ESPIRITO SANTO INVESTMENT BANK
Research

Educomp Solutions

Not convinced about overall governance

Educomp's fortunes appear to be declining fast in light of reduced funding from banks. We reiterate our view that the SPE will be consolidated once India converges to IFRS from 2013 onwards which will lead to negative OCF and FCF and D/E c.2:1. Management now has admitted this. Our concerns on overall governance policies go further, principally: a common address of the auditor and the registered office of Edu Smart; cost allocation of resource coordinators and high turnover of company secretaries at Edu Smart. We change corporate governance rating from Amber to Red, lower our FV from Rs220 to Rs110 and downgrade our stance from Neutral to Sell.

See no improvement in stretched cash flow situation

We turned our long-running SELL stance on Educomp (since May 2009) to Neutral in August 2011 citing valuation. Our key thesis then was that an 80% fall in the stock price was factoring in most of the core business and overall governance issues. However, we now see growing reasons to question the sustainability of the core business model and also highlight some new governance issues which need answering by management. With Educomp's K-12 initiative not growing as per expectations and its core business, Smart Class, likely to falter on growth due to funding requirements, we think that there are likely to be further earnings downgrades.

- **Incremental securitization of smart class difficult –** At the start of the model, Edu Smart used to get Rs60 for every Rs79 securitized from banks meaning a cost of debt of 10%. This quickly declined to Rs54 for every Rs79 securitized resulting in cost of debt of 14% and zero cash balance for Edu Smart at the end of year 1. While we had expected in May 2011 that this funding would fall to Rs50 due to rising securitization costs, it has actually declined to 45. Now either Educomp is paying securitization costs of 22.25% in return for Rs79 securitized or it is securitising only Rs65 to keep the rate at 14%. The shortfall of Rs14 implies that Edu Smart will find it incrementally difficult to pay Educomp, thus stretching its cash flows.
- **K-12 segment not that strong as perceived –** Our channel checks of Educomp's K-12 schools in 2012 suggest no major improvement over 2011, especially in schools which have been operational for more than 3-4 years. The only segment that could have helped Educomp in offsetting concerns of its core business is the K-12 segment, but things are not improving enough to make any meaningful impact.
- **Overall governance issues in the SPE are questionable:** In our research we notice that the statutory auditor of Edu Smart and registered address of Edu Smart is same. We believe this compromises independence, especially given any sense of excessive closeness between company and auditor will naturally concern investors given longstanding concerns about the structure of Edu Smart. Additionally, we are concerned about the cost allocation of resource coordinators which should have been booked by Edu Smart but is being booked by Educomp which is negative for minority shareholders of Educomp. Furthermore, the high turnover of company secretaries at Edu Smart also makes us uncomfortable on overall governance policies.

Valuation: structurally declining model of core business

In our opinion, securitisation has always been a precursor to a big downfall and Educomp must have learnt this by now. Educomp currently trades at a FY13E P/E of 11.6. Our research indicates that growth in the smart class segment (60% of revenues and 90% of EBIT) is set to deteriorate as securitization of smart classes becomes incrementally more difficult. Moreover we are wary about the corporate governance standards of the company. We downgrade our EPS estimates by 50%. **SELL Educomp.**

Accounting & governance	RED
Franchise Strength	AMBER
Earnings Momentum	RED

SELL 41% downside

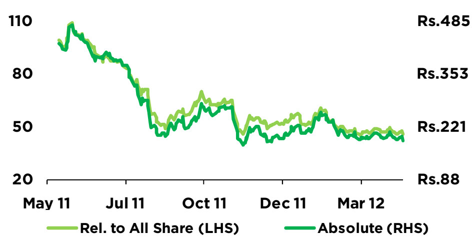
Fair Value (Rs)	110
Bloomberg Code	EDSL IN
Share Price (Rs)	187
Market Cap ($ bn / Rs bn)	$397mn/Rs18.5
Free Float / FII holding	50% / 33%
ADV	$10m / Rs 520mn

Rs bn (unless stated) March YE	2011A	2012E	2013E	2014E
Total Income	13,509	15,334	16,118	15,405
EBITDA	5,471	5,054	5,261	5,312
PAT	3,368	1,599	1,533	1,345
EPS (Rs)	35.45	16.83	16.13	14.16
FCF	-5,326	209	977	3,079

Source: Company, ESIB Research estimates

X (unless stated)	2011A	2012E	2013E	2014E
P/E	5.3	11.1	11.6	13.2
EV/Sales	2.8	2.4	2.3	2.4
EV/EBITDA	6.9	7.4	7.1	7.1
EV/EBIT	8.1	9.0	9.0	9.3

Figure 1 Historical share price performance



Source: Bloomberg

Analyst

Soumitra Chatterjee
+91 22 4315 6829
soumitra.chatterjee@execution-noble.com

Nitin Padmanabhan
+91 22 4315 6830
nitin.padmanabhan@execution-noble.com

Lower funding has and will put pressure on Educomp

As a reminder, this is how the Educomp's securitization process works:

- Assuming a payment of Rs100, the vendor securitises a part of Rs5 X 20 payments due from the school (according to management, the cost of financing the deal is the same as the cost of debt for Educomp (~11%), so in effect, the vendor securitises only ~79% of receivables)
- Of the Rs20 to be received annually over five years, Rs15.8 per year is securitised in return for a lump-sum payment of Rs54-60 from the bank. The remaining Rs4.2 is not securitised, so it is the cash-flow that comes to the vendor directly.
- The vendor pays Rs58.2 to Educomp (from the Rs60 received from the bank) and pockets the remaining Rs1.8 if the bank pays 60) along with the receivable of Rs4.2 (the unsecuritised amount in the first year), so the vendor's total inflow is Rs6. This is the amount that the vendor will make depending on how much the bank pays up (between Rs 54-60).
- The rest of the Rs4.2X4 payments are made to Educomp by the vendor when the same is received from the school (which is the unsecuritised amount).

