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| Rating Information | |
|-----------------------------|--------------|
| Price (Rs) | 380 |
| Target Price (Rs) | 410 |
| Target Date | 30th June'19 |
| Target Set On | 18th Jan'17 |
| Implied yrs of growth (DCF) | 15 |
| Fair Value (DCF) | 363 |
| Fair Value (DDM) | 84 |
| Ind Benchmark | SPBSMIP |
| Model Portfolio Position | NA |

| Stock Information | |
|-------------------------|--------------|
| Market Cap (Rs Mn) | 1,52,237 |
| Free Float (%) | 45.86 % |
| 52 Wk H/L (Rs) | 387.05/106.4 |
| Avg Daily Volume (1yr) | 18,83,100 |
| Avg Daily Value (Rs Mn) | 377 |
| Equity Cap (Rs Mn) | 802 |
| Face Value (Rs) | 2 |
| Bloomberg Code | SOTL IN |

| Ownership | Recent | 3M | 12M |
|-----------|--------|--------|--------|
| Promoters | 54.1 % | -0.1 % | -0.4 % |
| DII | 12.2 % | 0.5 % | 1.0 % |
| FII | 7.1 % | -0.8 % | 1.2 % |
| Public | 26.6 % | 0.3 % | -1.8 % |

| Price % | 1M | 3M | 12M |
|-------------------|--------|--------|---------|
| Absolute | 27.8 % | 45.0 % | 255.8 % |
| Vs Industry | 22.2 % | 33.7 % | 214.3 % |
| HFCL | 14.9 % | 19.7 % | 147.2 % |
| Vindhya Telelinks | -5.4 % | -3.6 % | 93.1 % |

Consolidated Quarterly EPS forecast

| Rs/Share | 1Q | 2Q | 3Q | 4Q |
|-----------|-----|-----|-----|-----|
| EPS (17A) | 0.9 | 1.3 | 1.2 | 1.6 |
| EPS (18E) | 1.5 | 1.8 | 2.2 | 2.2 |

Sterlite Technologies Ltd.

3QFY18 Result: Estimate (↑), TP (↑), Rating (↔)

Regular Coverage

Absolute : ADD

Relative : Benchmark

6% ATR in 17 Months

Good execution, but largely priced in - maintain ADD

Telecom Services

Sterlite Technologies' (SOTL) 3QFY18 revenues grew 24% yoy to Rs 8.35bn, coming in 5% above EE. Revenue growth was mainly driven by the products business (~75% of 3Q revenues) as realizations for both optic fibre (OF) and optic fibre cable (OFC) improved amid continued OF global supply shortage. The company recorded its highest-ever EBITDA margin of ~24% due to greater contribution from the high-margin products business coupled with a higher proportion of value-added products. As this scenario is likely to continue in the foreseeable future, we raise our FY18/FY19 EBITDA estimates by 7%/10%. Overall, we estimate a revenue/EPS CAGR of 28%/42% over FY17-FY20E with RoEs of 32%/38% in FY18/FY19. We roll over to a Jun'19 TP of Rs 410 set at a TTM P/E of 32x (from a Mar'19 TP of Rs 300 set at a TTM P/E of 29x). Maintain ADD.

Products biz to gain from better pricing, higher contribution of value-added products:

As per management, SOTL's blended OF price is ~US\$ 8.5/fkm as of now vs. ~US\$ 7-7.5/fkm for FY17. Amid continued global shortage for optic fibre, the company has been able to negotiate better prices with its customers, and new prices will be applicable for the rest of CY18. Also, contribution from value-added products currently stands at ~22-23% (vs. global average of ~9-10%). Besides, the current product order book at ~Rs 32bn provides near-term visibility as most of it would be executed in FY19. Therefore, we estimate a 25% CAGR over FY17-FY20E for the products business.

Services business could see larger orders in near future:

As BharatNet Phase-1 is over and the government is getting into Phase-2 to 'light' up the remaining 150,000 GPs, procurement tenders would be finalized by Jun-Jul'17. The company has also bid for several Smart Cities and NFS projects, for which results are expected in next 1-2 quarters. Therefore, we believe new order wins shall sustain the services business momentum after most of current order book of ~Rs 13bn is executed by FY19. We expect the services business revenue to clock a ~38% CAGR over FY17-FY20E.

Maintain ADD with a rolled over Jun'19 TP of Rs 410: We believe premium valuations for SOTL are justified, as (a) it will be able to cater to robust global OF demand (~14% CAGR over last five years) with its well-timed capacity expansion, (b) it has posted better operating performance vs. peers due to its vertically integrated preform, fiber and cable production capabilities, and (c) thanks to its superior execution skills, return ratios are improving and balance sheet remains strong despite being in the middle of a huge capex program (~Rs 12bn). We estimate a revenue/EBITDA/EPS CAGR of 28%/33%/42% over FY17-FY20E and maintain our ADD rating on the stock. Our Jun'19 TP of Rs 410 is set at a 32x TTM P/E (vs. a Mar'19 TP of Rs. 300 earlier).

