Trading BUY: Deepak Nitrite Ltd.

A quiver full of growth catalysts

CMP INR: 280
Rating: BUY
Target Price INR: 360
Upside: 29%

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New acetone-phenol plant set to revitalise business dynamics FY20 onwards

To take advantage of the demand–supply gap, DEN has initiated an INR 1,400 crore acetone-phenol project in FY17. With trial runs due in Q4FY18 and seed marketing on, we anticipate commercial production to commence from Q1FY19 with nearly 65% utilisation levels during the first year of operations. While we do not expect DEN to enjoy major pricing differential or quality advantage over imports, lower logistics cost and better inventory management (leading to improvement in working capital cycle) will be sufficient incentives for import substitution. We estimate the company to generate cash flows from FY20 from this 16% EBITA business. Overall, we expect this project to revitalise DEN's business dynamics with robust RoCE and margin accretion.

Improving product mix, efficiency to drive performance products business

DEN, market leader in the INR 500 crore domestic optical brightening agents (OBA) market, has also expanded its footprint internationally by entering US, Latin America, South East and Far-East Asia. Its OBA plant achieved EBITDA breakeven in Q2FY18. At peak utilisation, while OBA has the potential to generate INR 550 crore sales with 12-13% EBITDA margin, Di-amino Stilbene Di-sulphuric acid (DASDA) can generate sales of INR 130 crore with a steady state EBITDA margin of 8-9%. Moreover, development of new high-margin chemicals has spearheaded surge in DEN's fine and specialty chemicals business. The company is focused on expanding its footprint in high-value intermediates, especially for the pharma API and personal care industry and also pursue contract manufacturing opportunities for agrochemical majors. This significantly burnishes growth prospects.

Outlook and valuations: Low valuations for a strong cash flow generating business

With commencement of the acetone-phenol project, DEN's revenue is estimated to double and margins quadruple, leading to a complete change in business dynamics. Although the company's debt-equity levels are expected to soar 2x, we estimate RoCE to expand from current 7% to 17% by FY20. This, coupled with annual cash flow of more than INR 200 crore from FY20, leaves ample scope for forward integration as well. Our earnings estimates per share for FY18/FY19/FY20 are INR 3.5/14.6/18.0, respectively. We value the company at 20x FY20E EPS of INR18 and initiate with **'BUY'** recommendation and target price of INR360/share.

Bloomberg:	DN:IN
52-week range (INR):	286.00 / 96.90
Share in issue (cr):	14
M cap (INR cr):	3,051
Avg. Daily Vol. BSE/NSE :('000):	504
Promoter Holding (%)	46.59

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Revenues (INR Cr)	1,373	1,360	1,541	3,092	3,534
Rev growth (%)	3.4	(0.9)	51.2	100.7	14.3
EBITDA (INR Cr)	164	137	151	438	517
Net Profit (INR Cr)	60	94	48	201	248
P/E (x)	54.4	39.0	81.0	19.2	15.6
EV/EBITDA (x)	23.1	32.1	34.4	12.1	9.2
RoACE (%)	12.5	7.3	5.3	14.6	17.1
RoAE (%)	14.6	15.8	6.5	24.1	24.6

Date: 08th January 2017

Deepak Nitrite is expected to have a strong start of its acetone-phenol project in FY19 with nearly 65% utilisation on the back of strong seed marketing initiatives taken by the company during FY18 and competitive pricing to imports. Additionally, the fine and specialty chemicals and OBA businesses are also expected to contribute substantially to the incremental profitability owing to improving product-mix towards high margin products. At an inexpensive valuation of 13.5x FY20 earnings estimates with augmenting ROCE (expected to expand from 7% in FY17 to 17% in FY20), DEN provides high margin of safety to investors.

Acetone-phenol project to expand the base revenues and profitability by multiple times

	FY16	FY17	FY18E	FY19E	FY20E
Revenue	1373	1360	1541	3092	3534
EBITDA	164	137	151	438	517
EBITDA Margin (%)	12	10	10	14	15
PAT margin (%)	4	7	3	6	7

Debt funded capex to generate healthy returns

	FY16	FY17	FY18E	FY19E	FY20E
ROACE (%)	12.5	7.3	5.3	14.6	17.1
Debt to equity ratio	1.1	1.0	1.8	1.6	1.3

Free cash flows from FY20 with scope for forward integration

	Multiple	Price Target
BAL	16x	288
	20x	360

Entry = INR 280 + **PAT CAGR of 38% over FY17-20E** + **Free cash flow generation to lead to an exit multiple of FY20E 20x**

Upside of 28%

Price Target	**360**	Our target price is arrived at by assigning an 20x P/E multiple to DEN on an EPS of INR 18 in FY20E on augmenting ROCE and cash flows.
Bull 23x 2020E EPS	**414**	DEN is at the cusp of initiating operations of its acetone-phenol project from FY19. Having complete import substitution potential, the company could achieve as high as 75-80% utilisation (against over expectation of 65% during 1st year) in 12-18 months of operations. This makes for a compelling bull case scenario with a potential rerating
Base 20x 2020E EPS	**360**	We value the company at 20x FY20 earnings estimate of INR 18/share and initiate our 'BUY' recommendation with a target of INR360/share.
Bear 15x 2020E EPS	**240**	In the bear case scenario, we have assumed a slow ramp up in new capacity utilization due to aggressive competition from imports and domestic resistance to shift. Assigning a lower multiple of 13x FY20E on an EPS of INR 16 gives us a target price of INR 240/share, downside limited to 14% from CMP.

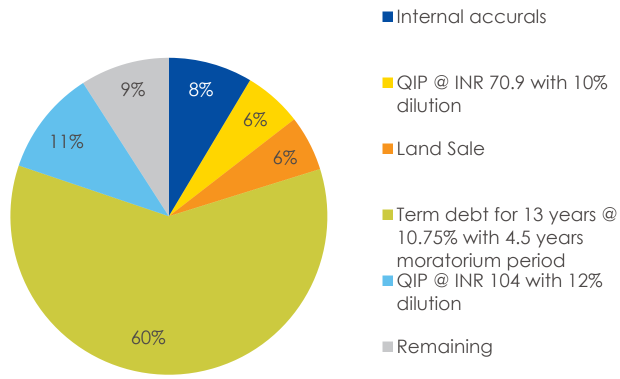
Average Daily Turnover (INR cr)			Stock Price (CAGR)				Relative to Sensex, CAGR (%)			
3 months	6 months	1 year	1 year	3 years	5 years	10 years	1 year	3 years	5 years	10 years
10	8	5.7	79%	51%	55%	45%	64%	45%	42%	30%

Business Value Drivers

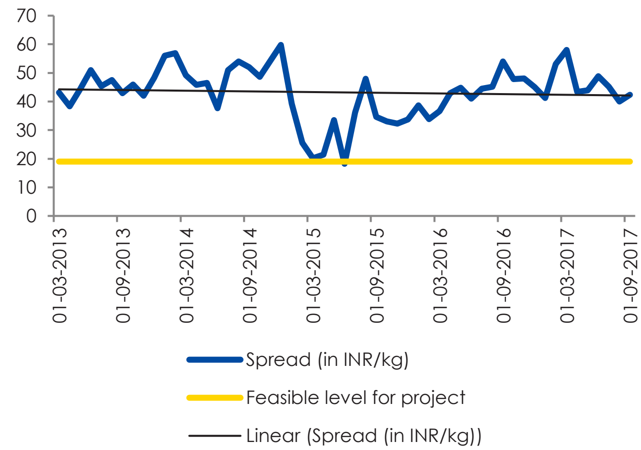
Nature of Industry	While the basic chemicals industry is highly commoditised with realisations and overall demand linked to crude, among other raw materials, the specialty chemicals industry has low volume customised production. DEN is also a prominent player in OBA (optical brightening agents) industry, which entails highly customised demand and customer stickiness.
Opportunity Size	Opportunity size of the base business is expanding given DEN's multi-product facilities. The company can customise production to withstand any sub-sector headwinds. Going forward, the acetone-phenol project that the company is venturing in to offers an INR 2,300 crore opportunity with potential for 100% import substitution.
Capital Allocation	DEN has completed INR1,400 crore green field capex for acetone phenol project with 60% debt funding and balance via QIPs and internal accruals.
Predictability	Regulatory hindrances and limited information from secondary markets preclude predictability.
Sustainability	Difficult to dislodge clients due to high switching costs (quality checks and approvals required for specialty chemicals and performance products); scope to expand globally will ensure sustainability.
Disproportionate Future	Addition of acetone-phenol to the base chemicals business will ensure future performance in terms of return ratios will be better than the past as asset turnover and margins will improve steadily.
Business Strategy & Planned Initiatives	Current focus is on ramping up existing capacities and recent expansion.
Near-Term Visibility	Strong visibility for 38% CAGR bottom line growth along with 457 bps improvement in operating margin over FY17-20E
Long-Term Visibility	To become one of the largest domestic chemicals players with market dominance in select products.