Figure 2 At the beginning of the model (ROI=10%)

	Year -1	Year -2	Year -3	Year -4	Year -5	Total
Amount to be securitized	15.8	15.8	15.8	15.8	15.8	**79**
Rate of Interest	10%	10%	10%	10%	10%	10%
Year	1	2	3	4	5	
Discounted amount	14	13	12	11	10	**60**

Source: Espirito Santo Investment Bank research

Figure 3 After rate of interest started to increase (ROI=14%)

	Year -1	Year -2	Year -3	Year -4	Year -5	Total
Amount to be securitized	15.8	15.8	15.8	15.8	15.8	**79**
Rate of Interest	14%	14%	14%	14%	14%	14%
Year	1	2	3	4	5	
Discounted amount	14	12	11	9	8	**54**

Source: Espirito Santo Investment Bank research

Now, with the bank reducing its funding limits to Educomp, there are only two alternatives for Educomp. Either it continues to securitize Rs79 worth of receivables at ROI of 22.25% or it reduces the amount that it securitizes from Rs79 to Rs65 to keep rate of interest stable at 14%. In either case, cash inflow has reduced for Edu Smart which has directly impacted cash inflow for Educomp. A remote alternative could be Edu Smart getting Rs54 from Banks by securitizing Rs79 in receivables, keeping cost of debt constant at 14% but Educomp is only taking Rs45 from Edu Smart and not Rs54 thereby stretching its cash flows by Rs9 (difference between 54 and 45 in this case). We note that Edu Smart makes money only at an ROI of 10%, no profit no loss at 14% and makes cash loss above that. Any shortfall (Rs 14 in this case; difference between 79 and 65) for Edu Smart has to be made good my Educomp as the banks have recourse to assets of Educomp in case of perpetual default for Edu Smart.

Our concerns have always been and remain **why a third party vendor is created by Educomp itself?** Any third party vendors are selected based on their distribution capabilities but here Edu Smart doesn't have any standalone distribution capability.

Figure 4 If the funding were to remain at 79, ROI increases to 22.25%

	Year -1	Year -2	Year -3	Year -4	Year -5	Total
Amount to be securitized	15.8	15.8	15.8	15.8	15.8	**79**
Rate of Interest	22%	22%	22%	22%	22%	22%
Year	1	2	3	4	5	
Discounted amount	13	11	9	7	6	**45**

Source: Espirito Santo Investment Bank research

Figure 5 If the funding reduces to Rs65, ROI remains at 14%

	Year -1	Year -2	Year -3	Year -4	Year -5	Total
Amount to be securitized	13.0	13.0	13.0	13.0	13.0	**65**
Rate of Interest	14%	14%	14%	14%	14%	14%
Year	1	2	3	4	5	
Discounted amount	11	10	9	8	7	**45**

Source: Espirito Santo Investment Bank research

Consolidation under Ind-AS – Not an option anymore

In our May 2011 report, we were of the opinion that once India converges to IFRS with IND-AS (Indian Accounting Standards), Educomp will have no option but to consolidate Edu Smart. Ind AS-27 on "Consolidated and Separate Financial Statements" governs consolidation of Special Purpose Entities which calls for consolidation of Edu Smart. The four pre-conditions for consolidation under IND-AS are as follows:

- An entity may be created to accomplish a narrow and well-defined objective (e.g., to effect a lease, research and development activities **or securitization of financial assets**). Edu Smart has been created to securitize receivables.
- Such a special purpose entity ('SPE') may take the form of a **corporation**, trust, partnership or unincorporated entity. Edu Smart is a Private Limited Company hence a corporation.
- **The sponsor (or entity on whose behalf the SPE was created) frequently transfers assets to the SPE, obtains the right to use assets held by the SPE or performs services for the SPE, while other parties ('capital providers') may provide the funding to the SPE.** Here Educomp transfers assets to Edu Smart and banks provide funding to Edu Smart.
- In most cases, the creator or sponsor (or the entity on whose behalf the SPE was created) retains a significant beneficial interest in the SPE's activities, **even though it may own little or none of the SPE's equity.** Educomp doesn't hold any common equity in Edu smart but has invested Rs450m of preferred equity. Even though it doesn't hold any common equity in Edu smart, it derives 60% of its revenues and 90% of its EBIT from the entity. Hence the call for consolidation.

Management view on consolidation

Educomp has historically held a view that it is not required to consolidate the SPE (Edu Smart). However, now there seems to be a change in stance. In our interaction with the management, the new CEO highlighted that under IFRS/IND AS - 27, they will have to consolidate.

What happens if the SPE gets consolidated under IND-AS?

In such case financial statements will see significant deterioration.

1. License revenue (45% of contract value) will have to be recognized over a period of 5 years instead of 2 which will put revenues under pressure.
2. Margins will come down to 30% or even lower as license revenues have the highest margins.
3. Earnings will start declining led by lower revenues and margins and also due to higher interest costs.

In addition, previous year figures will have to be restated in our view.

Zero possibility of recouping pricing and margins

We continue to believe the pricing declines for smart class is similar to the telecom service provider industry where pricing dropped with the entry of multiple players. We note that this phase continued for a very long time while it has just started for the smart class business. While pricing in smart class has fallen 20% in Q3FY12, our channel checks suggests like to like pricing may have fallen c.5% further in Q4FY12.

The management now accepts that smart class is a commodity and is planning to cut down on R&D expenses going forward as pricing has come under severe stress. We ascribe a zero possibility of stable pricing in FY13 and our model factors an average 5% price decline every year going forward. We note that Educomp's differentiation was its content and historically it was able to charge a premium due to its content but with plans to cut down R&D spend, the company is unlikely to be able to maintain premium pricing and recover margins.

Turning corporate governance rating to Red from Amber

We previously have had an amber rating on corporate governance due to low quality of accounting and creation of SPV (Edu_Smart) structure. However, our findings this time around make us uncomfortable on the overall governance policies in the company and hence turn our governance rating to RED.

1. **Similar address of Edu Smart and its statutory auditor:** While going through the financials of Edu Smart we figured out that the registered address of Edu Smart and its statutory auditor is same. The address is of a single residential villa with both firms operating from the second floor. When the company was incorporated in 2009, Edu Smart had a different address which was changed on 1st July 2011. The present address of registered office of Edu Smart and its statutory auditor is the same.

Management view on similar address of auditors

Management did not refute our findings as this was based on publicly available data but mentioned that they will make necessary amendments soon. The new CEO assured us that company will take steps to improve overall governance.

Our view on this issue

We didn't get any clear cut answers as to why the address of registered office was changed in the first place and more importantly why they landed up at the auditor's door steps to form a registered office. While we took some comfort from the new CEO's (just two months into the organization) effort to improve overall governance practices, we would like to see concrete efforts before we think of changing our stance. Our concern on this issue emanates from the fact that the SPE accounts for 60% of Educomp's revenues and 90% of its EBIT.

2. **Not comfortable with cost allocation of resource coordinators:** In the old model, Educomp used to sell to schools and the cost of resource coordinators was borne by Educomp. When the model changed, the cost of resource coordinator was supposed to be borne by Edu Smart. However, as we figured out (again through public sources), Educomp is paying salary to resource coordinators and not Edu Smart.

