KSL - Sector Update

KHANDWALA SECURITIES LIMITED

IT Sector Update

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Long term Growth Intact

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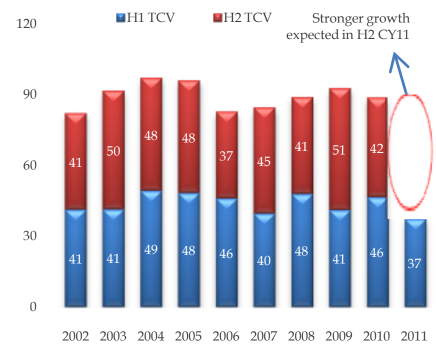
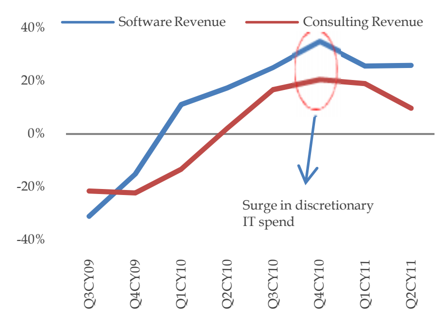
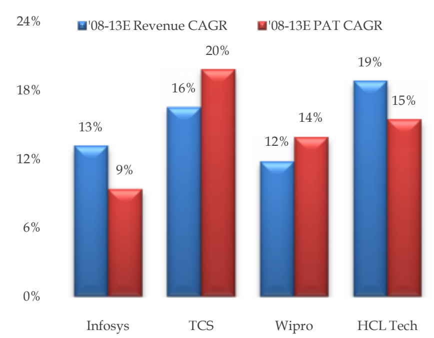
TPI TCV (USD bn)



SAP revenues (YoY growth)



Revenue & PAT CAGR



US downgrade by S&P has led to a serious concern for growth among Indian IT vendors. The IT index has witnessed a steep fall since then after outperforming for several months. We believe this is a sentiment driven fall and expect an uptick in the stock prices as we do not expect a structural shift in the demand for off shoring. Demand is likely to be muted in the medium term, but the long term growth is still intact. We cut our earnings estimates for the top Indian IT vendors, but maintain our positive stance on the IT sector.

Summary

1. **Global companies' outperformance continues** - Outperformance by global IT vendors proves the confidence in demand environment; demand is expected to remain strong in longer term.
2. **Offshoring budgets may not come down; strong outlook by TPI-** Offshoring budgets may not come as low as in FY10. TPI signals for a strong H2CY11.
3. **Growth rates in US to be muted; APAC to do better** – US will remain muted in the near term whereas APAC will outperform led by a huge untapped market.
4. **Muted growth in BFSI; emerging verticals to outperform** – BFSI will remain weak as large banks in US turn cautious towards IT spend, emerging verticals like energy/utilities, healthcare and retail expected to outperform.
5. **No downward revision of guidance expected**- NASSCOM has maintained its forecast for IT export growth (16-18%). We do not expect any downward revision in guidance by the companies.
6. **Muted discretionary IT spend** – Large global banks are expected to turn cautious and cut budgets which will have a negative impact on discretionary IT spend globally.
7. **Attrition expected to dip; lower salary hikes in FY13** – Attrition rates are expected to witness a fall in FY12.We do not expect a double digit salary hike in FY13 by Indian IT vendors.

Valuation – We cut FY12E and FY13E revenue by ~5% and ~10% respectively for top tier IT vendors. We maintain positive view on the IT sector. We maintain 'BUY' recommendation on Infosys, Wipro and HCL Tech; 'ADD' rating on TCS.

	CMP	MktCap	Sales (INR Mn)		EPS (INR)			P/E	*EPS CAGR*	TP	*Upside*	Recom.
	(INR)	(INR Bn)	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	*('10-13E) (%)*	(INR)	*(%)*	
Infosys	2,208	1,261	317,570	354,777	132.2	149.2	16.7	14.8	*10.9*	2,685	*21.6*	BUY
TCS	950	1,859	442,372	511,695	48.9	54.3	19.4	17.5	*15.5*	980	*3.2*	ADD
Wipro	320	783	353,546	397,814	20.6	23.7	15.5	13.5	*8.0*	380	*18.8*	BUY
HCL Tech	363	252	183,665	208,813	28.7	33.6	12.7	10.8	*20.9*	470	*29.5*	BUY

US downgrade by S&P has led to a serious concern for growth among Indian IT vendors. The IT index has witnessed a steep fall since then after outperforming for several months. We believe this is a sentiment driven fall and expect an uptick in the stock prices as we do not expect a structural shift in the demand for off shoring. Demand is likely to be muted in the medium term, but the long term growth is still intact. We cut our earnings estimates for the top Indian IT vendors, but maintain our positive stance on the IT sector. We believe large Indian IT vendors will continue to outperform the mid- tier vendors led by varied nature of services provided by them.

Global companies' outperformance continues

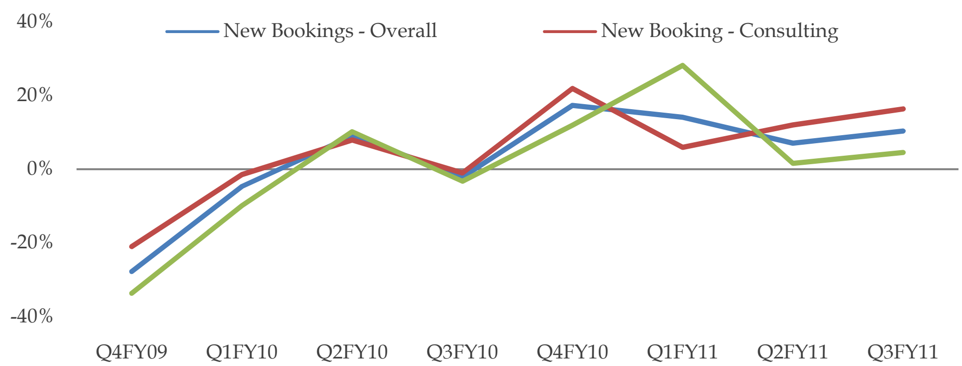
Outperformance by global IT vendors proves the confidence in demand environment. The strong guidance given by them is backed by a strong deal pipeline and higher demand visibility globally. We believe demand for IT services will not deteriorate in the longer term.

Accenture

Accenture reported a strong Q3FY11 with 21%YoY growth led by robust demand for discretionary IT spend. It has revised guidance for FY11 to 14-15% (previous guidance of 11-14%). Overall new bookings in Q3FY11 grew 10.4%YoY led by surge in consulting bookings which grew 16.4%YoY. Out of the total new bookings of USD 7.1bn, USD 3.7bn was for consulting. The management is confident of achieving the upper range of the target for new bookings (USD 25-28bn) as there is better demand visibility. ***Accenture's guidance for FY12 will be a key trigger to watch out for as it will demonstrate the impact of US downgrade on demand for FY12.***

Strong new bookings support demand visibility (YoY growth)

Growth in new bookings supported by higher strategic client wins…



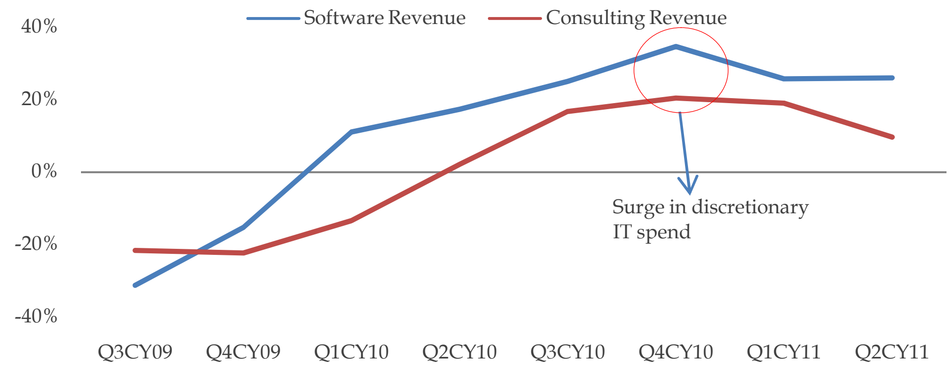
Source: Khandwala Research

SAP

SAP reported a strong Q2CY11 with 25.9%YoY revenue growth; sixth consecutive quarter with double digit revenue growth in software revenues. Growth was driven by strong uptick in EMEA which grew 16%YoY in Q2CY11; APAC surged 19%YoY. The management now expects to meet the upper end of their software revenue guidance of 10-14% for CY11.