Focus Charts – Story in a nutshell

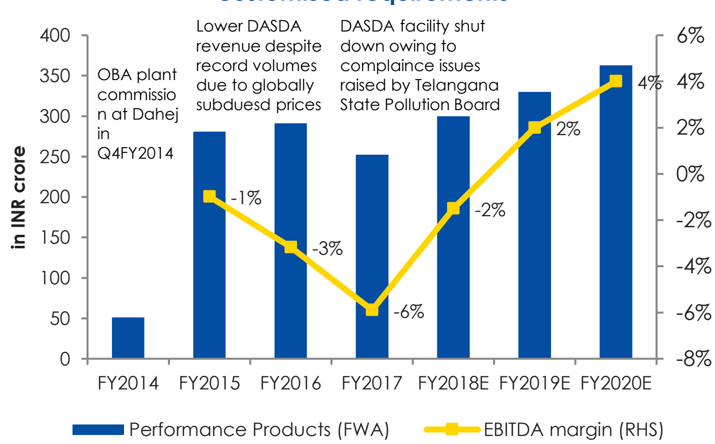
Successful funding of acetone-phenol project with 60% debt



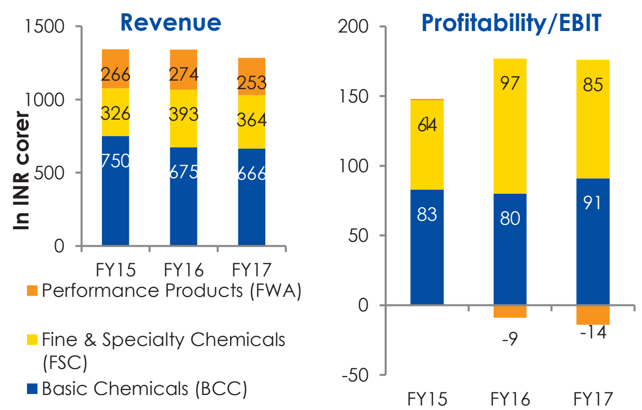
Commercial production to be successful with margin of safety in product spreads



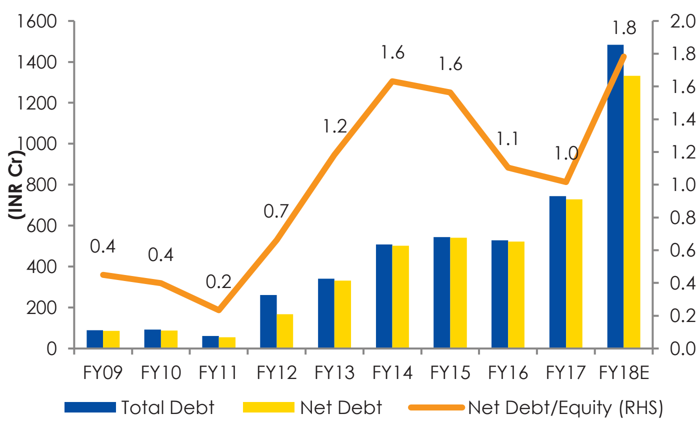
Steady ramp-up in global markets for OBA owing to customised requirements



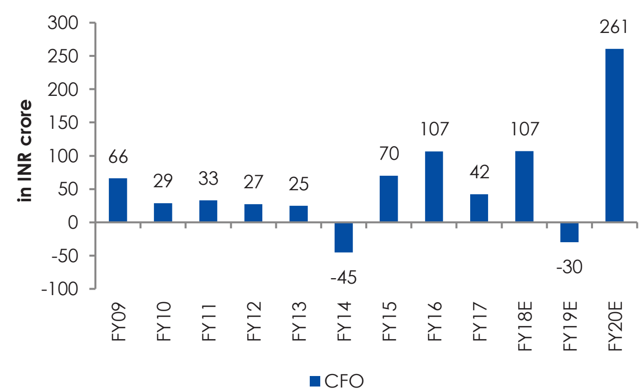
While its basic chemicals business has nearly matured, DEN has more to extract from the other two segments....



60% debt funded acetone-phenol project changed the debt/equity dynamics of DEN



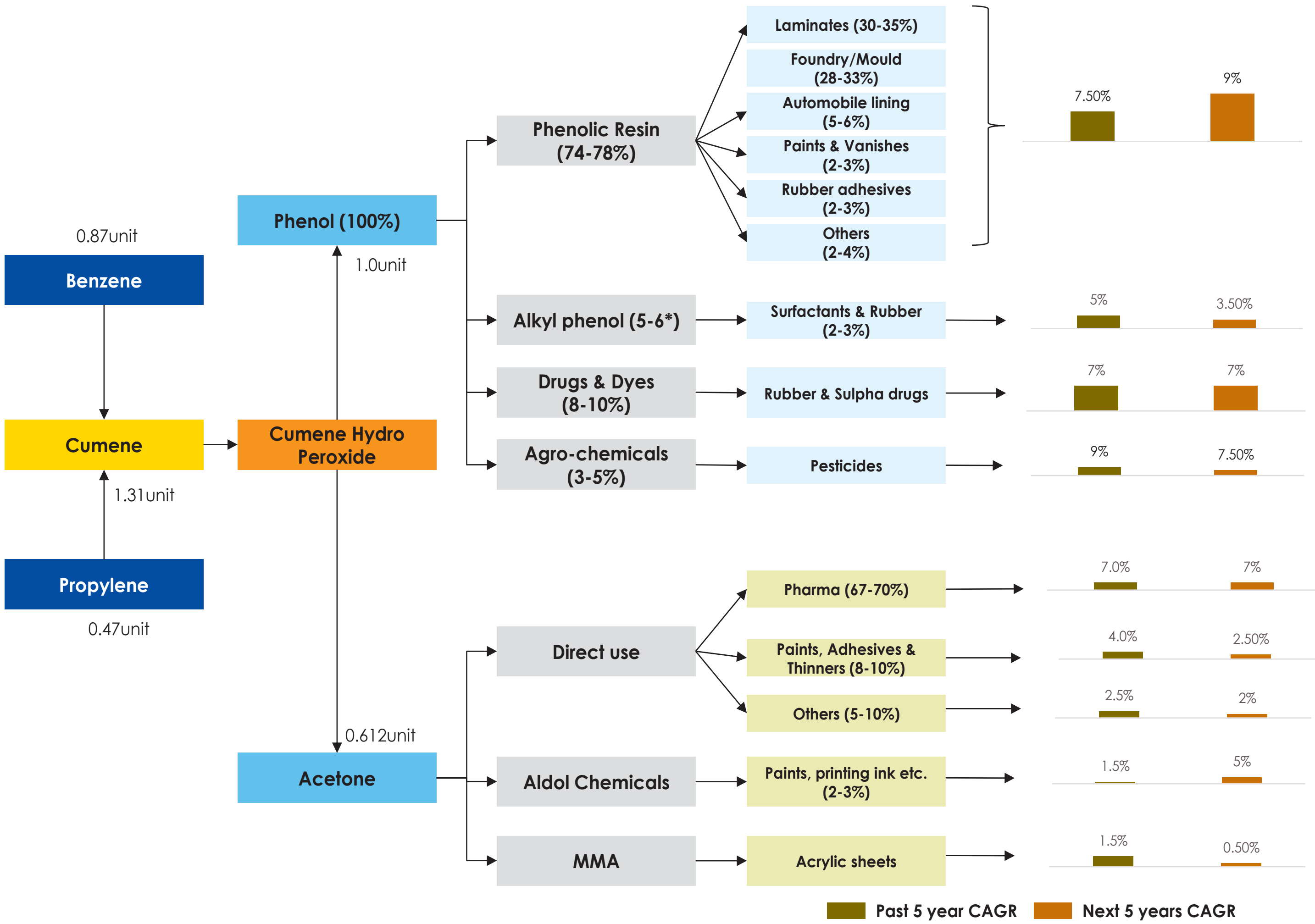
Yet, quick ramp-up to ensure strong cash flows FY20 onwards



