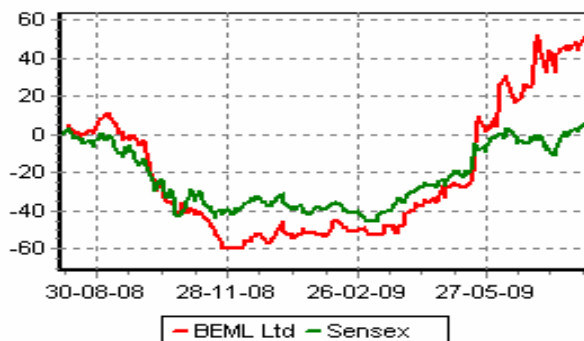


BEML Ltd.

Outperformer Sensex: **15,803**CMP: **Rs1,090**Price Target: **Rs1,308**Reason for Report: **Initiating Coverage****ANALYST**Kumar Rahul Chauhan +91 44 2530 7364
kumarrc@dbschola.murugappa.com**FORECASTS AND VALUATION**

FY Mar (Rs Crore)	2009P	2010E	2011E
Turnover	2,797	3,357	4,028
EBITDA	344	470	561
Pre-tax Profit	387	520	615
Net Profit	269	338	399
EPS (Rs)	64.6	80.9	95.6
BV Per Share (Rs)	449.4	515.0	592.3
PE (X)	16.9	13.5	11.4
EV/EBITDA (X)	12.3	9.3	7.9
Debt/Equity	0.1	0.0	0.0
ROE (%)	15.0%	16.8%	17.3%
ROCE (%)	10.6%	12.4%	13.2%

SHARE PRICE CHART**AT A GLANCE**

Issued Equity Capital (Cr. shrs)	4.2
Mkt. Cap (Rs.in Crs/US\$m)	4539/926
Major Shareholders	
Promoters (%)	54%
Free Float (%)	46%
Avg. Daily Vol.('000)	40.1
Sector:	Capital Goods
Bloomberg/Reuters Code:	BEML IN/BEML.BO

Betting big on metro projects

BEML is among the top players in construction and mining equipment business, besides and in manufacturing metro coaches. The company would continue to benefit from continued coal shortage situation and increased investment on upcoming metro projects in Bangalore, Chennai, Hyderabad, Kochi etc. BEML has a robust order backlog of approx. Rs6,000 crore which is ~2x FY09 revenue. We estimate, BEML's revenue is set to grow at a CAGR of 20% during FY10E and FY11E.

- Management has given a guidance of 100% YoY revenue growth in rail and metro business to ~Rs950 crore in FY10. Further, we expect BEML to get sizeable orders from the defence ministry to manufacture defence equipments. In the Union Budget 2009-10 the government has increased outlay on capital expenditure by 33.3% YoY to Rs54,824 crore.
- We expect standalone earnings to register a whopping 21.7 per cent CAGR over FY09-FY11E and ROE to increase by 178bps in FY10E and 49bps in FY11E. We estimate an EPS of Rs95.6 in FY11. We believe, the stock is undervalued. We initiate coverage with an Outperformer rating and 12-months target price of Rs1,308, which implies a potential upside of 20.0%.

Raw Beta	0.9
Adjusted Beta	0.9
Daily Volatility (BEML) - annualized	60.0%
Daily Volatility (Sensex) - annualized	46.6%
Daily Volatility (BSE CG) – annualized	54.3%
R-Square (Sensex)	0.2
Business Risk	
Coefficient of variation of Net Sales	0.3
Coefficient of variation of Operating Income	0.8
Coefficient of variation of Net Income	1.1

Source: DCSEC Research

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Investment Summary

Domestic Economy - Improving sentiments

On account of the global financial meltdown and slowdown in industrial activity, the growth in domestic GDP has fallen from the peak of 9.7 per cent during FY07 to 6.2% in 2008-09. This has negatively impacted IIP numbers too and it has fallen by over 900bps for the same period and registered a growth of mere 2.9 per cent during 2008-09. Over the past 14 years IIP numbers on a month basis has always been positive even during the East Asian crisis and .dot com bubble. Driven by the current slowdown the IIP numbers for Dec-08, Feb-09 and Mar-09 turned negative which reflects the current crisis. However, during the last quarter, IIP numbers for the months of April and May has shown some sign of improvements in the economy which augurs well for the economy and companies in the engineering sector.