Software & Consulting Revenues (YoY growth)

Strong visibility for higher discretionary IT spends in the near term…



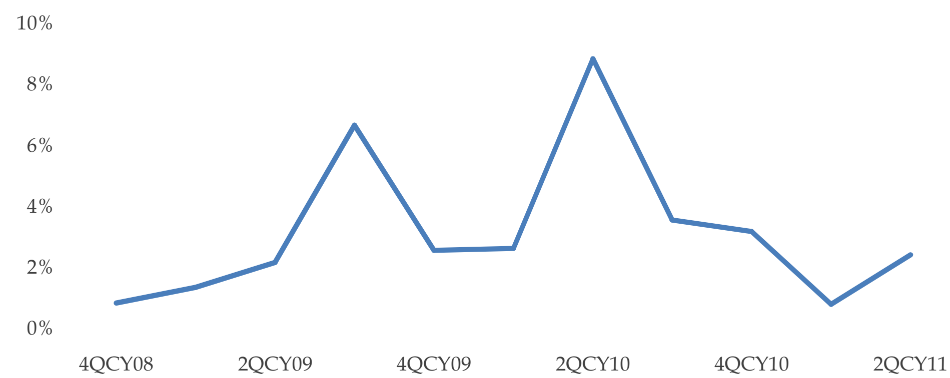
Source: Khandwala Research

Cognizant

Cognizant reported a strong Q2CY11 with 8.3%QoQ growth to USD1,485mn. Backed by the strong performance management have revised their full year guidance to 32%YoY revenue growth in CY11. (Earlier guidance of 29%YoY growth). Cognizant added 76 new clients and the total client base at the end of Q2CY11 were 721. Addition of 6 new strategic clients takes its total count to 179. Pricing in Q2CY11 was slightly higher than Q1CY11 led by pricing revisions for deals signed towards the end of CY10. Broad based growth across key verticals and geographies will lead growth. Demand visibility has also improved as per the management.

Revenue growth outperformance vs guidance

Robust demand environment lead to strong outperformance…



Source: Khandwala Research

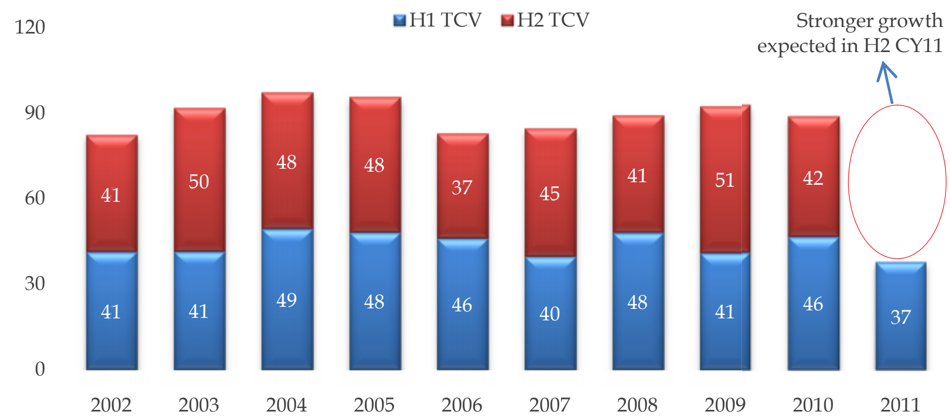
Offshoring budgets may not come down; strong outlook by TPI

Offshore budgets grew in FY11 led by strong demand for IT services globally. The overall outsourcing budget may remain flat globally for IT services, but the offshoring portion of it will continue to remain strong as companies look to cut costs and achieve operational efficiency. Indian IT vendors provide a more value to the clients in order to boost volumes. They are expanding towards the non linear services which is a high growth untapped market.

According to TPI, overall TCV in Q2CY11 outsourcing market dipped 18%YoY on the back of de-growth in US. However despite struggles in US, contract pipeline suggests H2CY11 will emerge strong and may even breach 2010 levels. TCV in APAC grew 55%YoY in Q2CY11 and will continue to lead growth in H2CY11.

Large deal pipeline will lead to strong growth in H2CY11…

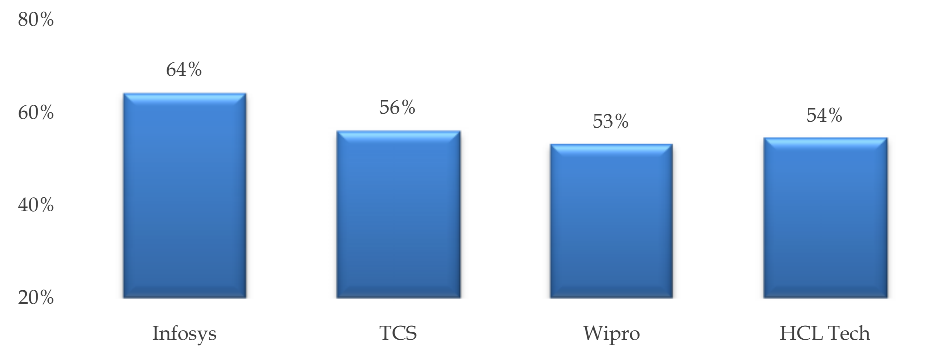
TCV(USD bn) for CY11 expected to reach 2010 levels; stronger H2CY11



Source: Khandwala Research

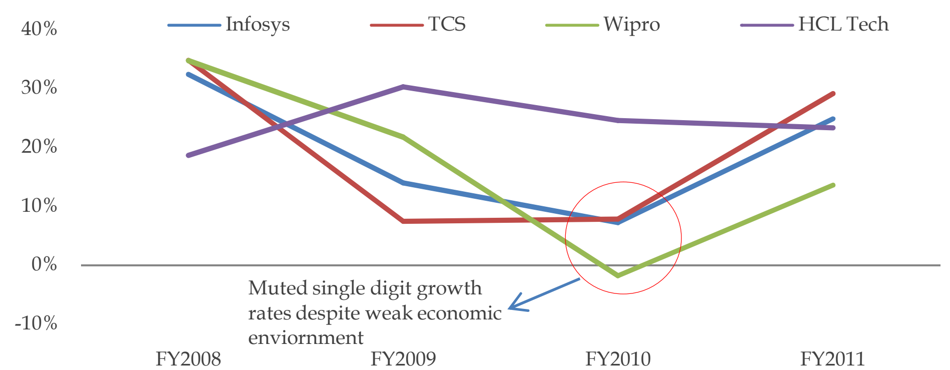
Growth rates in US to be muted; APAC and emerging eco will do better in the near term

US have been the leading growth for Indian IT vendors led by increased emphasis on outsourcing. Over 50% of revenues for all Indian IT vendors are from US. Infosys leads peers with 64% exposure to US whereas HCL Tech is the lowest as it derives 54% of revenues from US.



Source: Khandwala Research

Indian IT vendors have demonstrated a robust performance led by the robust demand for IT services in US. In FY10, even when clients were cutting down on IT spend Indian IT vendors reported single digit growth in revenues from US. We expect a similar situation in FY12 and upto Q1FY13 as revenue growth from US would become muted. As global uncertainty reduces and demand environment changes, we expect Indian IT vendors to return in the growth trajectory in FY13.

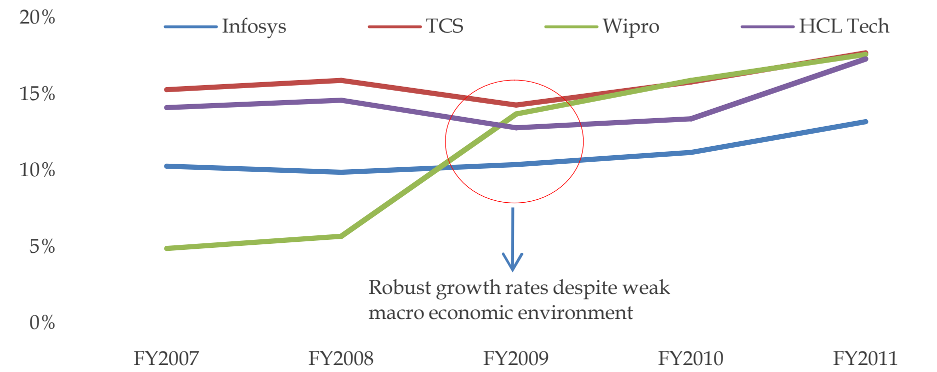


Source: Khandwala Research

Indian IT vendors have been expanding presence in APAC and emerging economies on the back of a large untapped market. Top tier vendors have expanded presence in China and established centers to win more new clients. Emerging nations will continue to offshore more as companies become open to outsourcing. Australia and NZ also provide a huge untapped market and we expect high growth from these regions. The entire top tier IT vendors now have double digit exposure from ROW. With increased uncertainty in US, the companies would invest more in sales effort in these new nations to win expand presence and boost volumes.