Source: Edelweiss Investment Research

I. Phenol-acetone: DEN's new plant to bridge demand-supply gap

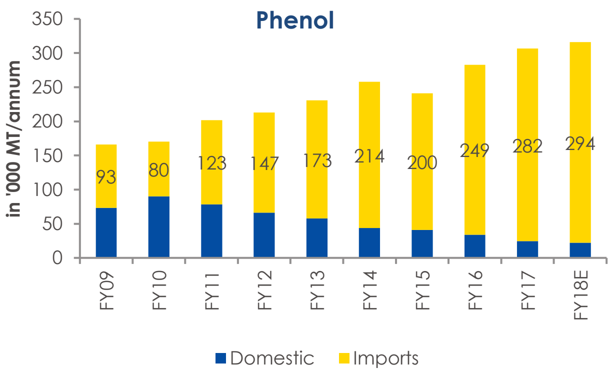
Phenol and acetone are organic compounds derived from benzene and propylene (crude derivatives). Both compounds are versatile in nature and used as intermediates for diverse applications. While phenol finds application in laminates, paints, automotive lining, rubber adhesives, pesticides, mouldings, among others, acetone is used in healthcare, paints, thinners, inks, acrylic sheets, etc. The market for phenol and acetone is estimated to clock 8.5% and 6.0% CAGR over FY17-20, respectively, riding robust demand from end-user industries.

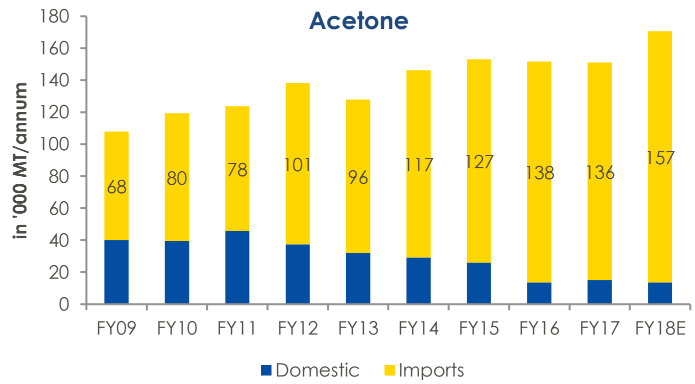


Source: Edelweiss Investment Research

Globally, about 47% of phenol is used for Bisphenol-A, which is subsequently used in plastic products. However, domestic demand is majorly concentrated in phenolic resins used as an adhesive and binding agent in various industries. Nearly 32% of global demand for acetone emanates for solvents which are used as thinners across industries. However, domestic demand is spearheaded by pharmaceuticals industry, followed by paints and thinners.

a. While phenol and acetone consumption has posted 7-year CAGR of 9% and 3%, respectively, domestic supply has been declining consistently





Source: Edelweiss Investment Research

Currently, India imports phenol and acetone—over 80% requirement imported. Taiwan, Korea, Thailand, Singapore and the US comprise major exporting countries with Asian countries contributing lion's share due to significant capacity additions. There are only two entities manufacturing these products in India—Hindustan Organics (HOCL) and SI Group (erstwhile Schenectady Herdiliia). Technology obsolescence, working capital constraints and low capacities have rendered it uneconomical for domestic players to match import landed costs. This has led to significant gap between domestic and landed costs, resulting in utilisation levels of domestic players like SI Group and HOCL plummeting from 70-75% in FY09 to nearly 50% in FY17.

b. DEN to bridge domestic supply gap; to generate 23% project RoCE with economies of scale

To take advantage of this demand-supply gap, DEN is setting up an acetone-phenol plant in India with 200,000 MTPA phenol and 120,000 MTPA acetone capacities under its wholly-owned subsidiary Deepak Phenolics in PCPIR (Petroleum, Chemicals and Petrochemicals Investment Region), Dahej. The company is anticipated to plug domestic players' efficiency gaps via economies of scale. Presence in PCPIR will further enhance operational efficiencies of the project due to waste treatment, transportation and power support.

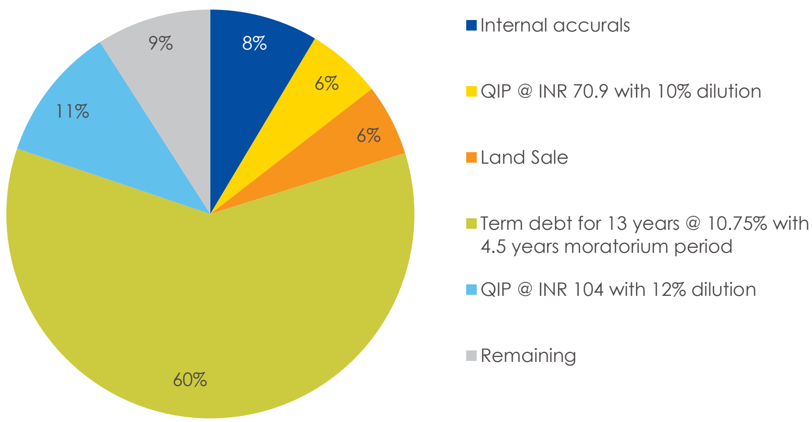
While we do not expect DEN to enjoy major pricing differential or quality advantage over imports, lower logistics cost and better inventory management (leading to improvement in working capital cycle) will be sufficient incentives for import substitution.

Anti-dumping duty on phenol to augment phenol project's IRR

Year	Event
March, 2012	Anti-dumping from USA, Taiwan and Korea revoked
August, 2014	GoI imposed duty on Korea and USA again
July, 2015	Anti-dumping duty imposed on South Africa

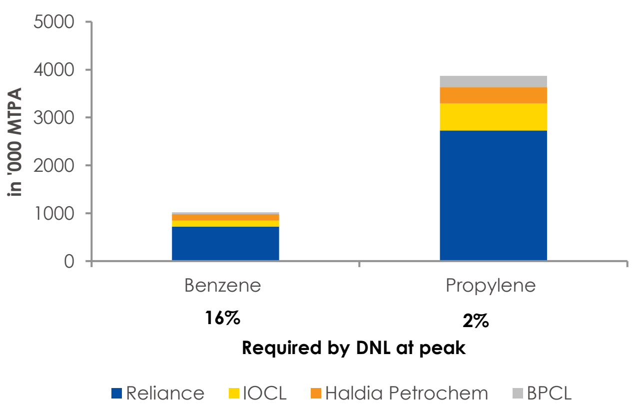
c. **With its project nearing completion and funding requirements met up to 90% of estimations; DNL is all set to take the plunge**

DEN is spending an estimated INR 1,400 crore for the acetone-phenol project funded via a blend of debt, equity and internal accruals. Post sourcing nearly INR 1,250 crore funds in the past 2 years from multiple channels, the company will require nearly INR 150 crore of additional funding for project completion. We expect the same to be sourced through another round of Qualified Institutional Placement (QIP).

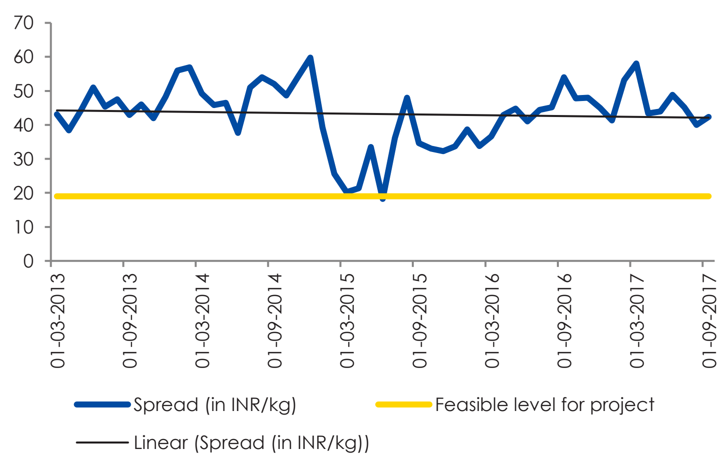


Source: Edelweiss Investment Research

Easy feedstock availability from domestic sourcing….