Management view on salary allocation of resource coordinators

Again this finding was not refuted but management did claim that payment to resource coordinators has always remained a central function of Educomp and not Edu Smart. Further, the employees that Edu Smart appoints are unskilled labourers just to integrate the systems and they lack skills to do the work of resource coordinators. Hence Educomp pays salaries to resource coordinators.

Our view on this issue

We have documents to put on record that the appointment and salary payment of resource coordinators is the job to Edu Smart and not Educomp. In our view, it has been done in order to keep Edu Smart afloat for some more time. This clearly defeats the spirit of agreement between Educomp, Schools and Edu Smart. While the schools may not be bothered as to who bears the salary of resource coordinators as long as they are serviced well, payment to resource coordinators by Educomp means a negative for minority investors of Educomp.

3. **High churn rates of Company secretaries make us wary:** Again while going through public records of Edu Smart we figured out that in last 12 months 4 company secretaries have resigned. While people have resigned citing personal reasons, we are uncomfortable with such a high churn of company secretaries in such a short period.

Our view on this issue

Indian law states that companies with more than Rs50m in paid up capital are required to appoint a full time company secretary. While the common equity at Edu Smart is just Rs0.1m, including Rs450m of preferred equity from Educomp, the paid up capital goes beyond the required limit. High attrition rates of company secretaries (one every quarter) make us uncomfortable.

Valuation: structurally declining core business

We see Educomp as a structurally declining business with:

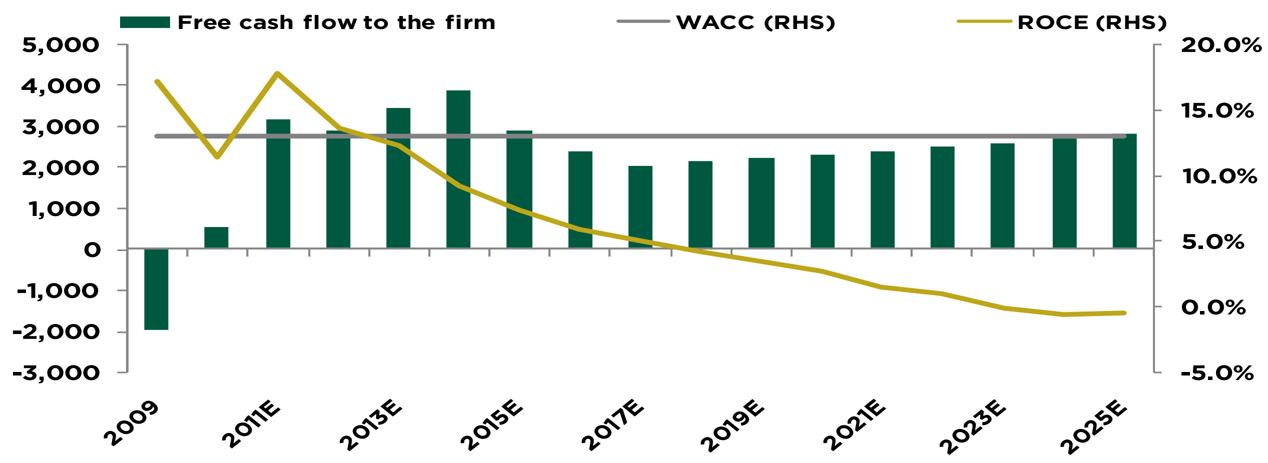
i) increasing commoditization for the largest segment of its business (Smart Class – 60% of revenues and 90% of EBIT) and

ii) slower than expected pickup in the K-12 business.

Moreover we are wary about the corporate governance issues highlighted in this report.

We see no reason to hold Educomp given all these risks. Our fair value for the standalone business falls to Rs88 from Rs198 due to cut in Smart_Class prices and we expect the price to drop further 10% to market levels. Our valuation for the subsidiaries remains unchanged at Rs22. Our fair value for the consolidated business falls from Rs220 to Rs110.

Figure 6 **Educomp's Standalone business FCF Profile**



Source: Espirito Santo Investment Bank estimates

Figure 7 **DCF Summary (standalone)**

Category	Last Published	Current	Change
WACC	13.0%	13.0%	0.0%
Terminal Growth Rate	4.0%	4.0%	0.0%
PV of growth phase	7,585	4,692	-38%
PV of consolidation	5,410	2,820	-48%
PV of maturation	3,532	1,532	-57%
PV of terminal value	6,199	3,108	-50%
DCF of equity value	**22,725**	**12,152**	**-47%**
Net Cash / Debt	**(3,792)**	**(3,792)**	**0%**
Total Equity Value	**18,933**	**8,360**	**-56%**

Source: Espirito Santo Investment Bank estimates

Figure 8 **DCF Sensitivity (Standalone)**

Terminal Growth	WACC				
	11%	12%	13%	14%	15%
2%	98	85	74	65	57
3%	108	93	80	70	61
4%	122	103	**88**	76	66
5%	139	116	98	84	72
6%	164	133	110	93	79
7%	201	156	126	105	88
8%	262	191	149	120	99
9%	383	250	183	142	114
10%	746	366	238	174	135

Figure 9 **Valuation of Educomp's subsidiaries**

Category	Valuation-Last Published	K-12	Pre Schools	Higher Learning	Vocational Learning	Online Ventures	VidyaMandir Classes	Total Valuation - Current	Change
WACC	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	0.0%
Terminal Growth Rate	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	0.0%
PV of growth phase	(3,457)	(3,747)	188	(166)	(80)	205	143	(3,457)	0.0%
PV of consolidation	5,816	3,631	221	44	384	1,295	241	5,816	0.0%
PV of maturation	7,529	5,581	176	91	360	1,118	204	7,529	0.0%
PV of terminal value	14,537	11,118	309	159	632	1,962	358	14,537	0.0%
DCF of equity value	24,426	16,583	894	128	1,296	4,579	946	24,426	0.0%
Stake	NA	78.5%	*	50%	50%	**	67%	NA	
Total Equity Value	**19,719**	**13,017**	**776**	**64**	**648**	**4,579**	**634**	**19,719**	**0.0%**
Net Cash / Debt	**(17,634)**							**(17,634)**	**0.0%**
Total Equity Value	**2,085**							**2,085**	**0.0%**

Risks to fair value

1. **Securitisation cost coming down drastically:** Current cost of securitisation is 14% and if this reduces drastically then our fair value is at risk. However, we see limited chances of that happening given a stretched balance sheet. Nevertheless, this remains a risk.
2. **Selling land and reducing debt for a while:** There could be a possibility that Educomp puts entire capex for K-12 segment on hold, sell land parcels and reduce debt thereby cleaning up the balance sheet. This could result in a spike in the stock price for a while. However, the debt burden should further go up as the company signs up for incremental Smart_Class. Nevertheless, this remains a risk.