Change in Estimates

| Rs. Mn | FY18E | Chg (%) | FY19E | Chg (%) |
|--------|--------|---------|--------|---------|
| Sales | 31,690 | 1% | 41,693 | -3% |
| EBITDA | 7,321 | 7% | 10,094 | 10% |
| EPS | 7.8 | 14% | 11.8 | 15% |

Consolidated Financials

| Rs. Mn YE Mar | FY17A | FY18E | FY19E | FY20E |
|-------------------|--------|--------|--------|--------|
| Sales | 24,489 | 31,690 | 41,693 | 51,906 |
| EBITDA | 5,189 | 7,321 | 10,094 | 12,127 |
| Depreciation | 1,592 | 1,750 | 1,996 | 2,383 |
| Interest Expense | 1,229 | 1,045 | 1,311 | 1,477 |
| Other Income | 235 | 277 | 318 | 352 |
| Reported PAT | 2,014 | 3,120 | 4,744 | 5,774 |
| Recurring PAT | 2,014 | 3,120 | 4,744 | 5,774 |
| Total Equity | 8,801 | 10,987 | 14,304 | 18,340 |
| Gross Debt | 10,925 | 11,425 | 13,925 | 15,125 |
| Cash | 1,724 | 2,511 | 2,999 | 4,122 |
| Rs Per Share | FY17A | FY18E | FY19E | FY20E |
| Earnings | 5.0 | 7.8 | 11.8 | 14.4 |
| Book Value | 22 | 27 | 36 | 46 |
| Dividends | 1.3 | 1.9 | 3.0 | 3.6 |
| FCFF | 9.1 | 7.5 | 4.2 | 10.5 |
| P/E (x) | 75.6 | 48.8 | 32.1 | 26.4 |
| P/B (x) | 17.2 | 13.9 | 10.6 | 8.3 |
| EV/EBITDA (x) | 31.5 | 22.3 | 16.4 | 13.6 |
| ROE (%) | 25 % | 32 % | 38 % | 35 % |
| Core ROIC (%) | 15 % | 18 % | 22 % | 22 % |
| EBITDA Margin (%) | 21 % | 23 % | 24 % | 23 % |
| Net Margin (%) | 8 % | 10 % | 11 % | 11 % |

Earnings call takeaways

Products business

- Management indicated that optic fibre (OF) capacity expansion (from 30mn fkm to 50mn fkm) is on track and will be completed by Jun'19. The company intends to attain ~40mn fkm of capacity by Mar'19.
- Blended OF prices for the company are currently at ~US\$ 8.5/fkm, and should remain at similar levels till CY18-end. Post that, contracts would be renegotiated for both pricing and volumes based on the supply-demand scenario at that time.
- Generally, the duration of contracts (combination of both pricing and volumes) is between 2-3 years. Pricing and volumes are fixed for the first year but are negotiable in a tight range for the second and third year.
- In an attempt to capitalize on the current global OF supply shortage, the company is trying to sign long-term contracts with marquee tier-1 clients.
- SOTL is operating OF capacity at ~100% levels as of now; however, the share of 'high realization value-added fibre' has increased to ~22-23% from low-single digits a couple of years ago. At the global level, contribution of high value-added OF would be ~9-10% as per CRU data.
- Currently, Optic Fibre Cable (OFC) realization is ~US\$ 18-19/fkm, with capacity utilization likely at ~70% for FY18. There is good visibility for utilization levels to improve to ~90% in FY19.
- SOTL is now consistently doing 200-300 fibre count cable vs. 40-50 earlier.
- The products order book stands at ~Rs 32bn currently, and will be executed over FY19, FY20 and FY21.

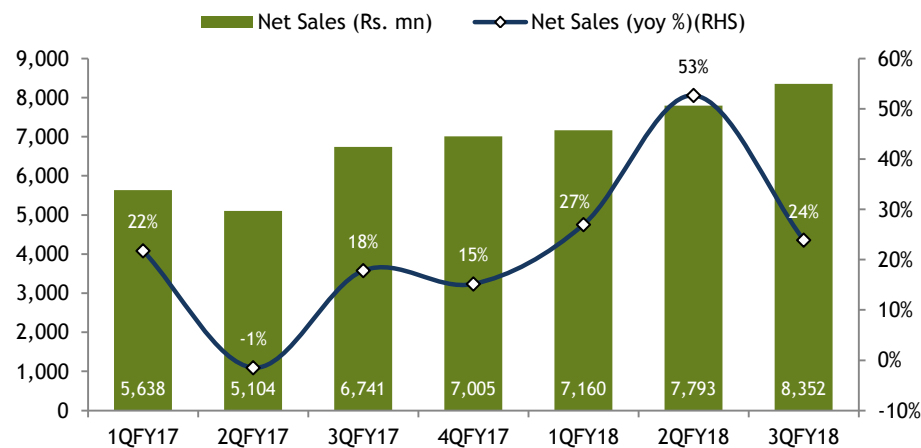
Services business

- On the services front, SOTL has bid for Smart City Projects, NFS and services contracts of telcos. Management expects some macro orders in the next 6-9 months.
- BharatNet decentralization is being done by BBNL; there are no concerns in terms of decentralization and funding.
- The current order book of ~Rs 13bn would largely be executed in FY19 (except for ~Rs 5bn of NFS AMC).
- For the current NFS order, ~Rs 3bn of revenues are yet to be booked and should be done over the next three quarters.

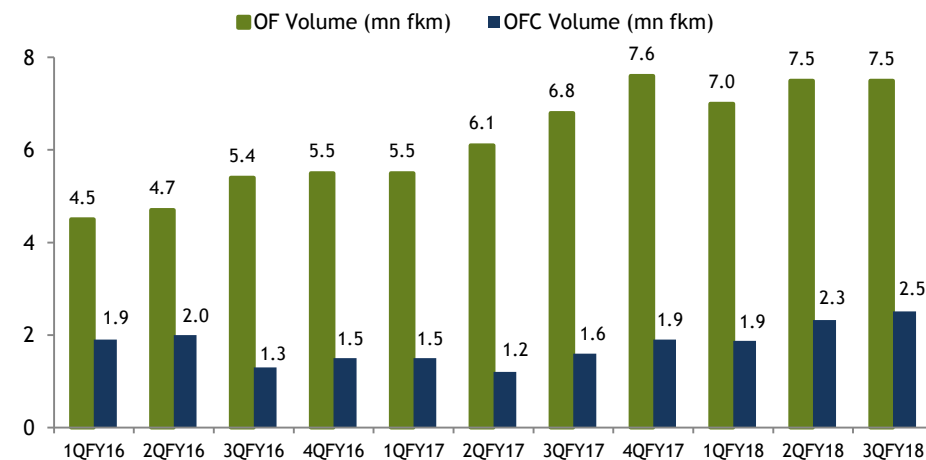
- BharatNet phase-2 orders should start coming in anytime, with several centralized and state tenders in the process of being drafted. By Jun-Jul'18, great amount of activity in terms of requirements should be firmed up.
- Current telcos services orders are not substantial, but could become so in the next 9-12 months.
- For Elitecore, ~70% revenue comes from global markets and the rest ~30% from India.