….with spreads at significantly above feasibility levels

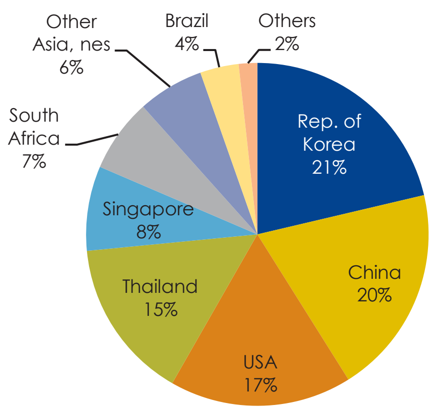


Source: Edelweiss Investment Research

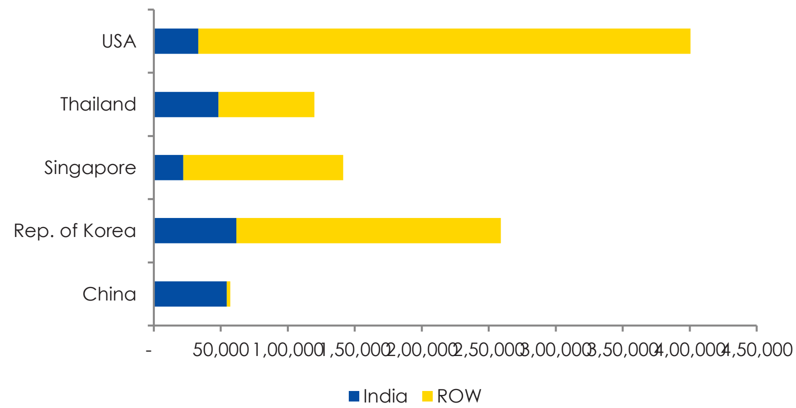
DEN's feedstock requirement can be met locally or through imports from China, US or Western Europe. Further, the input-output cost and conversion ratios give a 5-year average spread of INR 42/kg or USD 650/MT. Post consideration of the cost dynamics disclosed by the company, we estimate the project to be feasible up to a spread of INR 18/kg or USD 275/MT entailing overall low risk profile of the project.

d. Imports spread across countries to reduce risk of aggressive price competition

Top 5 countries form 80% of phenol imports….

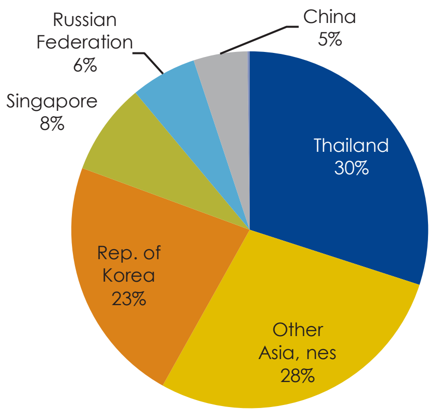


……export to India is significant only for China and Thailand

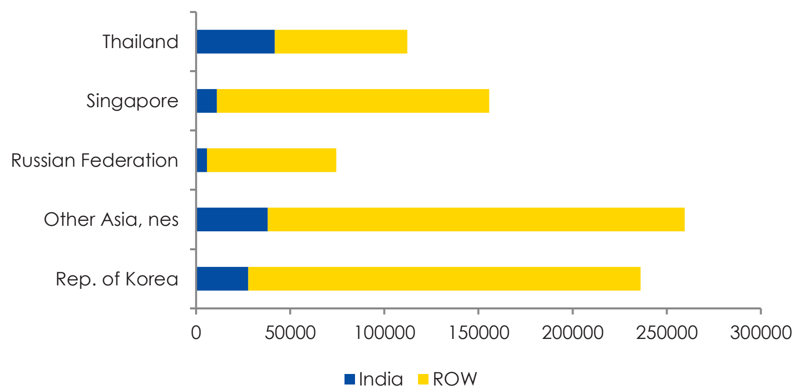


Source: Edelweiss Investment Research

Top 4 countries form 90% of acetone imports…..



……with export to India being significant for only Thailand



Source: Edelweiss Investment Research

Exports to India are highly significant for China and Thailand, constituting over 90% and 50% of their respective total acetone-phenol exports volumes. However, import prices have remained at par with global prices despite the countries having surplus capacities.

Going forward, with DEN putting up capacities equivalent to 80-90% of acetone-phenol imports, imports from these countries are likely to face a threat, triggering a temporary price war in the domestic market. However, we estimate the same to stabilise over 12-18 months with overall domestic demand also expanding by ~7% annually.

Excerpts from channel checks

- *'Can buy phenol from DEN, but not fully as supply concentration could be risky.'*; very large domestic importer/supplier
- *'We have been approached by DEN and have given our consent to participate.'*; very large domestic importer/supplier
- *'DEN has strong brand name and it will not be surprising if they replace up to 80% of imports'*; one of the prominent domestic distributor s
- *'DEN has strong brand recognition and it is win-win deal for traders as well considering their working capital will reduce. 60-70% of importers/traders can be expected to come on board'*; one of the prominent domestic distributor s

Project financial estimates

(in INR crore)	FY19	FY20	FY21
Phenol Capacity (MT)	200000	200000	200000
Utilization Rate (%)	**65%**	**80%**	**90%**
Phenol Produced (MT)	1,30,000	1,60,000	1,80,000
Acetone Produced (MT)	79,560	97,920	1,10,160
Sales	1452	1787	2010
RM Costs	908	1117	1257
Power cost	155	191	215
as %	*11%*	*11%*	*11%*
Fuel Cost	29	36	40
as %	*2%*	*2%*	*2%*
Gross Profit	359	442	498
Gross Margin (%)	*24.80%*	*24.80%*	*24.80%*
Other Expenses	123	145	160
Other Expenses (%)	*8%*	*8%*	*8%*
EBITDA	236	297	337
EBITDA margins	*16.30%*	*16.60%*	*16.80%*
Depreciation	50	50	50
EBIT	186	247	287
Interest			100
Interest Rate			*11%*
PBT	**186**	**247**	**187**

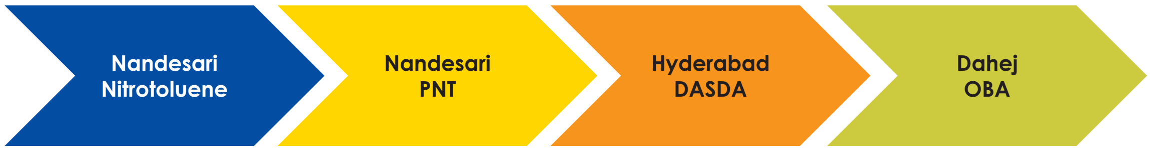
Source: Edelweiss Investment Research

II. Base business: Changing product mix to gain stability and growth

a. Performance products: Taking the front seat in optical brightening agents

DEN's performance products (PP) division majorly consists of two products, viz., optical brightening agents (OBA) and Di-amino Stilbene Di-sulphuric acid (DASDA). The company is the only fully integrated manufacturer of OBA in the world with vertical integration from toluene to para nitro toluene (PNT) and further into DASDA and OBA.

OBA Manufacturing Value Chain



DASDA: In 2007, DEN acquired Hyderabad-based Vasant Chemicals' DASDA division for INR 50 crore. DASDA is the basic raw material used for manufacturing OBA. Currently, DEN sources its entire DASDA requirement for its OBA plant in Dahej from the Hyderabad unit. After meeting its captive requirements, the balance is sold commercially in domestic and international markets, thereby enhancing cost economics of its OBA plant.