Revenues from APAC (YoY growth)

Expansion towards APAC has led to robust growth over the last two years…



Source: Khandwala Research

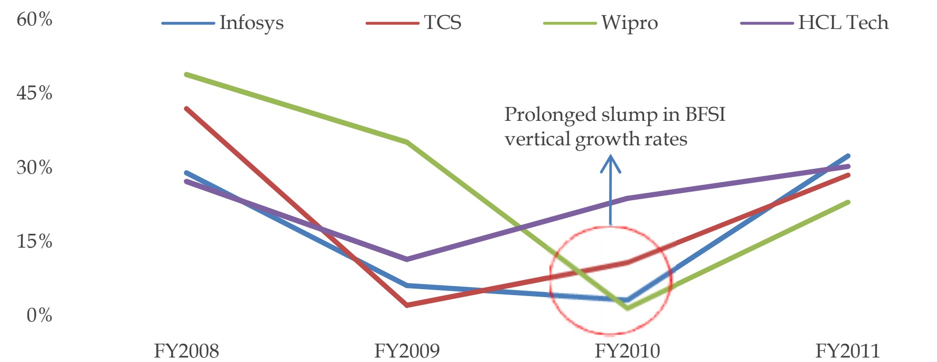
Growth in BFSI expected to be muted; emerging verticals will outperform

BFSI vertical has outperformed in FY11 led by strong spending in M&A integration work. Various large transformational deals were signed by the BFSI vertical. Uptick in discretionary IT spends was led by the BFSI vertical. In the current scenario, BFSI vertical is undergoing rapid change driven by macroeconomic uncertainty.

BFSI vertical is the first one to be hit when the demand environment becomes moderate. Subprime crisis in 2008 led to a strong dip in growth from BFSI vertical. It started recovering in H2 of FY10 led by pent up demand; post that was a strong demand uptick in FY11 led by discretionary IT spend. We believe growth rates in BFSI will be dip in the medium term and will not be as strong as FY11.

Revenues from BFSI vertical (YoY growth)

Growth in BFSI not expected to be as strong as in FY11…

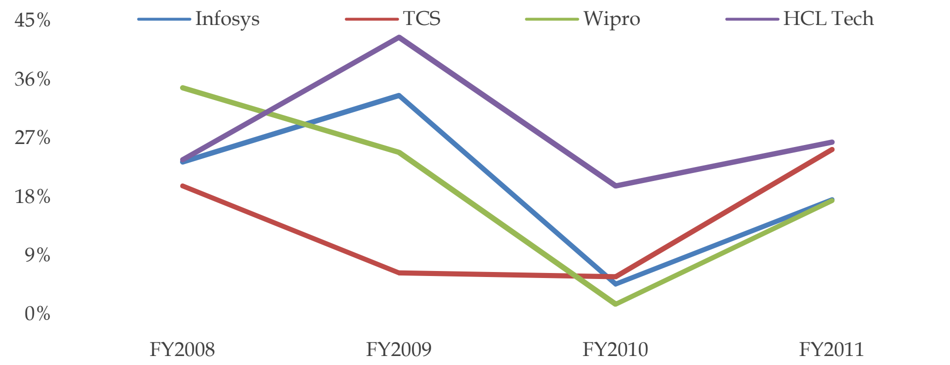


Source: Khandwala Research

Non BFSI revenues for the Indian IT vendors were strong despite recession in FY09. This was on the back of new client wins and expansion towards newer verticals. Emerging verticals like healthcare and energy/utilities led this outperformance. Telecom will remain weak in the medium term on the back of lower spend towards IT. We expect these emerging verticals to outperform BFSI vertical in the medium term as more companies become open to outsourcing.

Revenues from all verticals except BFSI (YoY growth)

Strong growth in healthcare, energy and utilities reported strong growth…



Source: Khandwala Research

No downward revision of guidance expected for FY12

NASSCOM has maintained its growth forecast for Indian IT exports for FY12 of 16-18% growth. NASSCOM comments that they had already factored in the uncertainties in the macroeconomic environment in the current guidance. We do not expect Infosys to revise guidance downwards for FY12 as the deal signings and pipeline for FY12 remains strong. Global majors like Accenture, SAP and Cognizant have revised their guidance upwards backed by the strong demand visibility. HP has revised guidance downwards on the back of its underperformance in the consumer PC business in the near term.

We expect demand to deteriorate towards the end of FY12, as discretionary IT spend takes a hit and clients in US begin to cut IT spend. We expect the demand to be muted upto H1FY13, but expect a strong demand in H2FY13.

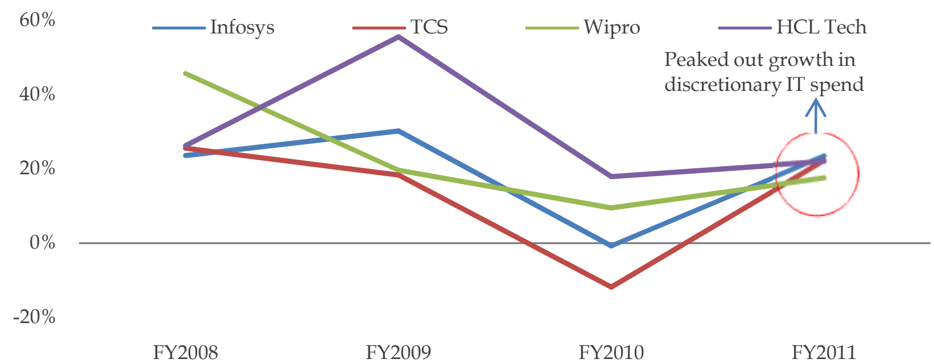
	Guidance	Comments
NASSCOM	16-18%	No downward revision
Infosys	18-20%	
Cognizant	32%	Upward revision in June'11 Qtr
Accenture	14-15%	Upward revision in May'11 Qtr
SAP	10-14%	Mgmt now expects to reach the upper end (Jun'11 Qtr)
HP	1-1.3%	Downward revision of guidance in July'11 Qtr

Muted discretionary IT spend – spending cut by large global banks

IT spend in FY11 was driven robust growth in discretionary IT spend. In a volatile demand environment discretionary IT spend is hit drastically. ERP, consulting and SI projects are the ones that are ramped down by clients when macroeconomic environment is unstable. We expect muted growth in discretionary IT spends in the medium term on the back of concerns in US and Europe. Clients are expected to cut down on discretionary IT spends.

Growth in discretionary IT services is expected to slow down...

Revenues from discretionary IT services (YoY growth)

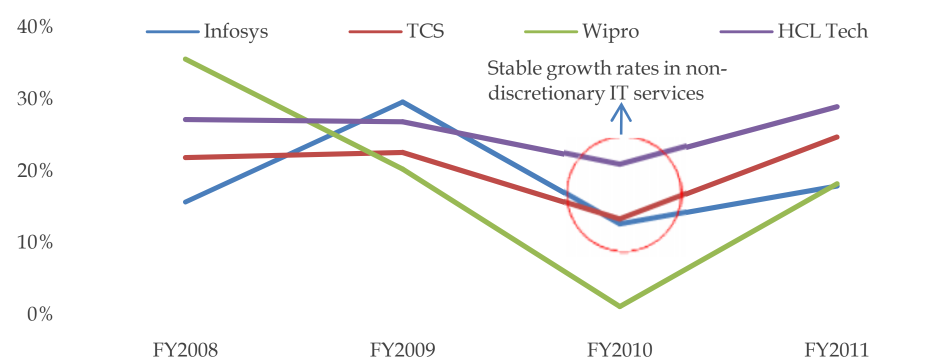


Source: Khandwala Research

The annuity type contracts are ones which grow at a faster pace than the discretionary service lines even in times of a volatile macroeconomic environment. We believe IMS will witness strong traction as clients offshore more. BPO segment has gone through a restructuring phase among all the top tier vendors towards platform based services. We believe platform based services will boost growth in the long term.