Other highlights

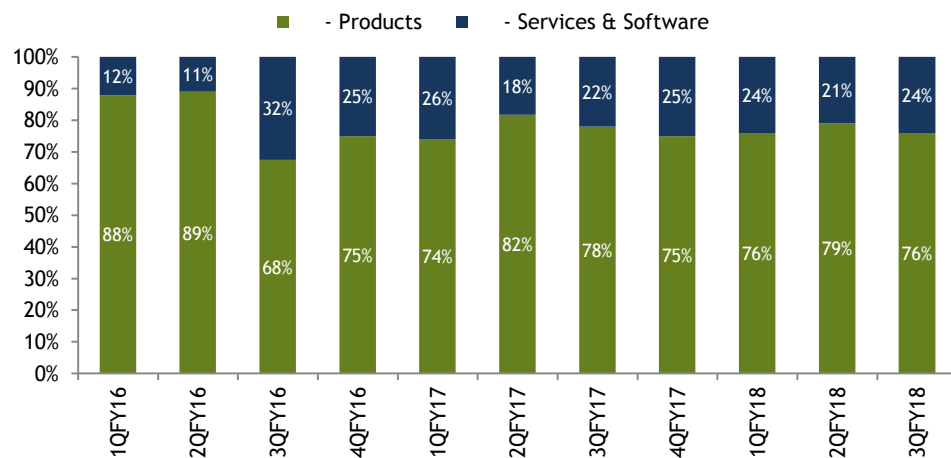
- For 3QFY18, the break-up between products and services was ~75:25.
- EBITDAM improvement in 3QFY18 (+330bps/+230bps on yoy/qoq basis) was driven by: (a) higher contribution from products, (b) better long-term contract prices, (c) high operating leverage of OF business.
- Exports contributed ~60% to overall revenues in 3QFY18. China and Europe continued to form bulk of export sales and a major portion of the order book.
- The company has bid for orders worth ~120bn-130bn (products + services).