OBA: In Q4FY14, DEN commissioned the OBA plant at Dahej (Gujarat) by investing INR 280 crore, marking the company's entry in the performance chemicals segment. OBA is a brightener commonly used in industries like paper (65%), detergent (20%) and textiles (15%). Depending on the customer's need, the active chemical of OBA is blended with other formulations, either in liquid or solid form. In the OBA space, DEN faces competition from Archroma and BASF in the domestic market and TFM, Transfar, Archroma & 3V in global markets.

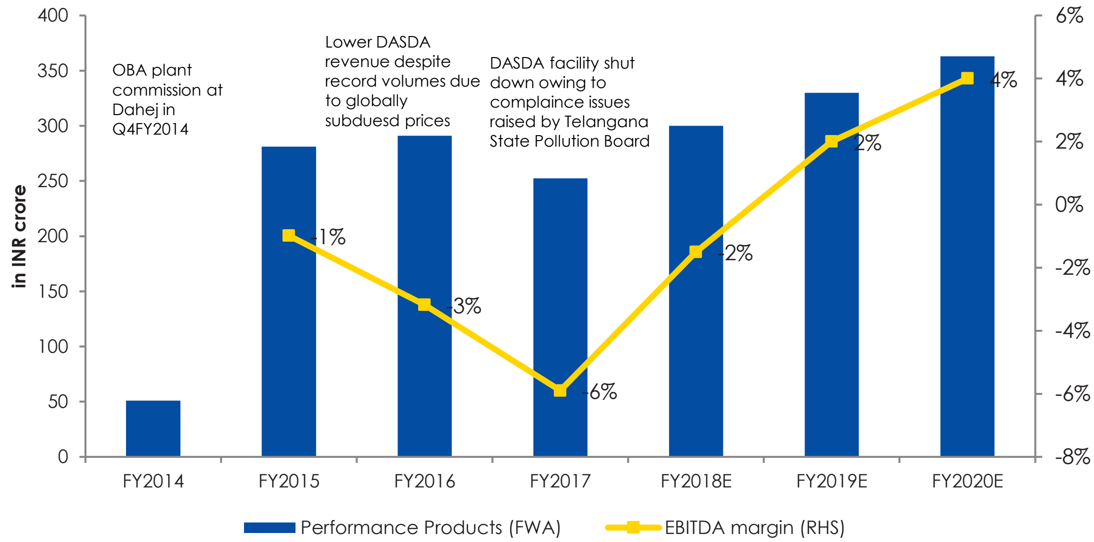
Robust growth potential with backward integration-led cost advantage

Complete backward integration renders DEN immune to the price volatility in intermediates like PNT and DASDA. Additionally, it enables the company to customise raw materials at each stage as per customer requirements (liquid, solid or powdered state). Entire requirement of DASDA to manufacture OBA is met internally, while the balance output is sold in the open market to other OBA manufacturers. The company plans its DASDA output based on internal needs and external demand.

Domestic market leader expanding global footprint

DEN is already a market leader in the INR 500 crore domestic OBA market with nearly 75% share. The company has also expanded its footprint internationally by entering US, Latin America, South East and Far-East Asia. By FY17, it has 100 plus customers (domestic and internationally) spread equally across paper, detergents and textile segments.

Steady ramp-up in global markets owing to customised requirements



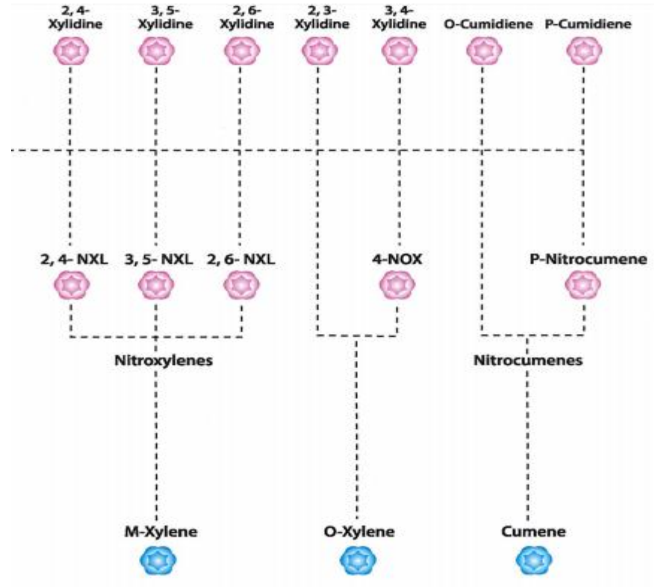
Source: Edelweiss Investment Research

Despite commencing operations 2-3 years ago, DEN's utilisation has been moderate at 40-45% due to specific product requirements and subsequently long waiting period to establish a supply agreement. Going forward, we expect gradual scale up (from current 15-20% of customer requirements) post successful quality checks. However, there remains a possibility of delayed take-off owing to customer receptiveness about quality standards and lengthy validation cycle.

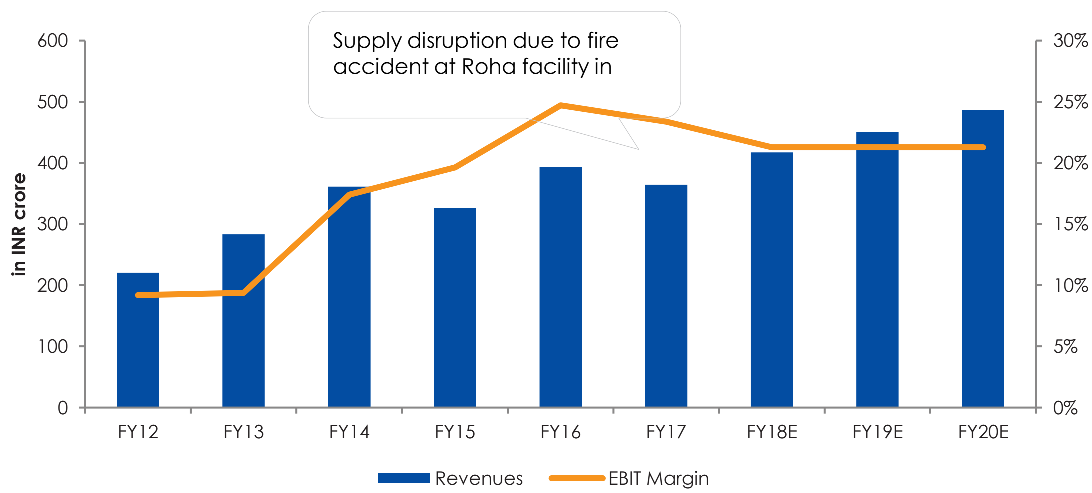
The company's OBA plant achieved EBITDA breakeven in Q2FY18. At peak utilisation, while OBA has the potential to generate INR 550 crore sales with 12-13% EBITDA margin, DASDA can generate sales of INR 130 crore with a steady state EBITDA margin of 8-9%.

b. FSC segment eyeing pharma intermediates entry

The fine and speciality chemicals segment includes niche products manufactured at relatively lower volumes and are customised to specific customer requirements. The segment produces xylidines, cumidines, oximes, nitro oxylene, etc., which find application as ingredients in colourants, pigments, pharmaceutical intermediaries and agrochemicals.



Development of new high-margin chemicals led to strong surge in the company's fine and specialty chemicals business. Further, DEN is focused on expanding its footprint in high-value intermediates, especially for the pharma API and personal care industry and also pursue contract manufacturing opportunities for agrochemical majors.