Share price and rating chart

Educomp Solutions *EDSL IN*

Report Date	Recommendation	Fair Value (INR)
24-Jan-12	Neutral	Rs220.0
17-Aug-11	Neutral	Rs290.0
20-May-11	Sell	Rs394.0
22-Oct-10	Sell	Rs506.0
05-Nov-09	Sell	Rs606.0

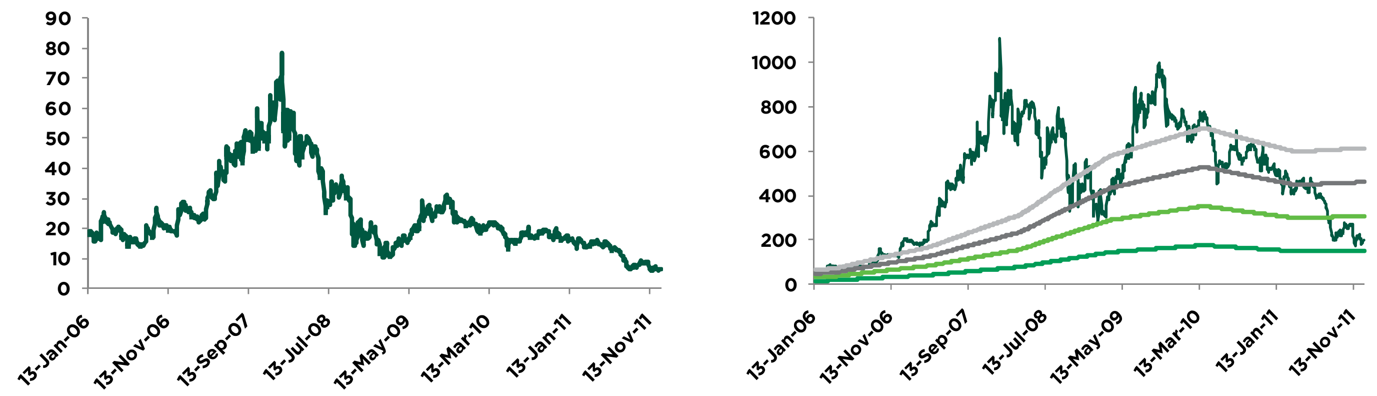
Source: Bloomberg, Espirito Santo Investment Bank Research

Financials of Edu Smart (SPE) (all figures in Rs mn)

Income Statement	FY10	FY11
Sales	2,223	9,180
Profit before depreciation and tax	106	748
Less: Depreciation	96	640
Profit before tax	10	108
Current Tax	2	21
Deferred Tax	4	35
MAT Credit Entitlement	(1)	(21)
Profit After Tax	6	73
Balance Sheet		
Shareholder's Funds	206	529
Net Deferred Tax Liability	4	39
Loan Funds	6,640	8,063
Total	6,850	8,631
Net Fixed Assets	2,072	1,435
Current Assets		
Sundry Debtors	**4,885**	**8,703**
Cash and Bank Balance	600	727
Inventories	10	1,831
Other Current Assets	6,471	4,434
Loans and Advances	5	262
Total Current Assets	11,970	15,956
Current Liabilities and provisions	7,192	8,761
Total	6,850	8,631
Cash Flow Statement		
Profit Before Tax	10	108
Add: Depreciation	96	640
Add: Interest Expense	281	694
Less: Interest Income	(2)	(18)
Cash flow before working capital changes	385	1,424
Inventory	(10)	(1,821)
Debtors	**(4,665)**	**(3,818)**
Loans and Advances	(6,476)	1,780
Current Liabilities	6,972	1,569
Working Capital changes	(4,178)	(2,290)
Cash generated from operations	**(3,793)**	**(866)**
Cash generated from investments	**(2,166)**	**16**
Cash generated from financing	**6,559**	**979**
Net cash generated	**599**	**128**

Source: Company

Figure 10 Rolling 12 month forward P/E

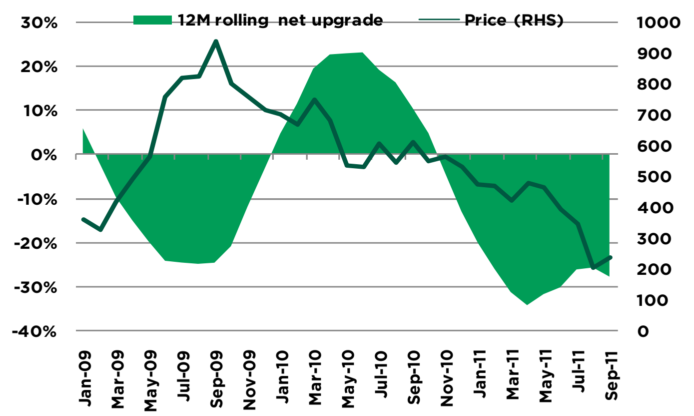


Source: Company filings, Espirito Santo Investment Bank Research

Source: Company filings, Espirito Santo Investment Bank Research

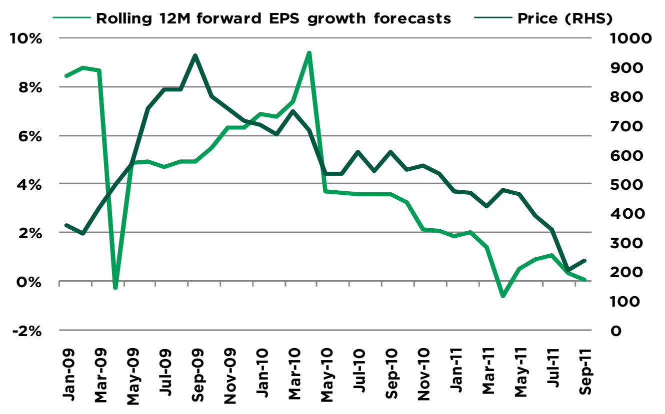
Earnings Momentum

Figure 11 12 Month rolling net upgrades



Source: Company filings, Espirito Santo Investment Bank Research

Figure 12 Rolling 12 month forward EPS growth forecasts



Source: Company filings, Espirito Santo Investment Bank Research

Traffic Lights

Table 1 Traffic Lights: criteria for judgement

Parameter	Traffic signal	Reasons
Accounting & governance	RED	Our earlier rating was Amber but our comfort level on overall governance policies has been severely impaired by the findings described in this report. We find it increasingly difficult to stick with our Amber rating and hence turn overall rating to RED.
Franchise strength	AMBER	While Educomp's has the strongest franchisee in the sector and has the first mover advantage, declining economics in the core business and scalability challenges in blue sky ventures explains an amber rating. Educomp has a strong franchisee in the K-12 segment.
Earnings momentum	RED	Bloomberg and Reuters show that there have been downgrades in the earnings estimates for the company following the weak Q3FY12 results.