Exhibit 1: Revenue growth has been strong for the past two years


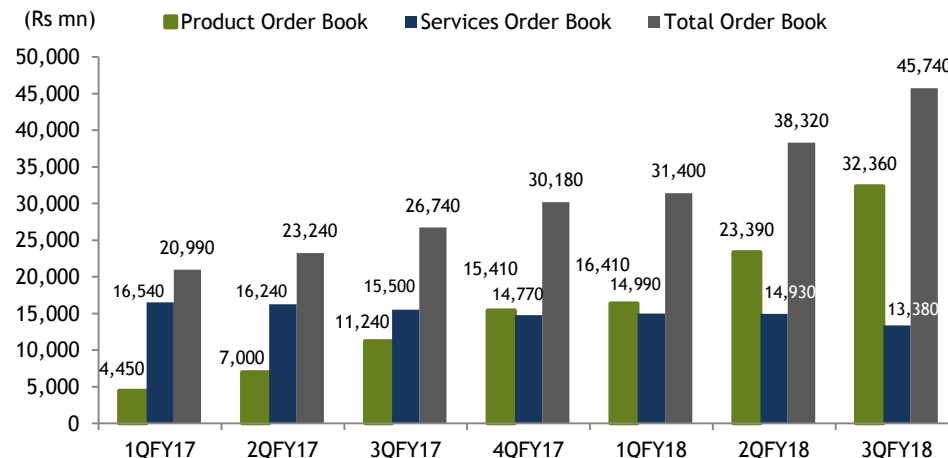
Source: Company, Equirus Securities

Exhibit 3: Both OF and OFC volumes are consistently improving


Source: Company, Equirus Securities

Exhibit 2: Contribution of Services & Software segment has been between 20-25%


Source: Company, Equirus Securities

Exhibit 4: Increasing order book reflects predictable outlook for the company


Source: Company, Equirus Securities



Quarterly performance, consolidated

| | 3QFY18 | 3QFY18E | 2QFY18 | 3QFY17 | % Change | | | Comments |
|---|--------------|--------------|--------------|--------------|------------|------------|------------|----------|
| | | | | | 3QFY18E | 2QFY18 | 3QFY17 | |
| Net Sales (Rs. mn) | 8,352 | 7,947 | 7,793 | 6,741 | 5% | 7% | 24% | |
| Cost of materials consumed | 3,502 | 3,381 | 2,481 | 2,466 | 4% | 41% | 42% | |
| Purchases of stock-in-trade | 137 | 0 | 24 | 0 | | 474% | | |
| Change in inventories of finished goods, stock-in-trade and WIP | -287 | 0 | 628 | 326 | | -146% | -188% | |
| Employee benefits expense | 889 | 861 | 896 | 714 | 3% | -1% | 24% | |
| Other expenses | 2,095 | 1,957 | 2,061 | 1,830 | 7% | 2% | 14% | |
| Total Expenditures | 6,335 | 6,199 | 6,090 | 5,336 | 2% | 4% | 19% | |
| EBITDA | 2,017 | 1,748 | 1,703 | 1,405 | 15% | 18% | 44% | |
| Depreciation | 448 | 456 | 437 | 409 | -2% | 3% | 10% | |
| EBIT | 1,569 | 1,292 | 1,266 | 996 | 21% | 24% | 57% | |
| Interest | 257 | 324 | 243 | 301 | -21% | 6% | -14% | |
| Other Income | 67 | 17 | 86 | 46 | 297% | -22% | 48% | |
| PBT | 1,379 | 985 | 1,109 | 741 | 40% | 24% | 86% | |
| Tax | 387 | 257 | 327 | 197 | 51% | 18% | 97% | |
| PAT before MI & Associates | 992 | 728 | 782 | 544 | 36% | 27% | 82% | |
| Minority Interest | -91 | -49 | -67 | -39 | 87% | 36% | 134% | |
| Profit from Assoc. | 0 | -2 | -2 | -14 | -100% | -100% | -100% | |
| Recurring PAT | 901 | 677 | 712 | 491 | 33% | 26% | 83% | |
| Extraordinaries | 0 | 0 | 0 | 0 | | | | |
| Reported PAT | 901 | 677 | 712 | 491 | 33% | 26% | 83% | |
| EPS (Rs) | 2.3 | 1.7 | 1.8 | 1.2 | 33% | 26% | 83% | |
| EBITDA Margin | 24.1% | 22.0% | 21.9% | 20.8% | 215 bps | 230 bps | 330 bps | |
| EBIT Margin | 19% | 16% | 16% | 15% | 253 bps | 254 bps | 401 bps | |
| PBT Margin | 17% | 12% | 14% | 11% | 412 bps | 228 bps | 552 bps | |
| PAT Margin | 11% | 9% | 9% | 7% | 227 bps | 165 bps | 350 bps | |
| Tax Rate | 28% | 26% | 30% | 27% | 196 bps | -146 bps | 150 bps | |

Company Snapshot

How we differ from Consensus

| | | Equirus | Consensus | % Diff | Comment |
|-------|-------|---------|-----------|--------|--|
| EPS | FY18E | 7.8 | 7.2 | 9 % | Consensus numbers are not updated post results |
| | FY19E | 11.8 | 10.4 | 14 % | |
| Sales | FY18E | 31,690 | 32,331 | -2 % | |
| | FY19E | 41,693 | 42,108 | -1 % | |
| PAT | FY18E | 3,120 | 2,873 | 9 % | |
| | FY19E | 4,744 | 4,185 | 13 % | |

Key Estimates:

| | FY16 | FY17e | FY18e | FY19e | FY20e |
|--------------------------------------|--------|--------|--------|--------|--------|
| Gross Revenue from Products (Rs. mn) | 17,800 | 20,108 | 25,449 | 30,292 | 39,745 |
| - Optic fibre volume (mn fkm) | 20.1 | 26.0 | 29.5 | 32.5 | 47.5 |
| - Optic fibre cable volume (mn fkm) | 6.5 | 6.2 | 9.5 | 13.4 | 16.7 |
| Revenue from Services (Rs mn) | 4,613 | 5,401 | 7,319 | 13,084 | 14,203 |

Risk to Our View:

- Inadequate/delayed investments by telcos
- Delay in public projects like BharatNet and Smart Cities
- Increasing supply of preform and fiber which may put pressure on pricing

Key Triggers

- Getting new Smart City and other services projects
- Full order booking of the upcoming 20mn fkm OF capacity and increasing utilization for OFC

DCF Valuations & Assumptions

| | Rf | Beta | Ke | Term. Growth | Debt/IC in Term. Yr |
|--|-------|------|--------|--------------|---------------------|
| | 6.8 % | 1.2 | 14.0 % | 5.0 % | 44.6 % |

| | FY18E | FY19E | FY20-22E | FY23-27E | FY28-32E |
|--------------|--------|--------|----------|----------|----------|
| Sales Growth | 29 % | 32 % | 20 % | 16 % | 15 % |
| NOPAT Margin | 13 % | 14 % | 12 % | 12 % | 12 % |
| IC Turnover | 1.36 | 1.43 | 1.62 | 1.67 | 1.69 |
| RoIC | 18.2 % | 22.3 % | 21.1 % | 21.1 % | 21.2 % |

| | | | | | |
|---------------------------|----|-----|-----|-----|-----|
| Years of strong growth | 1 | 2 | 5 | 10 | 15 |
| Valuation as on date (Rs) | 75 | 102 | 115 | 149 | 281 |
| Valuation as of June'19 | 97 | 132 | 148 | 193 | 363 |

Based on DCF, we derive a June'19 fair value of Rs 363.

Company Description

Sterlite Technologies is a pure play telecom products and services & software company, engaged in designing, building and managing smart digital networks. The company shares a common lineage with Vedanta Resources Plc - globally diversified natural resources major. It is the only vertically integrated player in India's optic fibre space, which gives it unique advantage over peers. SOTL's OF and OFC production capacities currently stand at 30mn fkm and 15mn fkm respectively (including 6.5mn fkm OF capacity in China).

| Comparable valuation | | Mkt Cap Rs. Mn. | Price Target | Target Date | EPS | | | P/E | | | BPS | | P/B | | RoE | | Div Yield | |
|---------------------------|-------|--------------------|-----------------|----------------|--------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-----------|-------|
| Company | Reco. | | | | FY17A | FY18E | FY19E | FY17A | FY18E | FY19E | FY17A | FY18E | FY17A | FY18E | FY17A | FY18E | FY17A | FY18E |
| Sterlite Technologies Ltd | ADD | 380 | 1,52,237 | 410 | 30th June'19 | 5.0 | 7.8 | 11.8 | 75.6 | 48.8 | 32.1 | 22.1 | 13.9 | 25 % | 32 % | 38 % | 0.3 % | 0.5 % |
| HFCL | NA | 33 | 40,590 | NA | NA | 1.0 | - | - | 32.8 | - | - | 7.8 | - | 14 % | - | - | 9.9 % | - |
| Vindhya Telelinks | NA | 1,250 | 14,815 | NA | NA | 73.2 | - | - | 17.1 | - | - | 484.8 | - | 16 % | - | - | 0.6 % | - |