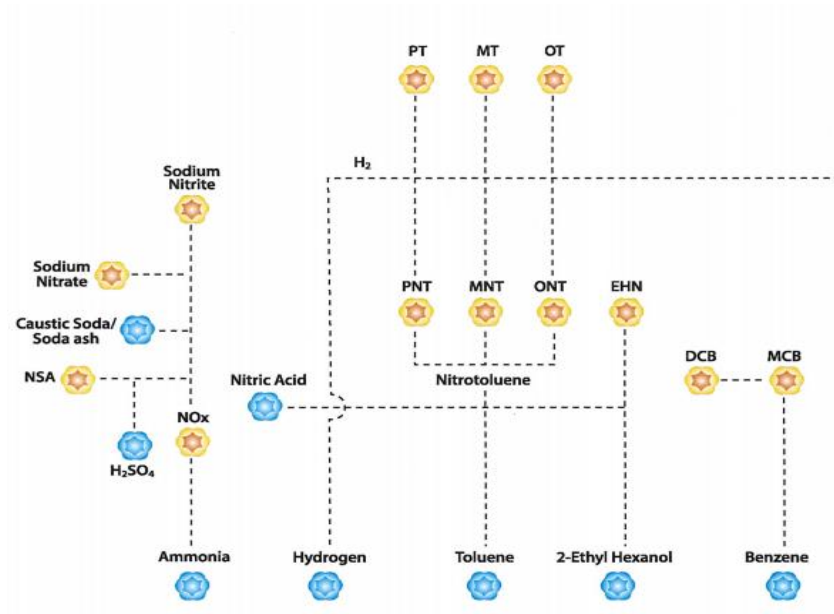
Source: Edelweiss Investment Research

c. Basic chemicals to sustain moderate growth rate

DEN's basic chemicals division is characterised by high volume and moderate margin products across organic and inorganic chemicals.

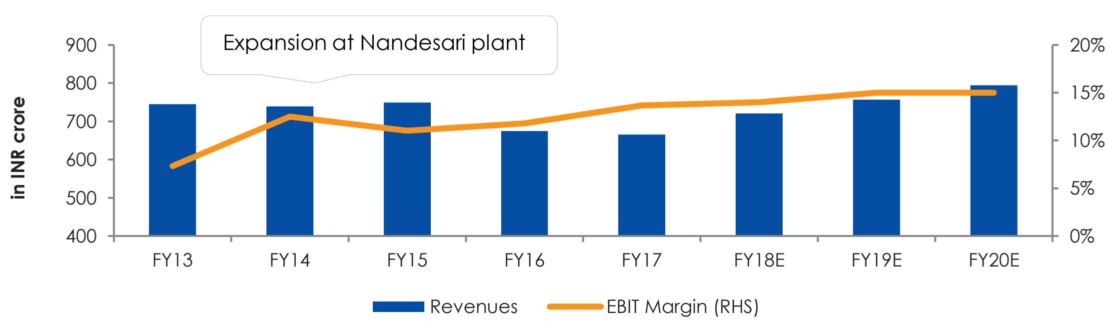
- **Organic chemicals** produced include nitro toluene and ortho toluene which are used to manufacture intermediates for colourants, rubber production, pharmaceuticals, explosives, dyes & agrochemicals and fuel additives used in refineries.

- **Inorganic chemicals** produced include sodium nitrites & sodium nitrates with sodium nitrite used in colourants, pharma, electroplating & rubber chemicals and sodium nitrate used in industrial explosives, glass industry & heat-treating chemicals.



Brownfield expansion, multi-product capacity buoy margin despite down cycles

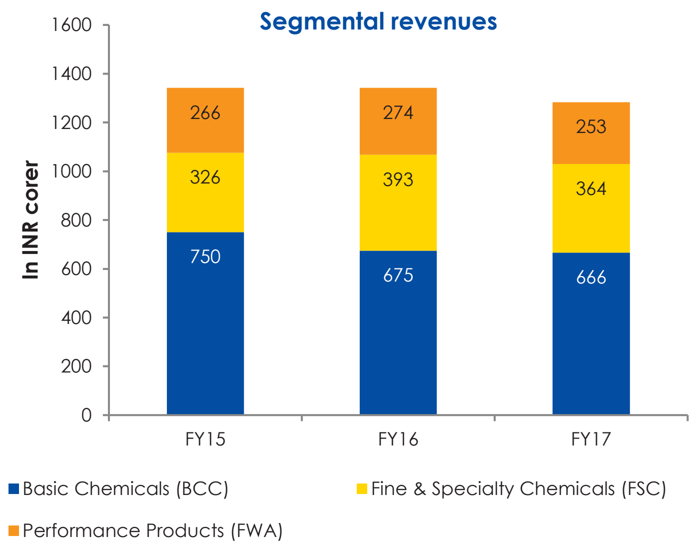
The basic chemicals segment not only entails limited margin, but is also exposed to crude price volatility, leading to unpredictable revenue. Margins are lower as chemicals are made to standard specifications and not unique as per customer preferences. Segment sales have remained range-bound since FY13, while EBIT has expanded 67% post brown field expansion in its Nandesari plant in FY14. With 90% utilisation levels, future growth in basic chemicals is expected to be led by improving product-mix and efficiency.

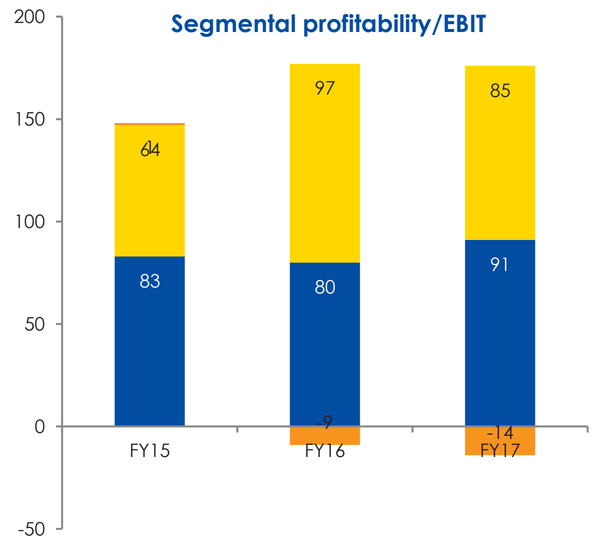


Source: Edelweiss Investment Research

III. Financial Analysis

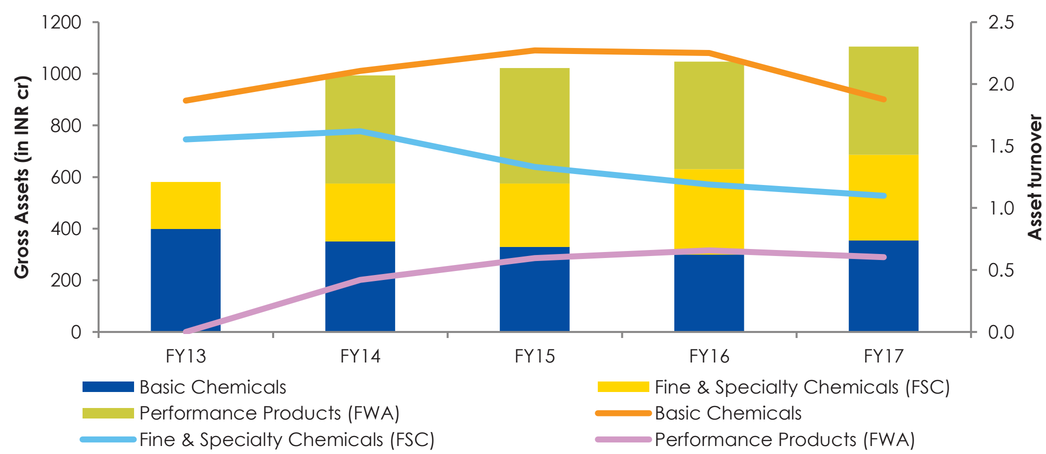
a. While its basic chemicals business has nearly matured, DEN has more to extract from the other two segments....