The Government has announced that by 2014 infrastructure investment would exceed 9% of GDP. The government has increased allocation to national highway development programme (NHDP) by 23 per cent over FY09 to Rs12,966 crore and provided for long term financial assistance to infrastructure projects by empowering India Infrastructure Finance Company Limited (IIFCL) to refinance 60 per cent of commercial loans for public private partnership projects within 15 to 18 months. Government has also provided three stimulus packages to provide easy availability of finance (liquidity) to boost demand of industrial goods and consumer goods in the domestic economy. The packages along with the increased thrust of government in investment on the infrastructure sector will bring economy back on the growth momentum.

Business Model - Diversified product mix, unaffected to economic downturn

BEML's revenue profile comprises three diverse segments - construction and mining equipment, defence equipment and railway & metro business. Almost 90 per cent of the orders for these segments contributed from Public sector Enterprises (PSUs), government and quassi-government bodies (such as municipal corporations), which has been a constant source of revenue for BEML over the past several years. Despite the global meltdown order inflows of the company in FY09 grew by over 26 per cent on YoY basis. This is attributed to its revenue dependence on government projects. Also, the company has not witnessed any postponement of delivery for its orders in its construction business. However, due to the slowdown in industrial growth its small equipment business was affected as contractors were unable to find resources to buy equipment.

Smells a huge business opportunity in Metro rail projects

To cater the increase in metro and sub-urban traffic many cities in India having a population of more than 3 million are planning to introduce metro transportation. BEML plans to capture at least one-fourth of the Rs 1,00,000 crore business in the metro projects. The company was the first to introduce manufacture of metro coaches in India and is well placed to provide metro coaches for the upcoming and ongoing metro projects in cities such as Delhi, Mumbai, Bangalore, Chennai, Hyderabad, Ahmedabad and Kochi. To increase the production of metro coaches at its Bangalore manufacturing unit, BEML has plans to shift manufacturing of railway coaches from Bangalore plant to new manufacturing unit at Palakkad (Kerala) and Kolar Gold Field. The company also plans a brownfield expansion on 1100 acres of barren land adjacent to its Kolar unit for manufacturing railway coaches. Management has given a guidance of a 100% revenue growth in its rail and metro business ~Rs950 crore for FY10.

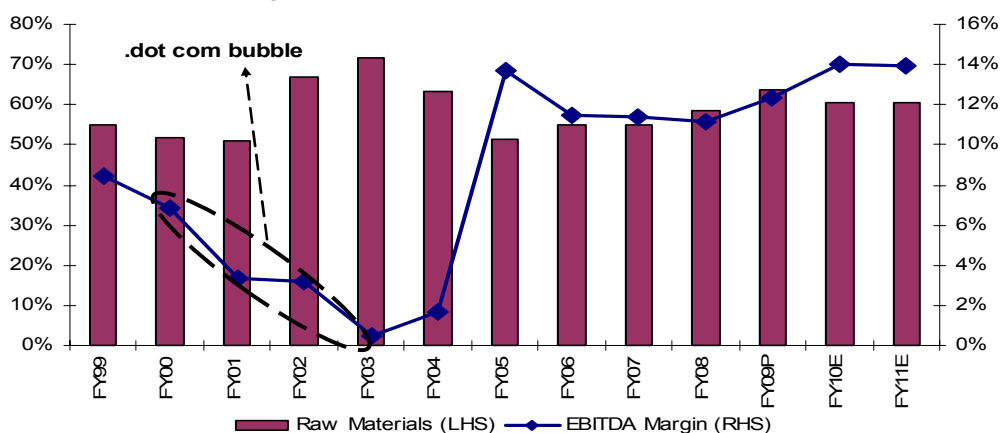
Revenue growth - set to grow at a CAGR of 20% over the FY09-11E

The management has provided a guidance of revenue Rs4,000 cr – 33 per cent higher than FY09 revenues. The management estimates a 100 per cent growth from its railway and metro business (Rs476 crore in FY09) and a 12-15 per cent growth in mining and construction equipment business. Considering BEML's product profile – characterised by longer lead times and its revenue growth history we believe the guidance of 33% revenue growth in FY10 is stretched. We estimate a revenue growth of 20% CAGR over the period FY09-11. The longer lead times are attributed to its high end products. During the years FY94-08 the company's peak standalone revenue growth was 18.8 per cent.