IMS, ADM and BPO to drive growth going forward...

Revenues from non discretionary IT services (YoY growth)



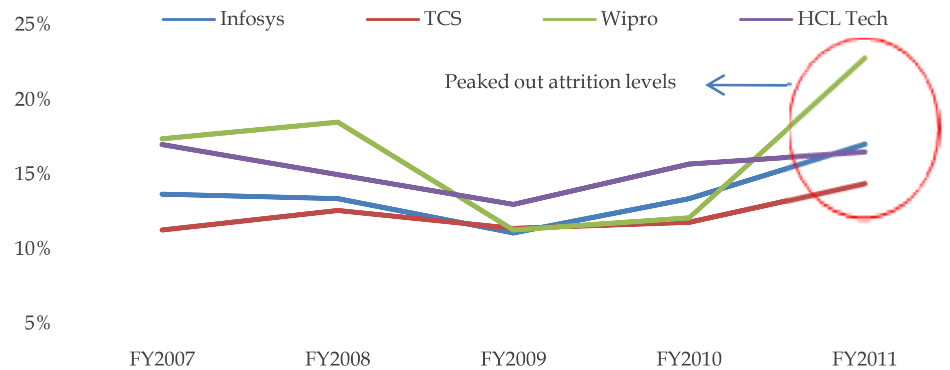
Source: Khandwala Research

Attrition expected to dip; lower salary hikes in FY13

Attrition has been on the rise since demand environment has witnessed an uptick. Attrition surged in FY11 inspite of a high salary hike given by all the top tier Indian IT vendors. Higher attrition was primarily on the back of high demand for laterals in the market as a large number of transformational deals were signed by Indian IT vendors. Higher demand for discretionary IT spend also pushed attrition rates. We expect attrition to dip in the near term on the back of a moderate growth environment and lower demand for laterals.

Attrition expected to dip in FY12 and FY13…

Attrition Rate

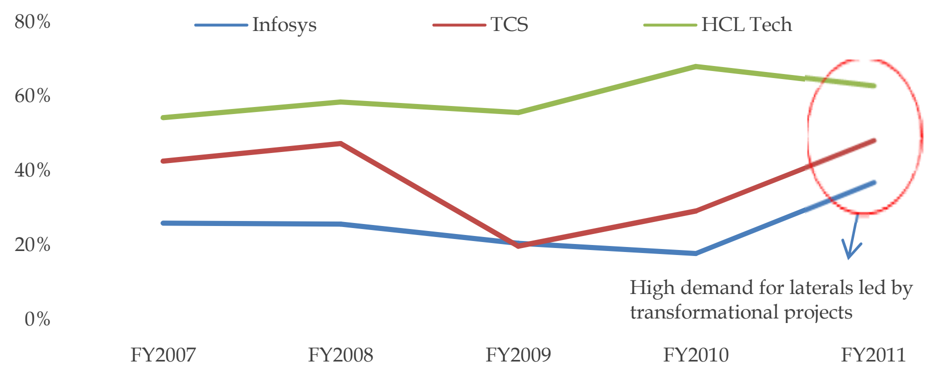


Source: Khandwala Research

Indian IT vendors gave a salary hike of 10-15% in FY12 on the back of strong demand environment and to retain laterals. We expect a lower hike for employees in FY13 as the demand in FY12 and FY13 is not expected to be as strong as in FY11. This will also provide a cushion to the EBIT margin.

Demand for laterals to slow down as higher number of freshers to be added by Indian IT vendors…

Laterals as a percentage of net additions



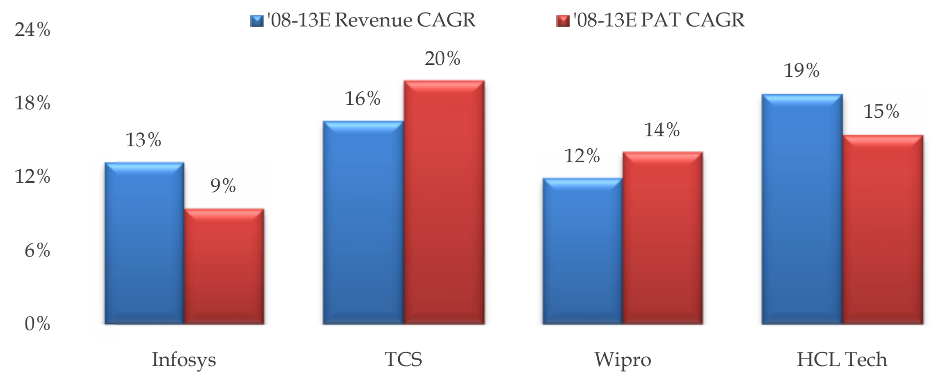
Source: Khandwala Research

Valuations

	Sales (INR Mn)					*CAGR %*	EPS (INR)					*CAGR %*
	2009	**2010**	**2011**	**2012E**	**2013E**	*('08-13E)*	**2009**	**2010**	**2011**	**2012E**	**2013E**	*('08-13E)*
Infosys	216,930	227,420	275,010	317,570	354,777	*13.1*	104.5	109.0	119.4	132.2	149.2	*9.3*
TCS	278,128	300,289	373,246	442,372	511,695	*16.5*	26.4	35.1	44.6	48.9	54.3	*19.7*
Wipro	254,564	271,957	310,542	353,546	397,814	*11.8*	14.1	18.8	21.7	20.6	23.7	*13.9*
HCL Tech	105,046	125,650	158,555	183,665	208,813	*18.7*	19.0	18.9	24.1	28.7	33.6	*15.4*

HCL Tech commands highest revenue CAGR led by growth in AXON; TCS leads the pack in EPS CAGR on the back of improved EBIT margin…

Revenue and PAT CAGR (2008-13E)



Source: Khandwala Research

Revised Estimates

Infosys Technologies Limited

Description	Earlier Est.		Revised Est.		*% Change*	
(INR Mn)	FY12	FY13	FY12	FY13	*FY12*	*FY13*
Sales	336,191	408,817	317,570	354,777	*-5.5*	*-13.2*
EBITDA	104,185	124,841	99,446	109,134	*-4.5*	*-12.6*
PAT	78,956	96,542	75,518	85,267	*-4.4*	*-11.7*
EPS (INR)	138.0	169.0	132.2	149.2	*-4.2*	*-11.7*

Tata Consultancy Services Limited

Description	Earlier Est.		Revised Est.		*% Change*	
(INR Mn)	FY12	FY13	FY12	FY13	*FY12*	*FY13*
Sales	460,649	569,498	442,372	511,695	*-4.0*	*-10.1*
EBITDA	132,171	162,046	127,771	147,395	*-3.3*	*-9.0*
PAT	98,279	115,202	95,638	106,333	*-2.7*	*-7.7*
EPS (INR)	50.2	58.9	48.9	54.3	*-2.7*	*-7.8*

Wipro Limited

Description	Earlier Est.		Revised Est.		*% Change*	
(INR Mn)	FY12	FY13	FY12	FY13	*FY12*	*FY13*
Sales	360,030	426,275	353,546	397,814	*-1.8*	*-6.7*
EBITDA	71,559	82,504	70,393	79,119	*-1.6*	*-4.1*
PAT	50,844	59,897	50,257	57,755	*-1.2*	*-3.6*
EPS (INR)	21.0	24.7	20.6	23.7	*-1.9*	*-4.2*