Source: Company Filings, Espirito Santo Investment Bank research

Summary Financials *(All figures in Rs m unless stated. Year-end is March)*

Educomp Solutions

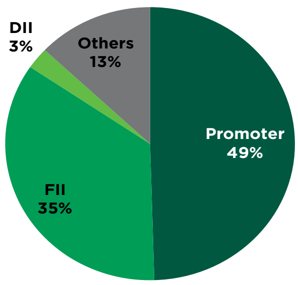
Recommendation:	**SELL**
Fair Value:	**INR 110**
Share Price:	INR 187
Upside / Downside	-41%
3 Month ADV ($m)	10
Free Float	50.0%
52 Week High / Low	INR 492 - 168
Bloomberg:	EDSL IN
Model Published On:	04 May 2012

Shares In Issue (mm)	95
Market Cap ($mn)	**397**
Net Debt ($mn)	311
Enterprise Value ($mn)	**708**

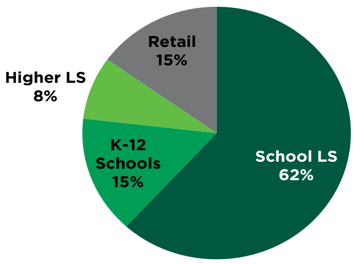
Forthcoming Catalysts	
Fourth quarter results	Mid May

Espirito Santo Securities Analyst
Soumitra Chatterjee
(91) 22 4315 6829
soumitra.chatterjee@execution-noble.com

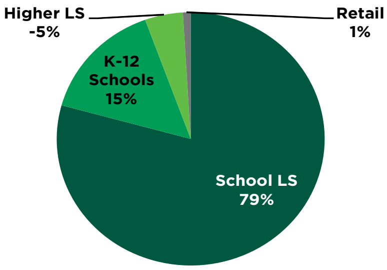
Shareholding Pattern



Revenue Breakdown



Margin Trends



Valuation Metrics	**2011A**	**2012E**	**2013E**	**2014E**
P/E	5.3	11.1	11.6	13.2
Reported P/E	5.3	11.1	11.6	13.2
EV / Sales	2.8	2.4	2.3	2.4
EV / EBITDA	6.9	7.4	7.1	7.1
EV / EBIT	8.1	9.0	9.0	9.3
FCF Yield	-12.7%	5.0%	7.1%	12.8%
Dividend yield	1.5%	1.8%	2.3%	2.3%

Key ratios	**2011A**	**2012E**	**2013E**	**2014E**
EBITDA margin	40.5%	33.0%	32.6%	34.5%
EBIT margin	34.3%	27.3%	26.0%	26.2%
Capex / Revenue	60.5%	23.8%	17.4%	15.8%
Capex / Depreciation	9.71	4.19	2.61	1.91
Net Debt / EBITDA	1.8	2.3	2.4	2.1
EBITDA / Net Interest	5.7	3.5	3.0	3.0
ROE	23%	9%	8%	6%

P&L Summary	**2011A**	**2012E**	**2013E**	**2014E**
Revenue	**13,509**	**15,334**	**16,118**	**15,405**
% change	30.0%	13.5%	5.1%	-4.4%
EBITDA	**5,471**	**5,054**	**5,261**	**5,312**
% change	11.4%	-7.6%	4.1%	1.0%
% margin	40.5%	33.0%	32.6%	34.5%
Depreciation & Amortisation	-841	-872	-1,076	-1,270
EBIT	**4,630**	**4,182**	**4,185**	**4,043**
% change	22.8%	-9.7%	0.1%	-3.4%
% margin	34.3%	27.3%	26.0%	26.2%
Associates	0	0	0	0
Operating Profit	**4,630**	**4,182**	**4,185**	**4,043**
Interest Expenses	-962	-1,453	-1,748	-1,776
Other Income	416	-208	42	44
Pre Tax Profit	**4,084**	**2,521**	**2,479**	**2,310**
Income Tax Expense	-678	-857	-843	-785
Minority Interests	-38	-65	-103	-180
Net Income	**3,368**	**1,599**	**1,533**	**1,345**
Execution Net Income	3,368	1,599	1,533	1,345
Reported EPS	35.45	16.83	16.13	14.16
EPS	**35.45**	**16.83**	**16.13**	**14.16**
DPS	**2.82**	**3.41**	**4.23**	**4.23**
Payout Ratio	8.0%	20.2%	26.2%	29.9%
Shares In Issue (Less Treasury)	95	95	95	95

Cash Flow Summary	**2011A**	**2012E**	**2013E**	**2014E**
EBITDA	5,471	5,054	5,261	5,312
Taxes Paid	-678	-857	-843	-785
Interest Paid / Received	-546	-1,661	-1,706	-1,733
Change in Working Capital	-542	-362	-581	1,026
Associate & Minority Dividends	0	0	0	0
Other Operating Cash Flow	-864	1,686	1,657	1,686
Operating cash flow	**2,841**	**3,860**	**3,788**	**5,507**
Capital Expenditure	-8,167	-3,652	-2,812	-2,428
Free Cash Flow	**-5,326**	**209**	**977**	**3,079**
Acquisitions & Disposals	-1,066	0	0	0
Dividends Paid To Shareholders	-148	-383	-192	-199
Equity Raised / Bought Back	30	0	0	0
Other Financing Cash Flow	3,122	930	435	-606
Net Cash Flow	**-3,388**	**755**	**1,220**	**2,274**

Balance Sheet Summary	**2011A**	**2012E**	**2013E**	**2014E**
Cash & Equivalents	4,489	5,245	6,465	8,738
Tangible Fixed Assets	10,606	13,723	16,246	17,641
Goodwill & Intangibles	6,031	6,031	6,031	6,031
Investment in Equity Investee	1,495	1,495	1,495	1,495
Other Assets	10,489	12,515	13,029	11,907
Total Assets	**33,110**	**39,009**	**43,265**	**45,812**
Interest Bearing Debt	14,236	16,826	18,968	20,094
Other Liabilities	3,996	3,697	3,761	3,327
Total Liabilities	**18,232**	**20,524**	**22,729**	**23,421**
Shareholders' Equity	14,641	18,248	20,300	22,154
Minority Interests	237	237	237	237
Total Equity	**14,878**	**18,485**	**20,537**	**22,391**
Net Debt	9,747	11,582	12,503	11,356