Consolidated Quarterly Earnings Forecast and Key Drivers

| Rs in Mn | 1Q17A | 2Q17A | 3Q17A | 4Q17A | 1Q18A | 2Q18A | 3Q18A | 4Q18E | 1Q19E | 2Q19E | 3Q19E | 4Q19E | FY17A | FY18E | FY19E | FY20E |
|---|-------|-------|-------|--------|-------|-------|-------|-------|-------|-------|--------|--------|--------|--------|--------|--------|
| Revenue | 5,638 | 5,104 | 6,741 | 7,005 | 7,160 | 7,793 | 8,352 | 8,385 | 8,592 | 9,805 | 10,702 | 12,594 | 24,489 | 31,690 | 41,693 | 51,906 |
| Cost of materials consumed | 2,134 | 1,970 | 2,466 | 4,067 | 2,475 | 2,481 | 3,502 | 3,389 | 3,476 | 3,979 | 4,351 | 5,139 | 10,637 | 12,799 | 16,945 | 21,595 |
| Purchases of stock-in-trade | 98 | 309 | 0 | 0 | 78 | 24 | 137 | 0 | 0 | 0 | 0 | 0 | 407 | 0 | 0 | 0 |
| Change in inventories of finished goods, stock-in-trade and WIP | 245 | -425 | 326 | -1,206 | 374 | 628 | -287 | 0 | 0 | 0 | 0 | 0 | -1,061 | 0 | 0 | 0 |
| Other expenses | 1,362 | 1,393 | 1,830 | 1,828 | 1,892 | 2,061 | 2,095 | 2,072 | 2,149 | 2,476 | 2,719 | 3,231 | 6,413 | 8,119 | 10,575 | 13,253 |
| Employee benefits expense | 657 | 841 | 714 | 691 | 771 | 896 | 889 | 894 | 917 | 975 | 1,065 | 1,122 | 2,903 | 3,451 | 4,079 | 4,931 |
| EBITDA | 1,142 | 1,017 | 1,405 | 1,624 | 1,571 | 1,703 | 2,017 | 2,031 | 2,051 | 2,374 | 2,567 | 3,103 | 5,189 | 7,321 | 10,094 | 12,127 |
| Depreciation | 361 | 378 | 409 | 445 | 413 | 437 | 448 | 453 | 472 | 472 | 472 | 580 | 1,592 | 1,750 | 1,996 | 2,383 |
| EBIT | 782 | 640 | 996 | 1,180 | 1,158 | 1,266 | 1,569 | 1,578 | 1,579 | 1,902 | 2,095 | 2,523 | 3,597 | 5,571 | 8,098 | 9,744 |
| Interest | 319 | 367 | 301 | 243 | 285 | 243 | 257 | 260 | 328 | 328 | 328 | 328 | 1,229 | 1,045 | 1,311 | 1,477 |
| Other Income | 81 | 78 | 46 | 31 | 68 | 86 | 67 | 56 | 80 | 80 | 80 | 80 | 235 | 277 | 318 | 352 |
| PBT | 544 | 350 | 741 | 967 | 941 | 1,109 | 1,379 | 1,374 | 1,330 | 1,654 | 1,847 | 2,274 | 2,602 | 4,803 | 7,105 | 8,619 |
| Tax | 131 | -211 | 197 | 279 | 255 | 327 | 387 | 379 | 352 | 456 | 517 | 656 | 397 | 1,349 | 1,982 | 2,468 |
| PAT bef. MI & Assoc. | 412 | 561 | 544 | 688 | 685 | 782 | 992 | 995 | 978 | 1,198 | 1,329 | 1,618 | 2,205 | 3,454 | 5,123 | 6,151 |
| Minority Interest | 39 | 35 | 39 | 50 | 72 | 67 | 91 | 94 | 95 | 95 | 95 | 93 | 163 | 325 | 379 | 377 |
| Profit from Assoc. | 4 | -17 | -14 | -1 | -7 | -2 | 0 | 0 | 0 | 0 | 0 | 0 | -28 | -9 | 0 | 0 |
| Recurring PAT | 377 | 508 | 491 | 637 | 606 | 712 | 901 | 901 | 883 | 1,103 | 1,234 | 1,525 | 2,014 | 3,120 | 4,744 | 5,774 |
| Extraordinaries | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reported PAT | 377 | 508 | 491 | 637 | 606 | 712 | 901 | 901 | 883 | 1,103 | 1,234 | 1,525 | 2,014 | 3,120 | 4,744 | 5,774 |
| EPS (Rs) | 0.94 | 1.27 | 1.23 | 1.59 | 1.51 | 1.78 | 2.25 | 2.25 | 2.20 | 2.75 | 3.08 | 3.81 | 5.02 | 7.78 | 11.84 | 14.41 |
| Key Drivers | | | | | | | | | | | | | | | | |
| Gross Revenue from Products (Rs. mn) | - | - | - | - | - | - | - | - | - | - | - | - | 20,108 | 25,449 | 30,292 | 39,745 |
| - Optic fibre volume (mn fkm) | - | - | - | - | - | - | - | - | - | - | - | - | 26 | 30 | 33 | 48 |
| - Optic fibre cable volume (mn fkm) | - | - | - | - | - | - | - | - | - | - | - | - | 6 | 10 | 13 | 17 |
| Revenue from Services (Rs. mn) | - | - | - | - | - | - | - | - | - | - | - | - | 5,401 | 7,319 | 13,084 | 14,203 |
| - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Sequential Growth (%) | | | | | | | | | | | | | | | | |
| Revenue | -7 % | -9 % | 32 % | 4 % | 2 % | 9 % | 7 % | 0 % | 2 % | 14 % | 9 % | 18 % | - | - | - | - |
| Cost of materials consumed | -4 % | -8 % | 25 % | 65 % | -39 % | 0 % | 41 % | -3 % | 3 % | 14 % | 9 % | 18 % | - | - | - | - |
| EBITDA | -16 % | -11 % | 38 % | 16 % | -3 % | 8 % | 18 % | 1 % | 1 % | 16 % | 8 % | 21 % | - | - | - | - |
| EBIT | -20 % | -18 % | 56 % | 18 % | -2 % | 9 % | 24 % | 1 % | 0 % | 20 % | 10 % | 20 % | - | - | - | - |
| Recurring PAT | -31 % | 35 % | -3 % | 30 % | -5 % | 18 % | 26 % | 0 % | -2 % | 25 % | 12 % | 24 % | - | - | - | - |
| EPS | -31 % | 35 % | -3 % | 30 % | -5 % | 18 % | 26 % | 0 % | -2 % | 25 % | 12 % | 24 % | - | - | - | - |
| Yearly Growth (%) | | | | | | | | | | | | | | | | |
| Revenue | 22 % | -1 % | 18 % | 15 % | 27 % | 53 % | 24 % | 20 % | 20 % | 26 % | 28 % | 50 % | 14 % | 29 % | 32 % | 24 % |
| EBITDA | 14 % | -10 % | 31 % | 20 % | 37 % | 67 % | 44 % | 25 % | 31 % | 39 % | 27 % | 53 % | 13 % | 41 % | 38 % | 20 % |
| EBIT | 3 % | -26 % | 40 % | 21 % | 48 % | 98 % | 57 % | 34 % | 36 % | 50 % | 34 % | 60 % | 8 % | 55 % | 45 % | 20 % |
| Recurring PAT | 22 % | 39 % | 63 % | 16 % | 61 % | 40 % | 83 % | 42 % | 46 % | 55 % | 37 % | 69 % | 31 % | 55 % | 52 % | 22 % |
| EPS | 22 % | 39 % | 63 % | 16 % | 61 % | 40 % | 83 % | 42 % | 46 % | 55 % | 37 % | 69 % | 31 % | 55 % | 52 % | 22 % |
| Margin (%) | | | | | | | | | | | | | | | | |
| EBITDA | 20 % | 20 % | 21 % | 23 % | 22 % | 22 % | 24 % | 24 % | 24 % | 24 % | 24 % | 25 % | 21 % | 23 % | 24 % | 23 % |
| EBIT | 14 % | 13 % | 15 % | 17 % | 16 % | 16 % | 19 % | 19 % | 18 % | 19 % | 20 % | 20 % | 15 % | 18 % | 19 % | 19 % |
| PBT | 10 % | 7 % | 11 % | 14 % | 13 % | 14 % | 17 % | 16 % | 15 % | 17 % | 17 % | 18 % | 11 % | 15 % | 17 % | 17 % |
| PAT | 7 % | 10 % | 7 % | 9 % | 8 % | 9 % | 11 % | 11 % | 10 % | 11 % | 12 % | 12 % | 8 % | 10 % | 11 % | 11 % |