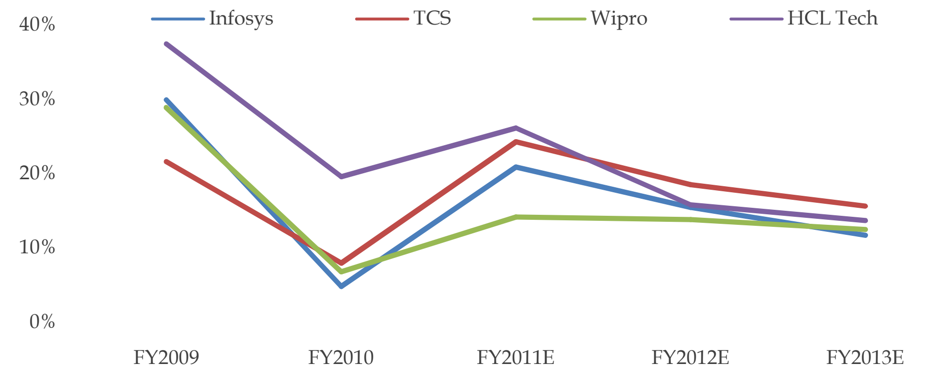
HCL Technologies Limited

Description	Earlier Est.		Revised Est.		*% Change*	
(INR Mn)	FY12	FY13	FY12	FY13	*FY12*	*FY13*
Sales	197,916	246,689	183,665	208,813	*-7.2*	*-15.4*
EBITDA	28,630	35,630	31,817	34,860	*11.1*	*-2.2*
PAT	21,500	27,531	20,110	23,563	*-6.5*	*-14.4*
EPS (INR)	30.7	39.3	28.7	33.6	*-6.5*	*-14.5*

We downgrade volume growth in FY12 and FY13 for Indian IT vendors on the back of uncertainty in US. We expect Infosys to achieve its FY12 guidance, but growth expected to be muted in FY13 as compared to FY12. Wipro will remain a laggard among the top tier Indian IT vendors. TCS and HCL Tech are expected to outperform in terms of volume growth.

Moderate volume growth expected in FY13 due to uncertainty in US…

Revenue growth – TCS will continue to outperform

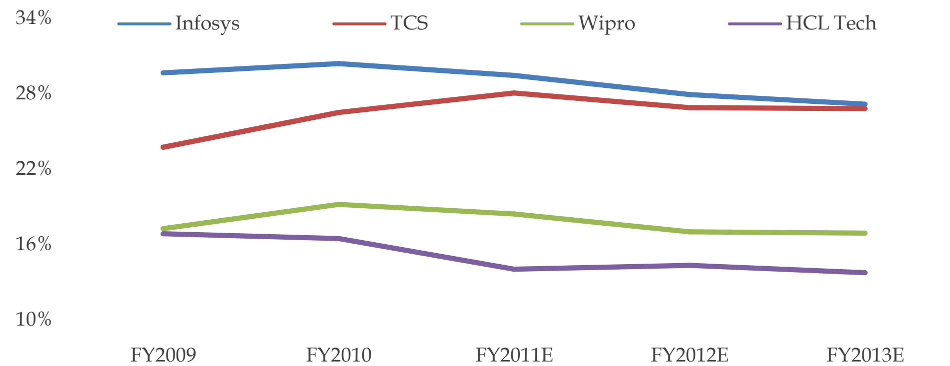


Source: Khandwala Research

We expect weak EBIT margin in FY12 on the back of salary hike given in Q1FY12 and negative impact of appreciation of INR versus USD. FY13 EBIT margins are expected to be flattish as compared to FY12 as we expect a lower salary hike by Indian IT vendors on the back of the volatile demand environment. Demand for laterals is also expected to dip which will provide support to the margin; higher fresher's would be added in FY13. Higher offshoring will also positively impact margin; utilization is expected to dip in FY13 which is expected to have a negative impact.

Reduced margin pressure in FY13 on the back of lower salary hikes…

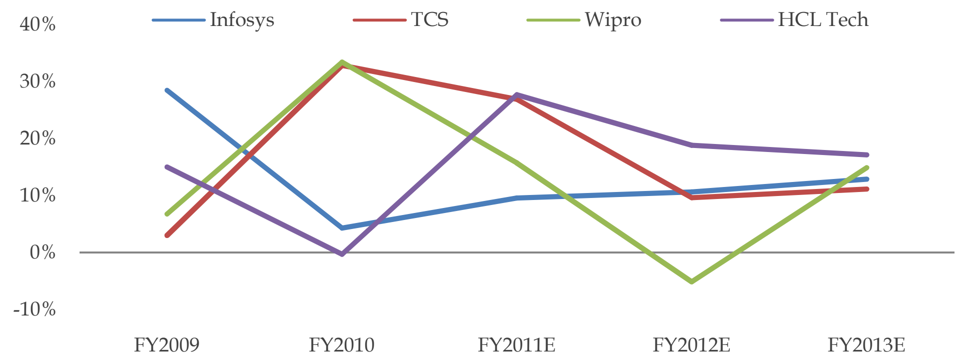
EBIT margin – TCS almost at par with Infosys



Source: Khandwala Research

We expect a strong performance on the bottom-line for the large Indian IT vendors as most of them have factored in the end of STPI scheme in FY11 and had built in new centers in the SEZ. Tax rates will thus marginally increase in FY12 and FY13 except Wipro which is expected to report a dip in PAT due to high tax rates. Higher treasury income and forex gain would also support the bottom-line in FY12 and FY13.

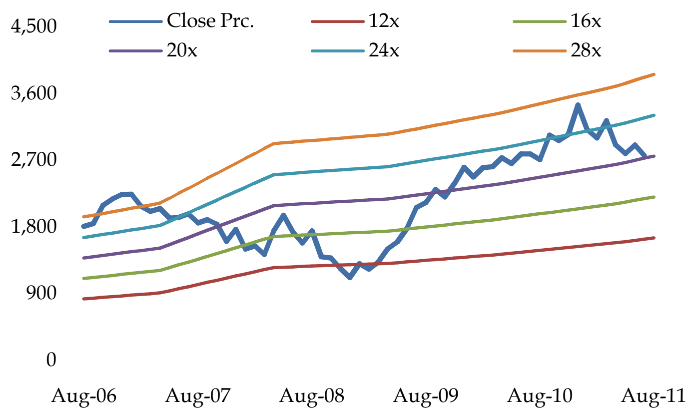
PAT (YoY growth) – Higher taxes may hurt profitability