Source: Edelweiss Investment Research

...Fine & specialty chemicals and performance products bsuinesses have room for growth at current asset base



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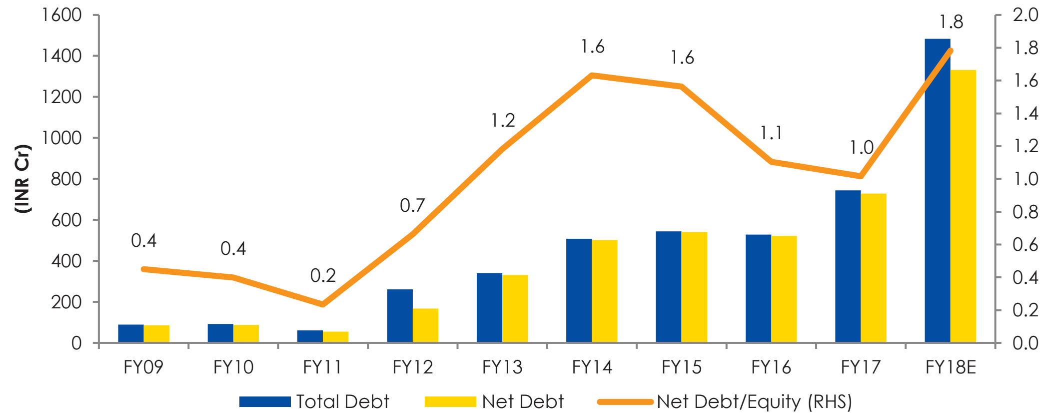
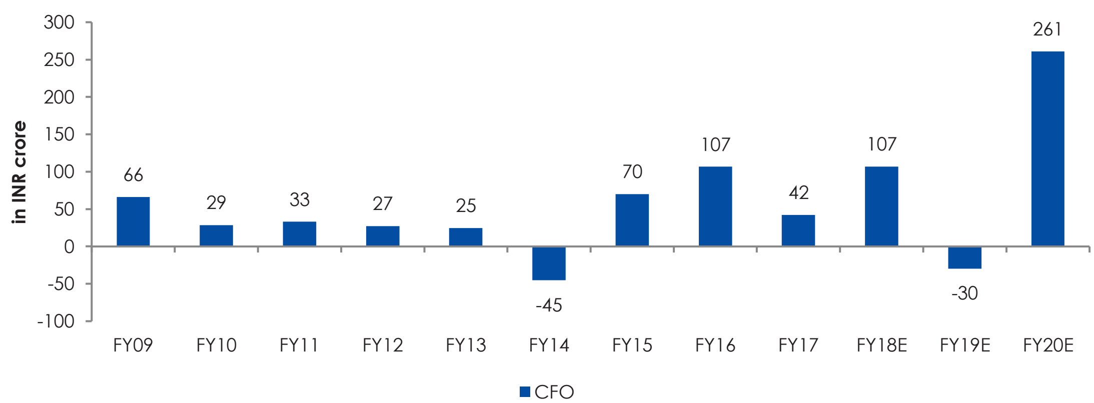
b. 60% debt funded acetone-phenol project changed the debt/equity dynamics of DEN



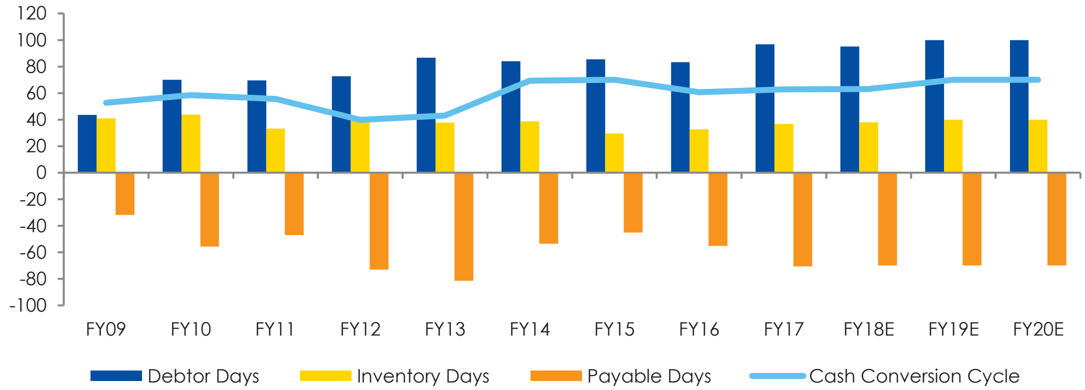
Source: Edelweiss Investment Research

DEN has raised INR 840 crore via debt to fund its INR 1,400 crore acetone-phenol project in FY18. As a result, the company's net debt-equity ratio jumped to 1.8x with repayment expected to commence from FY20 on generation of surplus cash flows.



Source: Edelweiss Investment Research

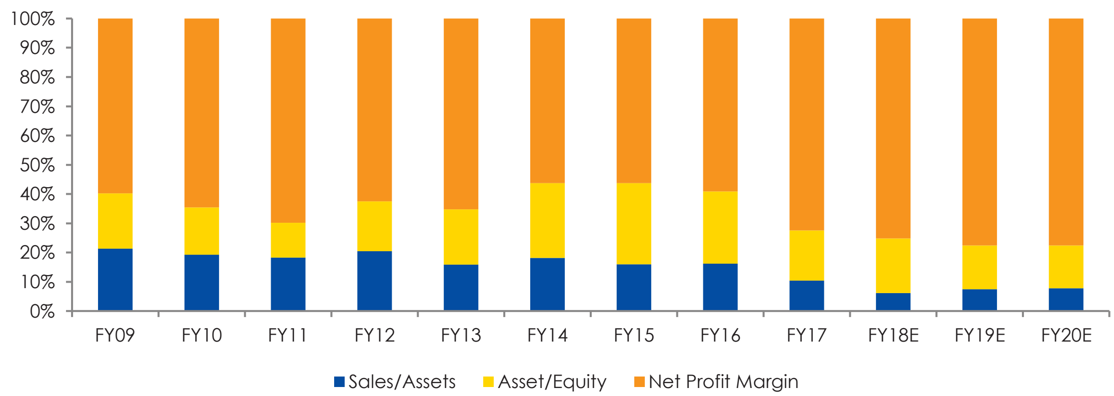
c. Working capital cycle to strech with the start of acetone-phenol project in FY19



Source: Edelweiss Investment Research

While FY17 debtor days worsened on account of higher credit extended in the base business, it was offset by larger working-capital borrowing from banks. Going forward, we expect the working capital cycle to remain streched on account of the acetone-phenol project.

d. Increasing contribution of profitability to ROE



Source: Edelweiss Investment Research

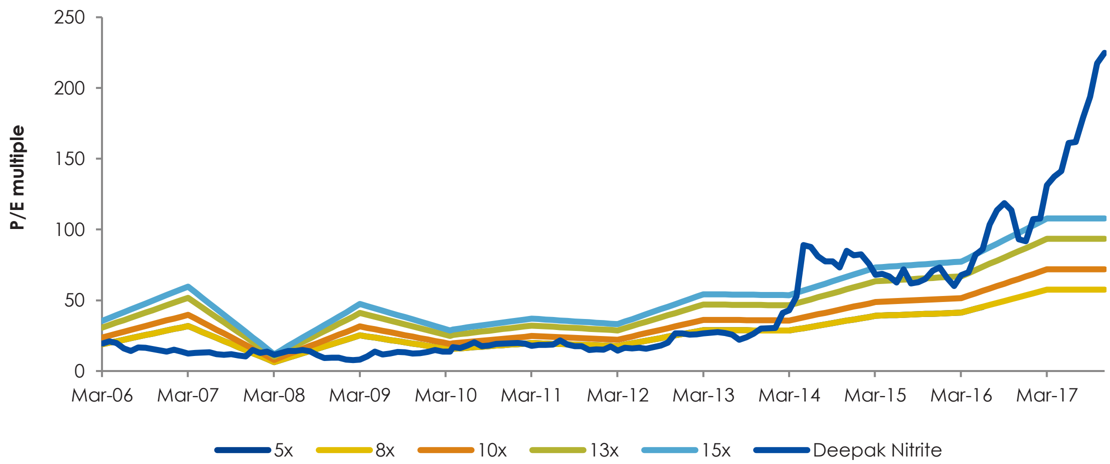
With changing product-mix in favour of high-margin products, there has been higher contribution of profitability to RoE. Acetone-phenol, being a margin accretive business right from commencement of operations, is expected to add to the phenomenon.

IV. Valuations

In our view, DEN is set to reap benefits of capacities in the acetone-phenol project as well as performance products business. Ergo, we estimate spectacular revenue and margin spurt with higher utilisation levels and business expansion.

Our earnings estimates per share for FY18/FY19/FY20 are INR 3.5/14.6/18.0, respectively. We value the company at 20x FY20E earnings of INR18/share and initiate with **'BUY'** recommendation and target price of INR360/share.