Higher operating margins would keep profits growing

During last crisis of 2001-03, EBITDA margins for BEML dipped to a low of a mere 0.5% in FY03. EBITDA margins attained a peak of 13.7% in FY05, since then it has declined to 12.3% during FY09. We expect operating margins to improve by 170bps in FY10E as steel prices have declined by over 25-40%, which could cause raw material costs to decline going forward. We expect an EBITDA margin of 14% for FY10E and 13.9% for FY11E.

Exhibit 1: EBITDA Margin to improve in FY10E



Source: DCSEC Research

Comfortable cash flows, strong balance sheet...

Management has planned a capex of Rs 410 crore at its existing facilities. This includes Rs260 crore at the new Palakkad unit in Kerala and for the brownfield expansion on 1100 acres of barren land adjacent to its Kolar manufacturing unit for manufacturing railway coaches. We expect BEML to incur a capex of about Rs200 crore in FY11 for modernisation and expansion of its facilities. The company has a strong balance sheet. Over several years in its recent history the company has reported a negative debt position. The borrowing in FY08 is attributed to its working capital requirements. With strong cash flows from operations and an estimated negative debt position in FY10 a large section of the capex is likely to be funded out of internal accruals.

Exhibit 2

(Rs Crore)	FY07	FY08	FY09P	FY10E	FY11E
Cash flow from operations	60	(474)	365	341	238
Capex	(42)	(80)	(200)	(410)	(200)
Investments	-	(5)	-	-	-
Free cash flow	18	(560)	165	(69)	38
Financed through					
Equity and share premium	-	514	-	-	-
Dividends Paid	(51)	(58)	(59)	(73)	(91)
Proceeds from borrowings	1	278	(100)	(100)	(50)
Cash flow from financing	(50)	733	(159)	(173)	(141)
Change in cash	(32)	173	6	(243)	(103)
Cash Balance	348	521	527	284	181

Source: DCSEC Research

Order Intake – Strong Momentum

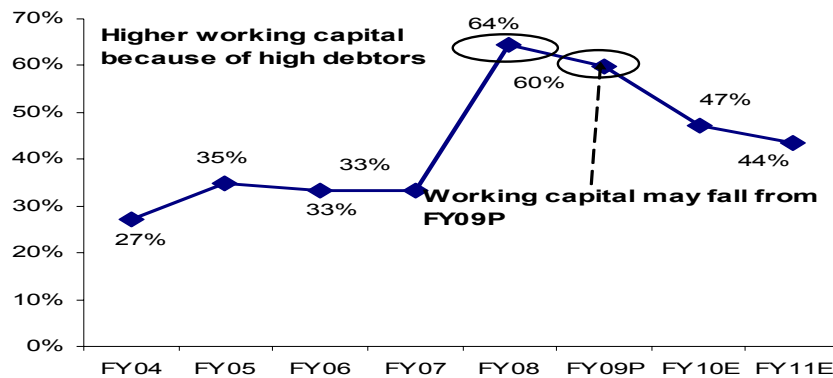
During FY09, the outstanding order book increased 26% YoY from Rs4,000 crore to Rs5,036 crore. BEML's order book position as on June30, 2009 stood at Rs 6,000 crore including a recent order worth Rs800 crore for 1840 railway coaches. The order backlog is ~2x its FY09 revenue. As on

June30, 2009 the order book for the railway division was ~Rs4,000 crore, mining and equipment industry at ~Rs800 crore and for the defence division was ~Rs1,200 crore.

Working capital to sales ratio may have peaked in FY09

During FY04-FY07 the working capital/revenue cycle has deteriorated from 27.1 per cent to 64.5 per cent in FY08 mainly on account of increase in average collection period from 97 days in FY04 to 171 days in FY08. The company witnessed a reduction in inventory days during the same period. The delay in collection of bills is ascribed to its customer base. Almost 90 per cent of the revenues come from the customers like Public sector Enterprises (PSUs), government and quassi-government (like municipal corporations) bodies. However, the management said that they have been working on reducing the collection cycle by implementing strict company's credit and collection procedures. On account of lower inventory costs and favourable payment terms we expect the working capital requirements to ease going forward.