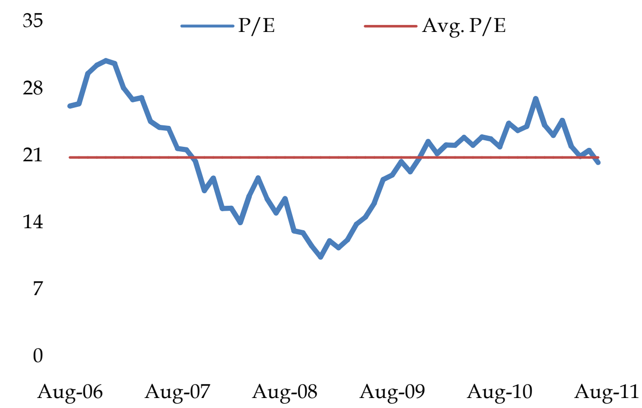
Source: Khandwala Research

Infosys – TP of INR 2,685 based on 18x FY13E earnings

PER Band

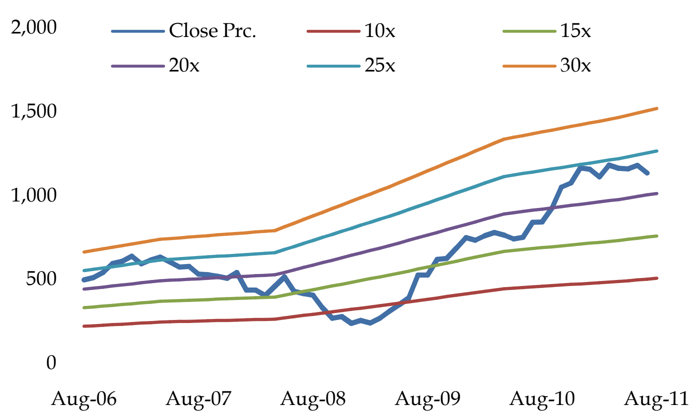


Average PER



TCS – TP of INR 980 based on 18x FY13E earnings

PER Band



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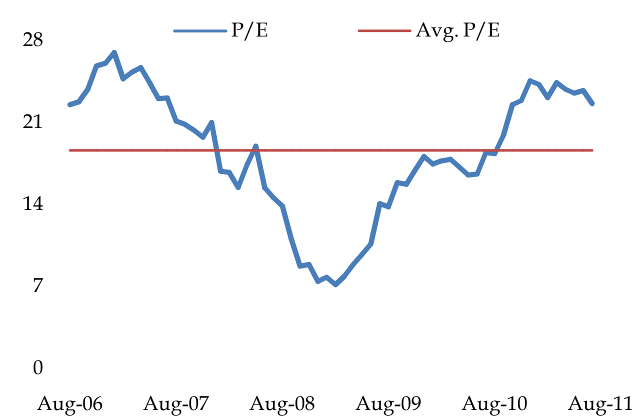
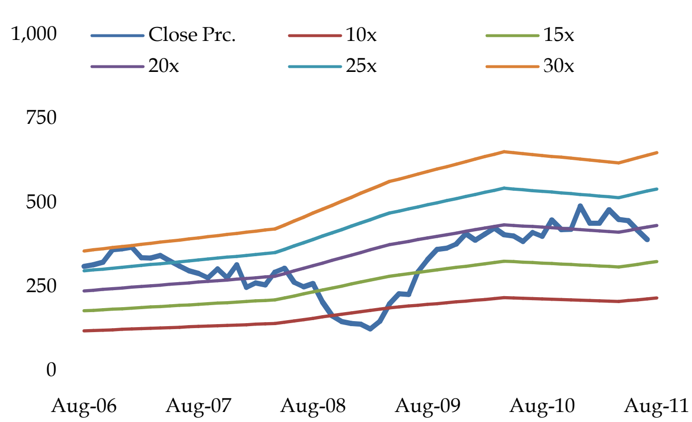


Wipro – TP of INR 380 based on 16x FY13E earnings

PER Band



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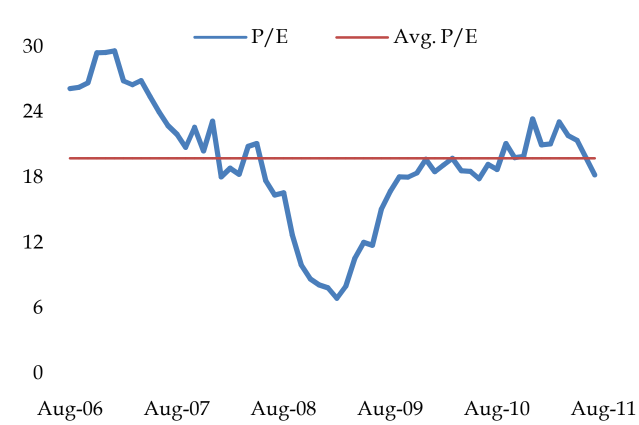
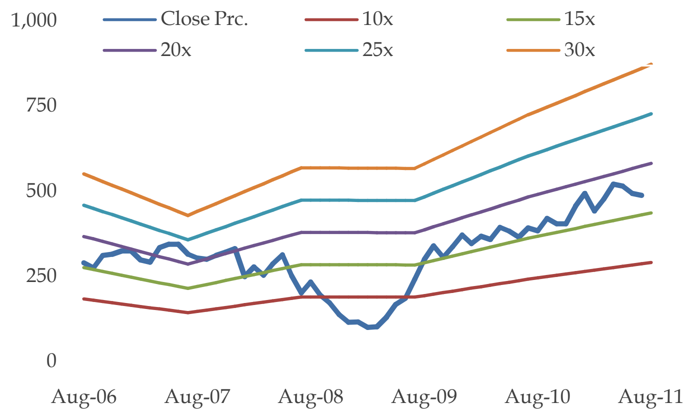


HCL Technologies – TP of INR 470 based on 13.5x FY13E earnings

PER Band



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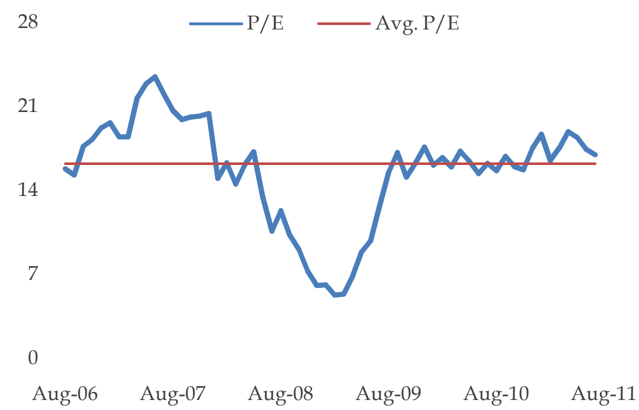

Financials

Income Statement

Y/E Mar (INR Mn)	FY09	FY10	FY11E	FY12E	FY13E
Net Sales	**216,930**	**227,420**	**275,010**	**317,570**	**354,777**
Growth (%)	*30.0*	*4.8*	*20.9*	*15.5*	*11.7*
Gross Profit	**99,280**	**106,640**	**124,470**	**140,170**	**154,279**
Oth. Operating Chrg	27,330	28,120	34,830	40,724	45,145
EBITDA	**71,950**	**78,520**	**89,640**	**99,446**	**109,134**
Growth (%)	*37.4*	*9.1*	*14.2*	*10.9*	*9.7*
Depreciation	7,610	9,420	8,620	10,749	12,700
Other Income	4,730	9,370	12,110	13,354	18,792
EBIT	**64,340**	**69,100**	**81,020**	**88,697**	**96,434**
Interest Paid	-	-	-	-	-
Pre-tax Profit (before E/o items)	69,070	78,560	93,130	102,051	115,226
Tax Provision	9,360	19,970	24,900	26,533	29,959
E/o Loss/(Income)	-	-3,640	-	-	-
Net Profit	**59,880**	**58,590**	**68,230**	**75,518**	**85,267**
Adj. Net Profit	**59,880**	**62,230**	**68,230**	**75,518**	**85,267**
Growth (%)	*28.5*	*3.9*	*9.6*	*10.7*	*12.9*
Dil. EPS (INR)	**104.5**	**109.0**	**119.4**	**132.2**	**149.2**
Dil. EPS Gwth (%)	*28.5*	*4.3*	*9.6*	*10.7*	*12.9*

Cash Flow Statement

Y/E Mar (INR Mn)	FY09	FY10	FY11E	FY12E	FY13E
Pre-tax Profit	69,070	78,990	93,250	102,051	115,226
Depreciation	7,610	9,050	8,540	10,749	12,700
Total Tax Paid	-9,020	-17,530	-28,460	-26,533	-29,959
Chg in Working Capital	-4,600	-400	-14,280	-7,326	-10,816
Other Operating Acti.	-9,810	-7,960	-11,530	-	-
Cash Flow from Oper. (a)	**53,250**	**62,150**	**47,520**	**78,941**	**87,151**
Capital Expenditure	-13,270	-8,480	-13,050	-15,879	-19,513
Chg in Investments	560	-36,960	-30	-	-
Other Investing Acti.	10,560	8,710	47,060	-	-
Cash Flow from Inv. (b)	**-2,150**	**-36,730**	**33,980**	**-15,879**	**-19,513**
Free Cash Flow (a+b)	**51,100**	**25,420**	**81,500**	**63,062**	**67,638**
Equity Raised/(Repaid)	640	890	240	-	-
Debt raised/(Repaid)	-	-	-	-	-
Chg in Minorities Int	-	-	-	-	-
Dividend (incl. tax)	-24,940	-15,740	-36,640	-19,985	-19,985
Other Financing Acti.	12,850	-	-	-	-
Cash Flow from Fin. (c)	**-11,450**	**-14,850**	**-36,400**	**-19,985**	**-19,985**
Net chg in Cash (a+b+c)	**39,650**	**10,570**	**45,100**	**43,077**	**47,653**

Balance Sheet

Y/E Mar (INR Mn)	FY09	FY10	FY11E	FY12E	FY13E
Equity Share Capital	2,860	2,860	2,860	2,860	2,860
Reserves & Surplus	179,680	227,630	256,900	323,943	389,225
Shareholders' Funds	**182,540**	**230,490**	**259,760**	**326,803**	**392,085**
Minorities Interests	-	-	1,760	1,760	1,760
Total Debt	-	-	-	-	-
Capital Employed	**182,540**	**230,490**	**261,520**	**328,564**	**393,846**
Net Fixed Assets	53,540	53,550	57,600	59,342	66,865
Net Oth. Curr. Assets	30,790	32,260	46,560	53,073	63,180
Cash & Cash Eq.	96,950	105,560	150,950	209,737	257,391
Investments	-	37,120	1,440	1,440	1,440
Net Deferred Tax Assets	1,260	2,000	4,970	4,970	4,970
Total Assets	**182,540**	**230,490**	**261,520**	**328,563**	**393,845**