Steep rise in trailing P/E as acetone-phenol project comes near completion



Source: Edelweiss Investment Research

Risks and concerns

- **Acetone-phenol spread volatility:** The profitability in the acetone-phenol business is closely linked to the spread between global prices of acetone-phenol and benzene propylene. Hence, any major fluctuation in the spreads may impact our estimates from the business. Additionally, this is spot business with negligible contract-based hedge.

- **Delay in base-business take off:** We expect the base business of DEN to be also contributing positively to incremental profitability. However, various factors such as order book flow and improving product mix are key drivers here. Any delay in order flow or slower ramp-up in new product-mix xould be detrimental to growth.

- **Import competition:** Acetone-phenol project, being driven by import substiution demand, may face price competition from major exporting countries such as China and Thailand. Any aggressive competition can temporarily impact our near-term estimates.

Details of subsidiaries and associates

Deepak Nitrite Limited

Deepak Phenolics Ltd.

- 100% subsidiary
- Dedicated to acetone-phenol project
- Commercial production to commence from FY19

Deepak Nitrite Corporation, Inc.

- 100% subsidiary
- Caters to the marketing requirements in the US and looks out for expansion potential

Deepak Gulf LLC

- 49% shareholding
- No commercial operations undertaken yet

Financials

Income statement (Consolidated) (INR crs)

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Income from operations	1,373	1,360	1541	3092	3534
Direct costs	944	948	1094	2236	2558
Employee costs	119	126	142	167	178
Other expenses	266	275	296	418	459
Total operating expenses	1,209	1,224	1390	2654	3017
EBITDA	164	137	151	438	517
Depreciation and amortisation	40	43	48	96	97
EBIT	124	94	102	341	419
Interest expenses	40	37	42	64	64
Profit before tax	86	133	71	299	370
Provision for tax	26	39	23	99	122
Core profit	60	94	48	201	248
Extraordinary items	0	0	0	0	0
Profit after tax	60	94	48	201	248
Adjusted net profit	60	94	48	201	248
Equity shares outstanding (mn)	11.6	13.1	14	14	14
EPS (INR) basic	5.2	7.2	3	15	18
Diluted shares (Cr)	11.6	13.1	14	14	14
EPS (INR) fully diluted	5.2	7.2	3	15	18
Dividend per share	1.2	0.0	1	3	4
Dividend payout (%)	23.3	0.0	22	22	22

Common size metrics- as % of net revenues (INR crs)

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Operating expenses	88.1	90.0	90.2	85.8	85.4
Depreciation	2.9	3.1	3.1	3.1	2.8
Interest expenditure	2.9	2.7	2.7	2.1	1.8
EBITDA margins	11.9	10.0	9.8	14.2	14.6
Net profit margins	4.4	6.9	3.09	6.49	7.01

Growth metrics (%)

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Revenues	3.4	(0.9)	51.2	100.7	14.3
EBITDA	19.4	(16.6)	108.6	190.7	18.0
PBT	31.9	54.2	35.3	321.1	23.5
Net profit	17.5	56.8	26.0	321.1	23.5
EPS	5.6	39.5	(4.5)	321.1	23.5

Ratios

Year to March	FY16	FY17	FY18E	FY19E	FY20E
ROAE (%)	14.6	15.8	6.5	24.1	24.6
ROACE (%)	12.5	7.3	5.3	14.6	17.1
Debtors (days)	83	97	95	100	100
Current ratio	2.2	2.2	2.6	2.2	2.9
Debt/Equity	1.1	1.0	2.0	1.6	1.3
Inventory (days)	33	37	38	40	40
Payable (days)	55	71	70	70	70
Cash conversion cycle (days)	61	63	63	70	70
Debt/EBITDA	3.2	5.4	9.9	3.4	2.9
Adjusted debt/Equity	1.1	1.0	1.8	1.6	0.8

Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Diluted EPS (INR)	5.2	7.2	3.5	14.6	18.0
Y-o-Y growth (%)	*5.6*	*39.5*	*(4.5)*	*321.1*	*23.5*
CEPS (INR)	9	10	7	22	25
Diluted P/E (x)	54.4	39.0	81.0	19.2	15.6
Price/BV(x)	6.9	5.1	5.1	4.2	3.5
EV/Sales (x)	2.8	3.2	3.4	1.7	1.4
EV/EBITDA (x)	23.1	32.1	34.4	12.1	9.2
Diluted shares O/S	11.6	13.1	13.8	13.8	13.8
Basic EPS	5.2	7.2	3.5	14.6	18.0
Basic PE (x)	54.4	39.0	81.0	19.2	15.6
Dividend yield (%)	0.4	0.0	0.3	1.2	1.5

Balance sheet (INR cr)

As on 31st March	FY16	FY17	FY18E	FY19E	FY20E
Equity share capital	23	26	28	28	28
Preference Share Capital	0	0	0	0	0
Reserves & surplus	450	691	728	884	1,077
Shareholders funds	473	717	756	912	1,105
Secured loans	465	654	1,305	1,305	1,305
Unsecured loans	64	89	178	178	178
Borrowings	529	744	1,484	1,484	1,484
Minority interest	0	0	0	0	0
Sources of funds	**1,002**	**1,461**	**2,239**	**2,396**	**2,589**
Gross block	899	918	1,918	1,938	1,958
Depreciation	301	328	376	472	570
Net block	598	591	1,542	1,466	1,388
Capital work in progress	36	353	0	0	0
Total fixed assets	634	944	1,542	1,466	1,388
Unrealised profit	0	0	0	0	0
Investments	87	117	117	117	117
Inventories	123	138	160	339	387
Sundry debtors	313	360	401	847	968
Cash and equivalents	6	14	159	65	570
Loans and advances	57	68	68	68	68
Other current assets	0	0	0	0	0
Total current assets	499	580	788	1,319	1,993
Sundry creditors and others	208	264	296	593	678
Provisions	22	6	6	6	7
Total CL & provisions	230	269	302	599	684
Net current assets	269	311	487	719	1,309
Net Deferred tax	-57	-66	-66	-66	-66
Misc expenditure	73	159	159	159	159
Uses of funds	**1,006**	**1,465**	**2,239**	**2,396**	**2,907**
Book value per share (INR)	41	55	55	66	80

Cash flow statement (INR cr)

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Net profit	60	94	48	201	248
Add: Depreciation	40	43	48	96	97
Add: Misc expenses written off	-27	-87	0	0	0
Add: Deferred tax	10	9	42	0	0
Gross cash flow	83	59	138	297	345
Less: Changes in W. C.	-23	17	31	327	84
Operating cash flow	107	42	107	-30	261
Less: Capex	76	353	651	20	20
Free cash flow	**30**	**-311**	**-544**	**-50**	**241**

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Vinay Khattar

Head Research

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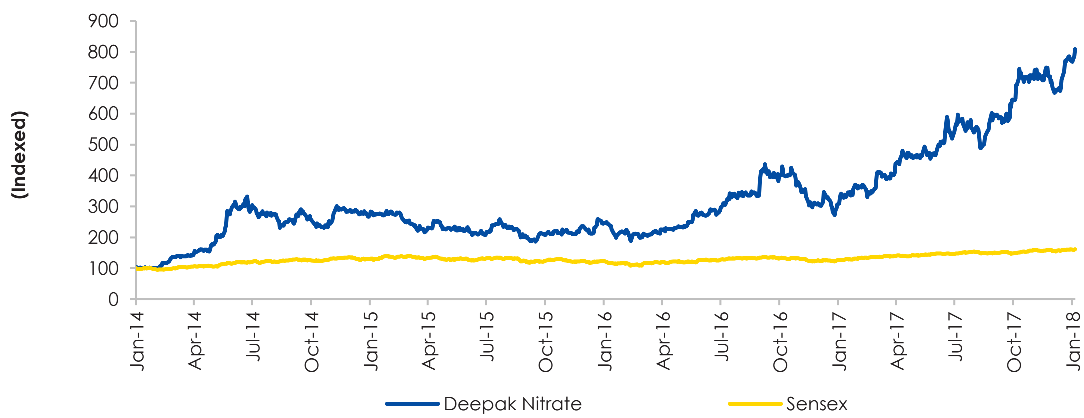
Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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