Source: Company, Espirito Santo Investment Bank Research

Contact Details

Nick Paulson-Ellis, Country Head, India

t. +91 22 4315 6814 e: nick.paulson-ellis@execution-noble.com

Sales

Ashish Goenka	t: +44 20 3429 2012	e: ashish.goenka@execution-noble.com
Poorva Upadhyaya	t: +1 212 351 6056	e: pupadhyaya@esinvestment.com
Arijay Prasad	t: +91 22 4315 6841	e: arijay.prasad@execution-noble.com
Sunny Shah	t: +91 22 4315 6842;	e: sunny.shah@execution-noble.com

Sector leads

Banks and financial institutions:

Saikiran Pulavarthi	t +91 22 4315 6824;	e: saikiran.pulavarhi@execution-noble.com
Santosh SIngh	t +91 22 4315 6822;	e: santosh.singh@execution-noble.com
Sri Karthik	t +91 22 4315 6826;	e: sri.karthik@execution-noble.com
Nidhesh Jain	t +91 22 4315 6823;	e: nidhesh.jain@execution-noble.com

Economy

Deepali Bhargava	t +91 22 4315 6827;	e: deepali.bhargava@execution-noble.com

Consumer

Nitin Mathur	t +91 22 4315 6821;	e: nitin.mathur@execution-noble.com

Healthcare

Chirag Talati	t +91 22 4315 6828;	echirag.talati@execution-noble.com

Metals and Mining

Ritesh Shah	t: +91 22 4315 6831	e: ritesh.shah@execution-noble.com

Power and Infrastructure

Krishnakant Thakur	t: +91 22 4315 6832	e: krishnakant.thakur@execution.noble.com
Pawan Parakh	t: +91 22 4315 6833	e: pawan.parakh@execution-noble.com

Strategy

Aditya Jhawar	t +91 22 4315 6819	e: aditya.jhawar@execution-noble.com
Nitesh Sharma	t +91 22 4315 6820	e: nitesh.sharma@execution-noble.com

Technology:

Nitin Padmanabhan	t +9122 4315 6830	e : nitin.padmanabhan@execution-noble.com
Soumitra Chatterjee	t +9122 4315 6829	e : soumitra.chatterjee@execution-noble.com

1203 A, Tower 2A,
One Indiabulls Centre,
Elphinstone Road,
Mumbai – 400076
t: +91 22 4315 6800

10, Paternoster Square
London EC4M 7AL
U.K
t: + 44 20 7246 0180
t: + 44 20 7246 0190

340 Madison Avenue, 12th Floor
New York NY-10173
U.S.A
t: +1 212 351 6000
t: +1 212 351 6099

e: research.india@execution-noble.com

IMPORTANT DISCLOSURES

This report was prepared by Espírito Santo Investment Bank Research, a global brand name for the equity research teams of BancoEspírito Santo de Investimento, S.A., with headquarter in Lisbon, Portugal, of its Branches in Spain and Poland and of its affiliates BES Securities do Brasil, S.A – Corretora de Câmbio e ValoresMobiliários, in Brazil, and Execution Noble Limited, in the United Kingdom, all authorized to engage in securities activities according to each domestic legislation. All of these entities are included within the perimeter of the Financial Group controlled by Espírito Santo Financial Group S.A. ("BancoEspírito Santo Group").

Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; the issuers were not previously informed about the content of the recommendation included in this research report and the assumptions were not validated by the issuers; (2) no part of his or her compensation is directly or indirectly related to: (a) the specific recommendations or views expressed by that research analyst in the research report; and/or (b) any services provided or to be provided by BancoEspírito Santo de Investimento, S.A. and/or by any of its affiliates to the issuer of the securities under recommendation. Moreover, each of the analysts hereby certifies that he or she has no economic or financial interest whatsoever in the companies subject to his or her opinion and does not own or trade any securities issued by the latter.

Explanation of Rating System

12-MONTH RATING	DEFINITION
BUY	Analyst expects at least 10% upside potential to fair value, which should be realized in the next 12 months
NEUTRAL	Analyst expects upside/downside potential of between +10% and -10% to fair value, which should be realized in the next 12 months.
SELL	Analyst expects at least 10% downside potential to fair value, which should be realized in the next 12 months
SHORT TERM RATING	**DEFINITION**
ST POSITIVE	Analyst expects the stock price to appreciate in value within 3 months of the rating assignation because of a specifically identified catalyst(s) or event(s)
ST NEGATIVE	Analyst expects the stock price to decline in value within 3 months of the rating assignation because of a specifically identified catalyst(s) or event(s)

For further information on Rating System please see "Definitions and distribution of ratings" on:http://www.espiritosantoib-research.com.

Ratings Distribution

Espirito Santo Investment Bank Research hereby provides the distribution of the equity research ratings in relation to the total Issuers covered and to the investment banking clients as of end of March 2012.

As at end Mar 2012	Total ESIB Research		Total Investment Banking Clients (IBC)		
Recommendation	Count	% of Total	Count	% of IBC	% of Total
Buy	215	46.4%	33	63.5%	7.1%
Neutral	172	37.1%	17	32.7%	3.7%
Sell	73	15.8%	0	0.0%	0.0%
Restricted	2	0.4%	2	3.8%	0.4%
Under review	1	0.2%	0	0.0%	0.0%
Total	463	100%	52	100%	

As at end Mar 2012	Total ESIB Research		Total Investment Banking Clients (IBC)		
Recommendation	Count	% of Total	Count	% of IBC	% of Total
Short Term Positive	0	0%	0	0%	0%
Short Term Negative	0	0%	0	0%	0%
Total	0	0%	0	0%	

Share Prices

Share prices are as at the close of business on the day preceding publication, unless otherwise specified.

Coverage Policy

Espírito Santo Investment Bank Research reserves the right to choose the securities it expresses opinions on. The main criteria to choose such securities are: 1) markets in which they trade 2) market capitalisation 3) liquidity, 4) sector suitability. Espírito Santo Investment Bank Research has no specific policy regarding the frequency in which opinions and investment recommendations are released.

Representation to Investors

Espírito Santo Investment Bank Research has issued this report for information purposes only. This material constitutes "investment research" for the purposes of the Markets in Financial Instruments Directive and as such contains an objective or independent explanation of the matters contained in the material.