Financial Ratios

Y/E 31 Mar	FY09	FY10	FY11E	FY12E	FY13E
OPM (%)	33.2	34.5	32.6	31.3	30.8
Net Margin (%)	27.6	27.4	24.8	23.8	24.0
Yield (%)	2.0	1.3	2.9	1.6	1.6
Net Debt/Equity (x)	-	-	-	1.0	1.0
Net Working Capital (Days)	63.2	58.3	68.8	68.0	72.0
Asset Turnover (x)	1.0	0.8	0.9	0.8	0.8
ROCE (%)	35.2	30.0	31.0	27.0	24.5
RoE (%)	32.8	27.0	26.3	23.1	21.7
EV/Net Sales (x)	5.4	5.1	4.1	3.3	2.8
EV/EBITDA (x)	16.2	14.7	12.5	10.6	9.2
PER (x)	21.1	20.2	18.5	16.7	14.8
Price/Book (x)	6.9	5.5	4.8	3.8	3.2

Financials

Income Statement

Y/E Mar (INR Mn)	FY09	FY10	FY11E	FY12E	FY13E
Net Sales	**278,128**	**300,289**	**373,246**	**442,372**	**511,695**
Growth (%)	*21.7*	*8.0*	*24.3*	*18.5*	*15.7*
Gross Profit	**123,708**	**138,661**	**168,950**	**196,743**	**225,894**
Other Op. charges	50,324	51,862	56,965	68,973	78,499
EBITDA	**73,384**	**86,799**	**111,985**	**127,771**	**147,395**
Growth (%)	*25.5*	*18.3*	*29.0*	*14.1*	*15.4*
Depreciation	7,370	7,208	7,214	8,853	10,176
Other Income	-4,149	2,781	5,324	6,786	6,090
EBIT	**66,014**	**79,591**	**104,771**	**118,917**	**137,219**
Interest Paid	535	536	-	-	-
Pre-tax Profit (before E/o items)	**61,330**	**81,835**	**110,095**	**125,703**	**143,309**
Tax Provision	9,011	12,088	21,739	28,912	35,827
E/o loss / (Income)	611	1,019	1,118	1,153	1,149
Net Profit	**52,319**	**69,747**	**88,356**	**96,791**	**107,482**
Adjusted Net Profit	**51,708**	**68,728**	**87,238**	**95,638**	**106,333**
Growth (%)	*3.0*	*32.9*	*26.9*	*9.6*	*11.2*
Diluted EPS (INR)	**26.4**	**35.1**	**44.6**	**48.9**	**54.3**
Diluted EPS Gwth (%)	*3.0*	*32.9*	*26.9*	*9.6*	*11.2*

Cash Flow Statement

Y/E Mar (INR Mn)	FY09	FY10	FY11E	FY12E	FY13E
Cash Flow frm Oper. (a)	**51,415**	**74,869**	**69,148**	**85,538**	**97,557**
Capital Expenditure	-11,156	-10,104	-17,015	-17,695	-19,189
Chg in Investments	-332,633	-19,126	-1,649	-	-
Other Investing Acti.	306,804	-25,930	-	-	-
Cash Flow from Inv. (b)	**-36,985**	**-55,161**	**-18,664**	**-17,695**	**-19,189**
Free Cash Flow (a+b)	**14,430**	**19,708**	**50,484**	**67,843**	**78,369**
Equity Raised/(Repaid)	39	-	-	-	-
Debt raised/(Repaid)	-379	-	-	-	-
Chg in Minorities Int	-	-	-	-	-
Dividend (incl. tax)	-16,124	-19,594	-45,832	-39,144	-39,144
Other Financing Acti.	-	-	-310	-	-
Cash Flow from Fin. (c)	**-16,464**	**-19,594**	**-46,142**	**-39,144**	**-39,144**
Net chg in Cash (a+b+c)	**-2,034**	**114**	**4,342**	**28,698**	**39,224**

Balance Sheet

Y/E Mar (INR Mn)	FY09	FY10	FY11E	FY12E	FY13E
Equity Share Capital	26,351	26,358	26,358	26,358	26,358
Reserves & Surplus	131,182	184,026	227,031	274,780	341,968
Shareholders' Funds	**157,533**	**210,384**	**253,389**	**301,138**	**368,326**
Minorities Interests	3,098	4,056	4,663	4,663	4,663
Total Debt	4,505	9,110	10,718	10,718	10,718
Capital Employed	**165,136**	**223,549**	**268,770**	**316,519**	**383,707**
Net Fixed Assets	99,834	96,609	142,269	144,816	153,828
Net Other Curr. Assets	13,440	10,249	15,078	42,102	81,327
Cash & Cash Eq.	34,592	78,875	93,033	111,987	130,938
Investments	17,271	37,816	18,390	18,390	18,390
Net Deferred Tax Assets	-	-	-	1	1
Total Assets	**165,137**	**223,549**	**268,770**	**317,296**	**384,484**

Financial Ratios

Y/E Mar	FY09	FY10	FY11E	FY12E	FY13E
OPM (%)	23.7	26.5	28.1	26.9	26.8
Net Margin (%)	18.6	22.9	23.4	21.6	20.8
Yield (%)	1.7	1.1	2.5	2.1	2.1
Net Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
Net Working Capital (days)	45.4	95.9	91.0	92.4	93.4
Asset Turnover (x)	1.2	1.1	1.1	1.1	1.1
ROCE (%)	40.0	35.6	39.0	37.5	35.7
RoE (%)	32.3	32.9	34.8	32.1	29.1
EV/Net Sales (x)	6.8	6.3	5.0	4.2	3.5
EV/EBITDA (x)	25.7	21.7	16.8	14.4	12.2
PER (x)	36.0	27.1	21.3	19.4	17.5
Price/Book (x)	11.6	8.7	7.2	6.1	5.0

Financials

Income Statement

Y/E Mar (INR Mn)	FY09	FY10	FY11E	FY12E	FY13E
Net Sales	**254,564**	**271,957**	**310,542**	**353,546**	**397,814**
Growth (%)	*28.9*	*6.8*	*14.2*	*13.8*	*12.5*
Gross Profit	**76,388**	**85,658**	**97,692**	**106,802**	**118,291**
Oth. Operating Chgs	24,101	25,600	32,256	36,410	39,172
EBITDA	**52,287**	**60,058**	**65,436**	**70,393**	**79,119**
Growth (%)	*31.9*	*14.9*	*9.0*	*7.6*	*12.4*
Depreciation	8,357	7,831	8,211	10,198	11,789
Other Income	-1,816	3,369	6,651	6,707	10,370
EBIT	**39,574**	**54,880**	**62,387**	**65,732**	**76,674**
Interest Paid	-	-	-	-	1
Pre-tax Profit (before E/o items)	**39,574**	**54,880**	**62,387**	**65,732**	**76,674**
Tax Provision	4,620	9,294	9,714	15,776	19,169
E/o Loss/(Income)	263	345	303	300	250
Net Profit	**34,954**	**45,586**	**52,673**	**49,957**	**57,505**
Adj. Net Profit	**35,217**	**45,931**	**52,976**	**50,257**	**57,755**
Growth (%)	*9.2*	*30.4*	*15.3*	*-5.1*	*14.9*
Dil. EPS (INR)	**14.1**	**18.8**	**21.7**	**20.6**	**23.7**
Dil. EPS Gwth (%)	*6.8*	*33.5*	*15.8*	*-5.1*	*14.9*