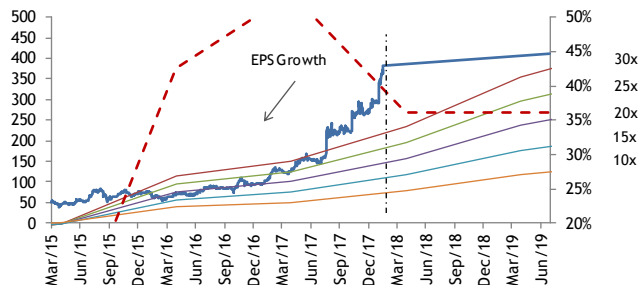
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|----------------------|--------|--------|--------|--------|
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| Op. Expenditure | 19,299 | 24,369 | 31,599 | 39,779 |
| EBITDA | 5,189 | 7,321 | 10,094 | 12,127 |
| Depreciation | 1,592 | 1,750 | 1,996 | 2,383 |
| EBIT | 3,597 | 5,571 | 8,098 | 9,744 |
| Interest Expense | 1,229 | 1,045 | 1,311 | 1,477 |
| Other Income | 235 | 277 | 318 | 352 |
| PBT | 2,602 | 4,803 | 7,105 | 8,619 |
| Tax | 397 | 1,349 | 1,982 | 2,468 |
| PAT bef. MI & Assoc. | 2,205 | 3,454 | 5,123 | 6,151 |
| Minority Interest | 163 | 325 | 379 | 377 |
| Profit from Assoc. | -28 | -9 | 0 | 0 |
| Recurring PAT | 2,014 | 3,120 | 4,744 | 5,774 |
| Extraordinaires | 0 | 0 | 0 | 0 |
| Reported PAT | 2,014 | 3,120 | 4,744 | 5,774 |
| FDEPS (Rs) | 5.0 | 7.8 | 11.8 | 14.4 |
| DPS (Rs) | 1.3 | 1.9 | 3.0 | 3.6 |
| CEPS (Rs) | 9.1 | 12.2 | 16.8 | 20.4 |
| FCFPS (Rs) | 9.1 | 7.5 | 4.2 | 10.5 |
| BVPS (Rs) | 22.1 | 27.4 | 35.7 | 45.8 |
| EBITDAM (%) | 21 % | 23 % | 24 % | 23 % |
| PATM (%) | 8 % | 10 % | 11 % | 11 % |
| Tax Rate (%) | 15 % | 28 % | 28 % | 29 % |
| Sales Growth (%) | 14 % | 29 % | 32 % | 24 % |
| FDEPS Growth (%) | 31 % | 55 % | 52 % | 22 % |