Any recommendations contained in this document must not be relied upon as investment advice based on the recipient's personal circumstances..This report is not, and should not be construed as an offer or a solicitation to buy or sell any securities or related financial instruments. The investment discussed or recommended in this report may be unsuitable for investors depending on their specific investment objectives and financial position. The material in this research report is general information intended for recipients who understand the risks associated with investment. It does not take account of whether an investment, course of action, or associated risks are suitable for the recipient. This research report does not purport to be comprehensive or to contain all the information on which a prospective investor may need in order to make an investment decision and the recipient of this report must make its own independent assessment and decisions regarding any securities or financial instruments mentioned herein. In the event that further clarification is required on the words or phrases used in this material, the recipient is strongly recommended to seek independent legal or financial advice. Where an investment is denominated in a currency other than the investor's currency, changes in rates of exchange may have an adverse effect on the value, price of, or income derived from the investment. Past performance is not necessarily a guide to future performance. Income from investments may fluctuate. The price or value of the investments to which this report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation and opinion contained in this report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein. The securities mentioned in this publication may not be eligible for sale in some states or countries.

All the information contained herein is based upon information available to the public and has been obtained from sources believed to be reliable. However, Espírito Santo Investment Bank Research does not guarantee the accuracy or completeness of the information contained in this report. The opinions expressed herein are Espírito Santo Investment Bank Research present opinions only, and are subject to change without prior notice. EspíritoSanto Investment Bank Research is not under any obligation to update or keep current the information and the opinions expressed herein nor to provide the recipient with access to any additional information.

Espírito Santo Investment Bank Research has not entered into any agreement with the issuer relating to production of this report. Espírito Santo Investment Bank Research does not accept any form of liability for losses or damages which may arise from the use of this report or its contents.

Ownership and Material Conflicts of Interest

BancoEspírito Santo de Investimento, S.A. and/or its Affiliates (including all entities within Espírito Santo Investment Bank Research) and/or their directors, officers and employees, may have, or have had, interests or qualified holdings on issuers mentioned in this report. BancoEspírito Santo de Investimento, S.A. and/or its Affiliates may have, or have had, business relationships with the companies mentioned in this report. However, the research analysts may not purchase or sell securities or have any interest whatsoever in companies subject to their opinion.

BancoEspírito Santo Group has a qualified shareholding (1% or more) in EDP, Novabase, Portugal Telecom, ZON Multimédia and Semapa. Portugal Telecom has either a direct or indirect qualified shareholding (2% or more) in BancoEspírito Santo, S.A. and Lloyds Banking Group has a shareholding of 3.3% in Espírito Santo Investment Holdings Limited.

BES Securities do Brasil S.A. CCVM does not hold a direct or indirect stake in the capital of the company (companies) that are subject of analysis(es)/recommendation(s) in this report, but the BancoEspírito Santo Group within which it is inserted, holds, directly and in some cases indirectly, 1% or more of the equity securities of the following companies: Cia. Providência Indústria e Comércio, Bradesco and Vila Velha S/A and its associated company UNIPAR. Bradesco is a direct shareholder of BES Securities doBrasil S.A. CCVM' parent company. With the exception of the companies mentioned before, BES Securities do Brasil S.A. CCVM does not hold direct or indirect stakes in the capital of the other companies that are subject of analysis(es)/recommendations in this report, and it was not involved in the acquisition, alienation and intermediation of securities issued by these companies in the market.

Pursuant to Polish Ministry of Finance regulations we inform that BancoEspírito Santo Group companies and/or BancoEspírito Santo de Investimento, SA Branch in Poland do not have a qualified shareholding in the Polish Securities Issuers mentioned in this report higher than 5% of its total share capital.

The Chief Executive Officer of BancoEspírito Santo de Investimento, S.A., Mr. José Maria Ricciardi, is a member of EDP's General and Supervisory Board. Mr. Rafael Valverde, a member of the board of BancoEspírito Santo de Investimento, S.A., is a non-executive board member of EDP Renováveis. Mr. Ricardo AbecassisEspírito Santo Silva, a member of the board of BancoEspírito Santo de Investimento, S.A., is a board member of BHG.

BancoEspírito Santo de Investimento, S.A and/or its subsidiaries are liquidity providers for Novabase and Altri.

BancoEspírito Sano de Investimento, S.A. and/or its subsidiaries participate or have participated, as a syndicate member in share offerings of Brisa, BancaCivica, Sonae Sierra Brasil, S.A (a subsidiary of Sonae SGPS), EDP Brazil, and JBS, Autometal, Inpar, Lopes, PDG Realty, Tecnisa, BR Properties, Even, Sonae, Direcional, Brasil Brokers, Hypermarcas, Estácio, Banco do Brasil, Brasil Insurance, Ecorodovias, Julio Simões, Magnesita, Magazine Luiza, Mils, Minerva, Multiplus, OSX Brasil, Petrobras, HRT Petróleo, QueirozGalvão, CAB, Fleury, DrogaRaia, Arezzo, BR Malls, Kroton Unit, Gerdau, Metal Gerdau, BrasilPharma, QGEP Part, Unipar and HRTP and Burford Capital, IQE plc. and ACM Shipping Plc, and KredytInkaso S.A., GiełdaPapierówWartościowych S.A. (the Warsaw Stock Exchange S.A.) and Bank GospodarkiŻywnościowej S.A., in the last 12 months.

BancoEspírito Santo de Investimento, S.A. and/or its subsidiaries participate or have participated, as a syndicate member in the bond issues of the following companies: Abengoa, EDP and Portugal Telecom, JHSF, Cemig, Eletrobrás, ABC Brasil, Bradesco, Panamericano, Pine, Julio Simões,Sabesp, and as an entity organizing the issuance of bond issues of KredytInkaso S.A in the last 12 months.

BancoEspírito Santo de Investimento, S.A. and/or its subsidiaries provided investment banking services to the following companies: Abertis, Acciona ACS, Altri, BancaCivica, BBVA, Brisa, Dinamia, EDP, EDP Brazil, EDP Renováveis, Endesa, Ferrovial, Ibersol, Inditex, Jerónimo Martins, Martifer, Mota-Engil, Portugal Telecom, REN, SacyrVallehermoso, Semapa, Sonaecom, Sonae SGPS, Teixeira Duarte and ZON Multimédia, and Budimex SA, GrupaLotos S.A., PKO and KredytInkaso S.A and Ambev, JBS, Embraer, Autometal, PDG Realty, Tecnisa, BR Properties, Even, Sonae, Brasil Brokers, Hypermarcas, Cemig, Eletrobras, ABC Brasil, Bradesco, Banco do Brasil, Panamericano, Pine, Ecorodovias, OHL, Gerdau, Braskem, Petrobras, Unipar, HRT Petróleo, Fleury, Tim, DrogaRaia, Arezzo BR Malls, Kroton Unit, Gerdau, Metal Gerdau, BrasilPharma and ACM Shipping, AGA Rangemaster Group, Burford Capital, Caledonian Trust, Forum Energy, GlobeOp Financial Services, Impax Asset Management Group, ImmuPharma, India Hospitality Corp., IPSA, IQE, The Local Shopping REIT Plc ,Palmaris Capital, Novae Group Plc Shaftesbury Plc., SVG Capital, Ted Baker Workspace Group Plc and Flybe Group Plc, in the last 12 months.