Cash Flow Statement

Y/E Mar (INR Mn)	FY09	FY10	FY11E	FY12E	FY13E
Pre-tax Profit	34,415	45,931	53,321	50,257	57,755
Depreciation	8,357	7,831	8,211	10,198	11,789
Total Tax Paid	-	-	-	-	1
Chg in Working Capital	-341	-6,485	-21,378	-36,999	-25,830
Other Operating Acti.	-5,574	6,584	6,098	7,888	9,584
Cash Flow from Oper. (a)	**36,857**	**53,861**	**46,252**	**31,343**	**53,301**
Capital Expenditure	-16,592	-12,979	-12,211	-17,677	-19,891
Chg in Investments	-353,146	-340,891	-488,906	-	-
Other Investing Acti.	342,045	320,055	483,878	-	-
Cash Flow from Inv. (b)	**-27,693**	**-33,815**	**-17,239**	**-17,677**	**-19,891**
Free Cash Flow (a+b)	**9,164**	**20,046**	**29,013**	**13,666**	**33,410**
Equity Raised/(Repaid)	440	-	-	-	1
Debt raised/(Repaid)	6,419	7,329	-10,122	-	-
Chg in Minorities Int	-	-	-	-	1
Dividend (incl. tax)	-6,829	-6,823	-15,585	-12,189	-12,189
Other Financing Acti.	18	-	-696	-	1
Cash Flow from Fin. (c)	**48**	**506**	**-26,403**	**-12,189**	**-12,186**
Net Chg in Cash (a+b+c)	**9,212**	**20,552**	**2,610**	**1,477**	**21,223**

Balance Sheet

Y/E Mar (INR Mn)	FY09	FY10	FY11E	FY12E	FY13E
Equity Share Capital	31,413	34,722	35,850	35,850	35,850
Reserves & Surplus	118,769	161,390	203,830	249,217	304,343
Shareholders' Funds	**150,182**	**196,112**	**239,680**	**285,067**	**340,193**
Minorities Interests	235	437	691	691	691
Total Debt	27,563	26,009	30,454	30,454	30,454
Capital Employed	**177,980**	**222,558**	**270,825**	**316,212**	**371,338**
Net Fixed Assets	123,649	120,383	134,669	160,112	167,397
Net Oth. Curr. Assets	49,117	64,878	61,141	63,261	84,480
Cash & Cash Eq.	3,037	33,266	70,555	107,554	133,384
Investments	2,008	2,345	2,993	2,993	2,993
Net Deferred Tax Assets	169	1,686	1,467	1,467	1,467
Total Assets	**177,980**	**222,558**	**270,825**	**335,387**	**389,720**

Financial Ratios

Y/E 31 Mar	FY09	FY10	FY11E	FY12E	FY13E
OPM (%)	17.3	19.2	18.4	17.0	16.9
Net Margin (%)	13.8	16.9	17.1	14.2	14.5
Yield (%)	0.9	1.5	1.6	1.6	1.6
Net Debt/Equity (x)	0.1	0.1	0.1	0.1	0.1
Net Working Capital (Days)	4.4	44.6	82.9	111.0	122.4
Asset Turnover (x)	0.9	0.8	0.8	0.8	0.9
ROCE (%)	24.7	23.5	21.1	17.9	17.3
RoE (%)	21.9	22.8	22.1	17.6	17.0
EV/Net Sales (x)	3.0	2.7	2.4	2.1	1.8
EV/EBITDA (x)	14.5	12.3	11.4	10.6	9.1
PER (x)	22.8	17.1	14.8	15.6	13.5
Price/Book (x)	5.2	4.0	3.3	2.8	2.3

Financials

Income Statement

(INR Mn)	FY09	FY10	FY11	FY12E	FY13E
Net Sales	**105,046**	**125,650**	**158,555**	**183,665**	**208,813**
Growth (%)	*37.5*	*19.6*	*26.2*	*15.8*	*13.7*
Gross Profit	**39,563**	**43,693**	**50,634**	**58,364**	**64,793**
Other Operating Chrg.	17,362	17,964	23,443	26,547	29,932
EBITDA	**22,201**	**25,729**	**27,191**	**31,817**	**34,860**
Growth (%)	*31.1*	*15.9*	*5.7*	*17.0*	*9.6*
Depreciation	4,493	5,010	4,919	5,462	6,109
Other Income	-2,416	-5,289	-544	106	1,457
EBIT	**17,708**	**20,719**	**22,272**	**26,355**	**28,752**
Interest Paid	-	-	-	-	-
Pre-tax profit (bf E/o items)	**15,292**	**15,430**	**21,728**	**26,461**	**30,209**
Tax Provision	2,543	2,403	4,808	6,351	6,646
E/o Loss / (Income)	27	2	-	-	-
Net Profit	**12,749**	**13,027**	**16,920**	**20,110**	**23,563**
Adjusted Net Profit	**12,776**	**13,029**	**16,920**	**20,110**	**23,563**
Growth (%)	*13.6*	*2.0*	*29.9*	*18.9*	*17.2*
Diluted EPS (INR)	**19.0**	**18.9**	**24.1**	**28.7**	**33.6**
Diluted EPS Gwth (%)	*15.1*	*-0.3*	*27.7*	*18.9*	*17.2*

Cashflow Statement

(INR Mn)	FY09	FY10	FY11	FY12E	FY13E
Pre-tax Profit	12,784	13,026	16,923	20,110	23,563
Depreciation	4,458	4,997	4,919	5,051	5,742
Total Tax Paid	-	-	-	-	1
Chg in Working Capital	-5,725	1,449	-4,521	-1,214	-4,282
Other Operating Act.	-1,567	-	-	411	366
Cash flow from Opg (a)	**9,950**	**19,472**	**17,321**	**24,358**	**25,390**
Capital Expenditure	-5,280	-6,116	-7,697	-9,551	-10,441
Chg in Investments	-43,268	-	-	-	-
Other Investing Acti.	14,650	-	-	-	-
Cash Flow from Inv. (b)	**-33,898**	**-6,116**	**-7,697**	**-9,551**	**-10,441**
Free Cash Flow (a+b)	**-23,948**	**13,356**	**9,624**	**14,807**	**14,950**
Equity Raised /(Repaid)	222	-	-	-	-
Debt Raised/(Repaid)	29,745	-	-	-	-
Chg. in Minorities Interest	-	-	-	-	-
Dividend (incl. tax)	-7,156	-3,149	-5,130	-2,749	-2,749
Oth financing acti.	1,630	-	-	-	1
Cash flow from fin. (c)	**24,442**	**-3,149**	**-5,130**	**-2,749**	**-2,748**
Net chg in cash (a+b+c)	**494**	**10,208**	**4,495**	**12,059**	**12,202**

Balance Sheet

(INR Mn)	FY09	FY10	FY11	FY12E	FY13E
Equity Share Capital	56,843	70,368	84,345	101,119	121,933
Reserves & Surplus	-	-	-	-	-
Shareholders' Funds	**56,843**	**70,368**	**84,345**	**101,119**	**121,933**
Minorities Interests	16	-	-	23	23
Total Debt	37,405	34,018	28,127	28,127	28,127
Capital Employed	**94,264**	**104,386**	**112,472**	**129,269**	**150,083**
Net Fixed Assets	69,795	71,248	74,435	77,366	81,698
Net Oth. Curr Asset	4,203	4,686	5,198	17,849	30,049
Cash & Cash Eq.	19,899	27,745	30,059	31,273	35,555
Investments	370	707	2,780	2,780	2,780
Net Deferred Tax Assets	-	-	-	-	-
Total Assets	**94,267**	**104,386**	**112,472**	**129,268**	**150,082**

Financial Ratios

	FY09	FY10	FY11	FY12E	FY13E
OPM (%)	21.1	20.5	17.1	17.3	16.7
Net Margin (%)	12.2	10.4	10.7	10.9	11.3
Yield (%)	3.0	1.1	1.1	1.1	1.1
Net Debt/Equity (x)	0.5	0.4	0.3	0.2	0.2
Net Working Capital (days)	69.1	80.6	69.2	62.2	62.2
Asset Turnover (x)	0.8	0.9	1.1	1.1	1.1
ROCE (%)	23.6	24.6	24.2	24.6	23.2
RoE (%)	22.5	18.5	20.1	19.9	19.3
EV/Net Sales (x)	2.1	1.8	1.4	1.2	1.1
EV/EBITDA (x)	8.6	7.6	7.3	6.2	5.7
PER (x)	19.0	19.1	15.0	12.6	10.7
Price/Book (x)	4.4	3.6	3.0	2.5	2.1

KSL Ratings

Target Price refers to one year unless specified;

LTP: Last Trading Price

BUY: Expected return >15%

ADD: Expected return 0-15%

REDUCE: Expected decline 0-15%

SELL: Expected decline >15%

Company Risk is based on the systematic risk of the stock. (1-year Beta)

HIGH: >1.2

MEDIUM: 0.8-1.2

LOW: < 0.8

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Important Disclosure