4%	21.9%	22.6%	22.3%
NPM (%)	19.1%	18.0%	16.4%	16.3%	16.3%
<b>Growth Ratios (%)</b>					
Sales	1.2%	29.1%	28.9%	26.3%	11.5%
EBIDTA	60.2%	8.2%	45.9%	40.9%	8.5%
PAT	74.0%	21.5%	17.2%	25.9%	11.4%
Adj. PAT	70.2%	21.3%	0.7%	46.7%	11.4%
<b>Operating Cycle</b>					
Debtors (Days of net sales)	83	74	69	65	64
Creditors (Days of Raw Materials)	32	27	28	28	28
Inventory (Days of Oplg. Costs)	0	0	0	0	0
Cash Conversion Cycle	51	47	41	37	36

### Balance Sheet

YE March 31 (Rs. mn)	FY10	FY11	FY12	FY13E	FY14E
<b>Liabilities</b>					
Equity Capital	400	400	407	411	419
Share Premium	1,739	1,737	1,737	1,737	1,737
Total Reserves	5,990	7,071	8,639	10,775	13,021
<b>Equity</b>	<b>6,390</b>	<b>7,471</b>	<b>9,047</b>	<b>11,186</b>	<b>13,440</b>
<b>Net Worth</b>	<b>6,390</b>	<b>7,471</b>	<b>9,047</b>	<b>11,186</b>	<b>13,440</b>
Deferred Tax Liability (Net)	45	30	30	40	42
<b>Capital Employed</b>	<b>6,435</b>	<b>7,501</b>	<b>9,076</b>	<b>11,226</b>	<b>13,482</b>
<b>Assets</b>					
Gross Block	3,715	4,543	5,743	6,543	7,343
Less: Depreciation	1,881	2,281	2,892	3,692	4,573
<b>Net Block</b>	<b>1,834</b>	<b>2,261</b>	<b>2,850</b>	<b>2,851</b>	<b>2,770</b>
Capital WIP	485	605	650	733	732
Total Investment	1,562	2,500	2,601	2,779	3,098
Others	7	60	60	60	60
<b>Current assets</b>					
Sundry Debtors	1,363	1,582	1,891	2,249	2,469
Cash and Bank Balance	1,918	1,000	1,714	3,362	5,286
Loans and Advances:	723	869	1,080	1,364	1,521
Others	340	226	310	392	437
<b>Total Current Assets</b>	<b>4,344</b>	<b>3,677</b>	<b>4,995</b>	<b>7,367</b>	<b>9,712</b>
<b>Less: Current Liabilities &amp; Provisions</b>					
Sundry Creditors	398	465	590	719	809
Provision for Tax and Others	14	10	60	79	85
Provision for Dividend	303	386	480	564	658
Others	1,080	741	950	1,200	1,338
<b>Total Current Liabilities &amp; Provisions</b>	<b>1,796</b>	<b>1,602</b>	<b>2,080</b>	<b>2,563</b>	<b>2,890</b>
Net Current Assets	2,548	2,075	2,915	4,804	6,822
<b>Capital Applied</b>	<b>6,435</b>	<b>7,501</b>	<b>9,076</b>	<b>11,226</b>	<b>13,482</b>

### Cash Flow Statement

YE March 31 (Rs. mn)	FY10	FY11	FY12	FY13E	FY14E
<b>EBITDA</b>	<b>1,128</b>	<b>1,159</b>	<b>1,699</b>	<b>2,456</b>	<b>2,651</b>
Less: Adjusted Taxes	82	83	428	683	716
<b>NOPLAT</b>	<b>1,046</b>	<b>1,076</b>	<b>1,271</b>	<b>1,774</b>	<b>1,935</b>
Plus: Depreciation	335	424	611	800	881
<b>Gross Cashflow</b>	<b>1,381</b>	<b>1,500</b>	<b>1,882</b>	<b>2,573</b>	<b>2,816</b>
Less: Increase in Working Capital	(269)	721	203	320	185
<b>Operating Cashflow</b>	<b>1,650</b>	<b>779</b>	<b>1,679</b>	<b>2,253</b>	<b>2,631</b>
Less: Net Capex	476	971	1,246	882	800
Less: Increase in Net Other Assets	183	(173)	(31)	(36)	(64)
<b>FCF From Operation</b>	<b>991</b>	<b>(19)</b>	<b>465</b>	<b>1,407</b>	<b>1,896</b>
Less: Inc./Dec. in Investment	(9)	0	0	0	0
<b>FCF after Investment</b>	<b>1,000</b>	<b>(19)</b>	<b>465</b>	<b>1,407</b>	<b>1,896</b>
Plus: Gain/(loss) on Extraordinary Items	0	2	173	0	0
<b>Total FCF</b>	<b>1,000</b>	<b>(17)</b>	<b>638</b>	<b>1,407</b>	<b>1,896</b>

### Recommendation Summary

Event	Date	Price	Rating	Target
Initiating Coverage	20-03-2012	309	Buy	388
Result Update: (Q4FY12)	30-04-2012	360	Buy	422
Result Update: (Q1FY13)	31-07-2012	388	Buy	460

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**BUY**

**More than 10% return**

**HOLD**

**Between 5-10% return**

**SELL**

**Less than 5% return**