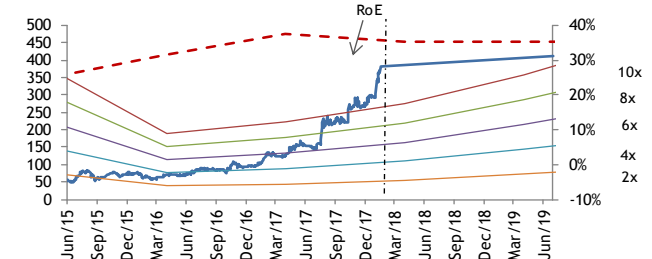
| Balance Sheet (Rs Mn) | FY17A | FY18E | FY19E | FY20E |
|----------------------------|--------|--------|--------|--------|
| Equity Capital | 797 | 802 | 802 | 802 |
| Reserve | 8,004 | 10,185 | 13,502 | 17,539 |
| Networth | 8,801 | 10,987 | 14,304 | 18,340 |
| Long Term Debt | 10,925 | 11,425 | 13,925 | 15,125 |
| Def Tax Liability | 1,892 | 1,892 | 1,892 | 1,892 |
| Minority Interest | 452 | 777 | 1,156 | 1,533 |
| Account Payables | 4,486 | 5,262 | 6,966 | 8,878 |
| Other Curr Liabi | 2,951 | 2,951 | 2,951 | 2,951 |
| Total Liabilities & Equity | 29,507 | 33,293 | 41,193 | 48,718 |
| Net Fixed Assets | 13,037 | 14,425 | 17,870 | 20,108 |
| Capital WIP | 659 | 0 | 0 | 0 |
| Others | 1,083 | 1,074 | 1,074 | 1,074 |
| Inventory | 3,335 | 3,454 | 4,572 | 5,827 |
| Account Receivables | 6,867 | 9,027 | 11,876 | 14,785 |
| Other Current Assets | 2,802 | 2,802 | 2,802 | 2,802 |
| Cash | 1,724 | 2,511 | 2,999 | 4,122 |
| Total Assets | 29,506 | 33,293 | 41,193 | 48,718 |
| Non-cash Working Capital | 5,567 | 7,070 | 9,334 | 11,586 |
| Cash Conv Cycle | 83.0 | 81.4 | 81.7 | 81.5 |
| WC Turnover | 4.4 | 4.5 | 4.5 | 4.5 |
| FA Turnover | 1.8 | 2.2 | 2.3 | 2.6 |
| Net D/E | 1.0 | 0.8 | 0.8 | 0.6 |
| Revenue/Capital Employed | 1.2 | 1.3 | 1.5 | 1.5 |
| Capital Employed/Equity | 2.6 | 2.4 | 2.2 | 2.1 |

| Cash Flow (Rs Mn) | FY17A | FY18E | FY19E | FY20E |
|--------------------|--------|--------|--------|--------|
| PBT | 2,602 | 4,803 | 7,105 | 8,619 |
| Depreciation | 1,592 | 1,750 | 1,996 | 2,383 |
| Others | 1,027 | 769 | 993 | 1,125 |
| Taxes Paid | 763 | 1,349 | 1,982 | 2,468 |
| Change in WC | 427 | -1,503 | -2,264 | -2,252 |
| Operating C/F | 4,885 | 4,469 | 5,848 | 7,407 |
| Capex | -2,138 | -2,479 | -5,440 | -4,621 |
| Change in Invest | -306 | 0 | 0 | 0 |
| Others | 121 | 277 | 318 | 352 |
| Investing C/F | -2,323 | -2,203 | -5,122 | -4,269 |
| Change in Debt | 38 | 500 | 2,500 | 1,200 |
| Change in Equity | 6 | 5 | 0 | 0 |
| Others | -1,913 | -1,984 | -2,739 | -3,215 |
| Financing C/F | -1,869 | -1,479 | -239 | -2,015 |
| Net change in cash | 693 | 787 | 488 | 1,123 |
| RoE (%) | 25 % | 32 % | 38 % | 35 % |
| RoIC (%) | 14 % | 16 % | 20 % | 20 % |
| Core RoIC (%) | 15 % | 18 % | 22 % | 22 % |
| Div Payout (%) | 30 % | 30 % | 30 % | 30 % |
| P/E | 75.6 | 48.8 | 32.1 | 26.4 |
| P/B | 17.2 | 13.9 | 10.6 | 8.3 |
| P/FCFF | 41.8 | 50.4 | 91.1 | 36.3 |
| EV/EBITDA | 31.5 | 22.3 | 16.4 | 13.6 |
| EV/Sales | 6.7 | 5.1 | 4.0 | 3.2 |
| Dividend Yield (%) | 0.3 % | 0.5 % | 0.8 % | 0.9 % |