BancoEspírito Santo Group has been a partner to Mota-Engil in the infrastructure business in Portugal and other countries. Mota-Engil and BancoEspírito Santo Group, through ES Concessões, S.G.P.S., S.A., have created a joint holding company – Ascendi – for all stakes in transportation infrastructure concessions, in Portugal and abroad. BancoEspírito Santo de Investimento, S.A. provided, or continues to provide, investment banking services to Ascendi.

BancoEspírito Santo de Investimento, S.A.and/or its subsidiaries do and seek to provide investment banking or other services to the companies referred to in this research report. As a result, investors should be aware that a conflict of interest may exist.

Market Making UK

Execution Noble Limitedis a Market Maker in companies covered and may sell to or buy from customers as principal in certain financial instruments listed or admitted to listing on the London Stock Exchange. For information on Companies to which Execution Noble Limited is a Market Maker please see "UK Market Making" on http://www.espiritosantoib-research.com.

Confidentiality

This report cannot be reproduced, in whole or in part, in any form or by any means, without Espírito Santo Investment Bank Research's specific written authorization. This report is confidential and is intended solely for the designated addressee. Therefore any disclosure, replication, distribution or any action taken in reliance on it, is prohibited and unlawful. Receipt and/or review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this report (including any investment recommendations, estimates or price targets without first obtaining express permission from an authorized officer of BancoEspírito Santo de Investimento, S.A.

Regulatory Authorities

For information on the identity of the Regulatory Authorities that supervise the entities included within Espírito Santo Investment Bank Research please see http://www.espiritosantoib-research.com.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This report was prepared by Espírito Santo Investment Bank Research, a global brand name for the equity research teams of BancoEspírito Santo de Investimento, S.A., with headquarter in Lisbon, Portugal, of its Branches in Spain and Poland and of its affiliates BES Securities do Brasil, S.A – Corretora de Câmbio e ValoresMobiliários, in Brazil, and Execution Noble Limited, in the United Kingdom, all authorized to engage in securities activities according to each domestic legislation. NeitherBancoEspírito Santo de Investimento, S.A. nor these affiliates are registered as a broker-dealer in the United States and therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This report is provided for distribution to U.S. institutional investors in reliance upon the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended.

This report is confidential and not intended for distribution to, or use by, persons other than the addressee and its employees, agents and advisors.

E.S. Financial Services, Inc. is the U.S. distributor of this report. E.S. Financial Services, Inc. accepts responsibility for the contents of this report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor. Any U.S. person receiving this report and wishing to effect securities transactions in any security discussed in the report should do so only through E.S. Financial Services, Inc.

Contact Information:

Garreth Hodgson	Senior Managing Director /Head of Sales	(212) 351-6054	ghodgson@esinvestment.com
Eva Gendell	Vice President	(212) 351-6058	egendell@esinvestment.com
Joseph Mcglone	Vice President	(212) 351-6061	jmcglone@esinvestment.com
Joy Bejasa	Vice President	(212) 351-6055	jbejasa@esinvestment.com
Lisa Gottardo	Executive Director	(212) 351-6060	lgottardo@esinvestment.com
Mike Maione	Executive Director	(212) 351-6067	mmaione@esinvestment.com
MikeWilliams	Vice President	(212) 351-6052	mwilliams@esinvestment.com
Pedro Marques	Vice President	(212) 351-6051	pmarques@esinvestment.com
Poorva Upadhyaya	Assistant Vice President	(212) 351-6056	pupadhyaya@esinvestment.com

E.S. Financial Services, Inc.
New York Branch
340 Madison Avenue, 12th Floor
New York, N.Y. 10173

Each analyst whose name appears in this report certifies the following, with respect to each security or issuer that the analyst covers in this report: (1) that all of the views expressed in this report accurately reflect the personal views of the analyst about those securities and issuers; and (2) that no part of the compensation of the analyst was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the analyst in this report.

The analysts whose names appear in this report are not registered or qualified as research analysts with the Financial Industry Regulatory Authority ("FINRA") and may not be associated persons of E.S. Financial Services, Inc. and therefore may not be subject to the applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Ownership and Material Conflicts of Interest

BancoEspírito Santo de Investimento, S.A. and/or its Affiliates and/or their directors, officers and employees, may have, or have had, interests or qualified holdings on issuers mentioned in this report. BancoEspírito Santo de Investimento, S.A. and/or its Affiliates may have, or have had, business relationships with the companies mentioned in this report.

For a complete list of the covered Issuers in which BancoEspírito Santo de Investimento, S.A. or its Affiliates hold stakes in excess of 1% and for information on possible material conflicts of interest arising from investment banking activities please see "Important disclosures for US persons" on http://www.espiritosantoib-research.com.

Receipt of Compensation

For information on Receipt of Compensation from subject Issuers please see "Important disclosures for US persons" on http://www.espiritosantoib-research.com.

Representation to Investors

Espírito Santo Investment Bank Research has issued this report for information purposes only. All the information contained therein is based upon information available to the public and has been obtained from sources believed to be reliable. However, Espírito Santo Investment Bank Research does not guarantee the accuracy or completeness of the information contained in this report. The opinions expressed herein are our present opinions only, and are subject to change without prior notice. Espírito Santo Investment Bank Research is not under any obligation to update or keep current the information and the opinions expressed herein. This report is not, and should not be construed as an offer or a solicitation to buy or sell any securities or related financial instruments. The investment discussed or recommended in this report may be unsuitable for investors depending on their specific investment objectives and financial position. Where an investment is denominated in a currency other than the investor's currency, changes in rates of exchange may have an adverse effect on the value, price of, or income derived from the investment. Past performance is not necessarily a guide to future performance. Income from investments may fluctuate. The price or value of the investments to which this report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation and opinion contained in this report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein. The securities mentioned in this publication may not be eligible for sale in some states or countries. Espírito Santo Investment Bank Research does not accept any form of liability for losses or damages which may arise from the use of this report. Please note that investing in any non-U.S. securities or related financial instruments discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission or subject to regulation in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in the United States.