TTM P/E vs. 2 yr forward EPS growth



TTM P/B vs. 2 yr forward RoE



Historical Consolidated Financials

| P&L (Rs Mn) | FY14A | FY15A | FY16A | FY17A |
|----------------------|--------|---------|----------|--------|
| Revenue | 25,639 | 30,971 | 21,440 | 24,489 |
| Op. Expenditure | 22,885 | 26,364 | 16,848 | 19,299 |
| EBITDA | 2,754 | 4,607 | 4,592 | 5,189 |
| Depreciation | 1,333 | 1,850 | 1,256 | 1,592 |
| EBIT | 1,421 | 2,757 | 3,336 | 3,597 |
| Interest Expense | 1,798 | 3,269 | 1,192 | 1,229 |
| Other Income | 225 | 513 | 162 | 235 |
| PBT | -152 | 1 | 2,305 | 2,602 |
| Tax | 243 | 37 | 652 | 397 |
| PAT bef. MI & Assoc. | -395 | -36 | 1,654 | 2,205 |
| Minority Interest | -40 | -9 | 61 | 163 |
| Profit from Assoc. | 0 | 0 | -56 | -28 |
| Recurring PAT | -355 | -27 | 1,537 | 2,014 |
| Extraordinaires | 0 | 0 | 0 | 0 |
| Reported PAT | -355 | -27 | 1,537 | 2,014 |
| EPS (Rs) | -0.9 | -0.1 | 3.8 | 5.0 |
| DPS (Rs) | 0.3 | 0.6 | 1.0 | 1.3 |
| CEPS (Rs) | 2.5 | 4.6 | 7.1 | 9.1 |
| FCFPS (Rs) | -25.3 | -317.7 | 3.7 | 9.1 |
| BVPS (Rs) | 28.2 | 38.0 | 19.1 | 22.1 |
| EBITDAM (%) | 11 % | 15 % | 21 % | 21 % |
| PATM (%) | -1 % | 0 % | 7 % | 8 % |
| Tax Rate (%) | -160 % | 3,690 % | 28 % | 15 % |
| Sales growth (%) | -17 % | 21 % | -31 % | 14 % |
| FDEPS growth (%) | -241 % | -93 % | -5,900 % | 31 % |

| Balance Sheet (Rs Mn) | FY14A | FY15A | FY16A | FY17A |
|----------------------------|--------|--------|--------|--------|
| Equity Capital | 788 | 788 | 790 | 797 |
| Reserve | 10,314 | 14,171 | 6,756 | 8,004 |
| Networth | 11,101 | 14,959 | 7,546 | 8,801 |
| Long Term Debt | 43,382 | 53,163 | 10,852 | 10,925 |
| Def Tax Liability | 1,919 | 1,797 | 1,680 | 1,892 |
| Minority Interest | 207 | 230 | 312 | 452 |
| Account Payables | 5,944 | 8,997 | 3,722 | 4,486 |
| Other Curr Liabi | 6,715 | 4,775 | 2,133 | 2,951 |
| Total Liabilities & Equity | 69,268 | 83,922 | 26,245 | 29,507 |
| Net Fixed Assets | 17,253 | 40,552 | 11,370 | 13,037 |
| Capital WIP | 35,488 | 21,926 | 1,723 | 659 |
| Others | 2,239 | 1,812 | 796 | 1,083 |
| Inventory | 3,196 | 4,149 | 2,053 | 3,335 |
| Account Receivables | 5,724 | 8,344 | 7,084 | 6,867 |
| Other Current Assets | 2,134 | 2,791 | 2,443 | 2,802 |
| Cash | 3,236 | 4,347 | 777 | 1,724 |
| Total Assets | 69,269 | 83,922 | 26,245 | 29,506 |
| Non-cash Working Capital | -1,605 | 1,512 | 5,725 | 5,567 |
| Cash Conv Cycle | -22.8 | 17.8 | 97.5 | 83.0 |
| WC Turnover | -16.0 | 20.5 | 3.7 | 4.4 |
| FA Turnover | 0.5 | 0.5 | 1.6 | 1.8 |
| Net D/E | 3.6 | 3.3 | 1.3 | 1.0 |
| Revenue/Capital Employed | 0.5 | 0.5 | 0.5 | 1.2 |
| Capital Employed/Equity | 4.3 | 4.9 | 4.0 | 2.6 |

| Cash Flow (Rs Mn) | FY14A | FY15A | FY16A | FY17A |
|--------------------|---------|----------|--------|--------|
| PBT | -152 | 1 | 2,305 | 2,602 |
| Depreciation | 1,333 | 1,850 | 1,256 | 1,592 |
| Others | 1,955 | 2,998 | 1,240 | 1,027 |
| Taxes Paid | 339 | 220 | 487 | 763 |
| Change in WC | -161 | -702 | -2,167 | 427 |
| Operating C/F | 2,636 | 3,927 | 2,147 | 4,885 |
| Capex | -16,528 | -11,512 | -2,303 | -2,138 |
| Change in Invest | -888 | -220 | 652 | -306 |
| Others | 150 | 14 | 96 | 121 |
| Investing C/F | -17,266 | -11,718 | -1,555 | -2,323 |
| Change in Debt | 15,171 | 9,863 | 834 | 38 |
| Change in Equity | 115 | 4,521 | 2 | 6 |
| Others | -4,501 | -5,884 | -1,645 | -1,913 |
| Financing C/F | 10,786 | 8,500 | -809 | -1,869 |
| Net change in cash | -3,844 | 709 | -217 | 693 |
| RoE (%) | -3 % | 0 % | 14 % | 25 % |
| RoIC (%) | 9 % | -185 % | 5 % | 14 % |
| Core RoIC (%) | 8 % | -164 % | 6 % | 15 % |
| Div Payout (%) | -39 % | -1,074 % | 31 % | 30 % |
| P/E | -428.7 | -5,744.8 | 99.0 | 75.6 |
| P/B | 13.5 | 10.0 | 19.9 | 17.2 |
| P/FCFF | -15.0 | -1.2 | 103.6 | 41.8 |
| EV/EBITDA | 71.3 | 44.4 | 36.1 | 31.5 |
| EV/Sales | 7.7 | 6.6 | 7.7 | 6.7 |
| Dividend Yield (%) | 0.1 % | 0.2 % | 0.3 % | 0.3 % |

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- ADD: ATR >= 5% but less than Ke over investment horizon
- REDUCE: ATR >= negative 10% but <5% over investment horizon
- SHORT: ATR < negative 10% over investment horizon

Relative Rating

- OVERWEIGHT: Likely to outperform the benchmark by at least 5% over investment horizon
- BENCHMARK: likely to perform in line with the benchmark
- UNDERWEIGHT: likely to under-perform the benchmark by at least 5% over investment horizon

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Investment Horizon is set at a minimum 3 months to maximum 18 months with target date falling on last day of a calendar quarter.

Lite vs. Regular Coverage vs. Spot Coverage

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