Exhibit 3



Source: DCSEC Research

Earnings growth, Respectable ROE and negligible gearing

During FY09, BEML has a negligible gearing ratio of 0.2x and a reasonable ROE of around 15%. We expect, ROE to increase by 178bps in FY10E and 49bps in FY11E. We expect EPS to increase at CAGR of 21.7 per cent from Rs65 in FY09 to Rs95.6 in FY10. We estimate cash EPS of Rs106.7 in FY11E.

Exhibit 4

	FY07	FY08	FY09P	FY10E	FY11E
Asset turnover	2.5	1.7	1.4	1.5	1.7
EBIT Margin	11.0%	10.6%	11.3%	12.8%	12.8%
Interest burden	97.8%	94.4%	87.6%	95.4%	98.0%
Tax Burden	78.6%	89.1%	96.9%	82.4%	79.2%
Leverage	1.0	1.1	1.1	1.1	1.0
ROE	21.4%	16.5%	15.0%	16.8%	17.3%

Source: DCSEC Research

Investment Risks

Delay in implementation of metro and railway projects

- The demand for BEML's railway products is dependent on the implementation schedule of the metro and railway projects. Any delay in the proposed expansion plan of these projects would hamper the topline.

Rise in raw material prices

- Increases in the cost of raw materials and components or an increase in labour costs likely to cause margin pressures and adversely impact its earnings.

Higher imports from China

- The Indian capital goods industry is currently facing a surge in imports from China. The import of capital goods from China rose from Rs 5,120 crore in FY03 to Rs 54,200 crore in FY08. The share of China in India's total import of capital goods has gone up from 38% in 2002-03 to 50% in 2007-08. This trend reflects high import dependency of India for capital goods from China of particular concern is the zero-duty imports, relating to import of construction equipment.

Valuation

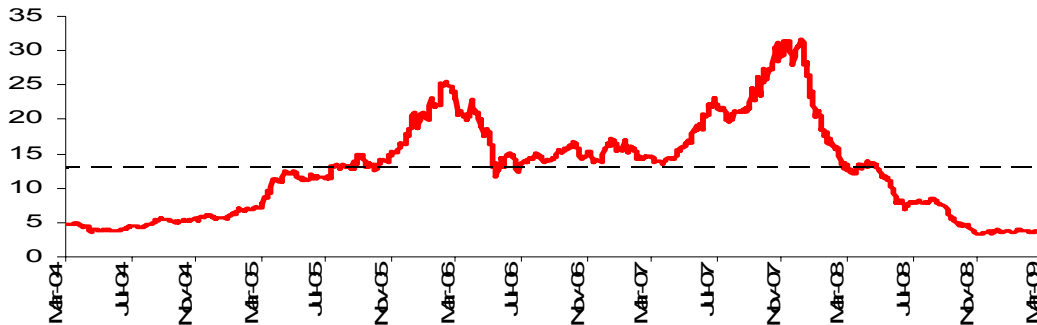
At the CMP of Rs1,090, the stock is currently quoting at P/E of 13.5x and 11.4x its FY10 and FY11 earnings respectively and EV/EBITDA of 9.3x and 7.9x of its FY10 and FY11 estimates respectively. We initiate coverage on BEML with a Outperformer rating and a target price of Rs1,308, a potential upside of 20% from current levels. We value the stock at Rs1,308 based on 9.5x FY11E EV/EBITDA (a discount of 26.4% to its average 1-Year forward EV/EBITDA of 12.9x over the last 5 years). On a P/E basis, the stock would trade at 13.7x our FY11E EPS of Rs95.6.

Exhibit 5: Valuation

EBITDA (FY11E) (Crore)	561
Fair EV/EBITDA (X)	9.5
Total Fair Enterprise value (Crore)	5,330
Less: Debt (Crore)	53
Add: Cash (Crore)	181
Add: Investments (Crore)	7.9
Justified Market capitalization (Crore)	5,466
Number of shares (Crore)	4.2
Fair value per share (Rs per share)	1,308
CMP	1,090
Potential upside	20.0%

Source: DCSEC Research

Exhibit 6: 1-year forward EV/EBITDA band



Source: DCSEC Research

Exhibit 7: 1-Year forward P/E band



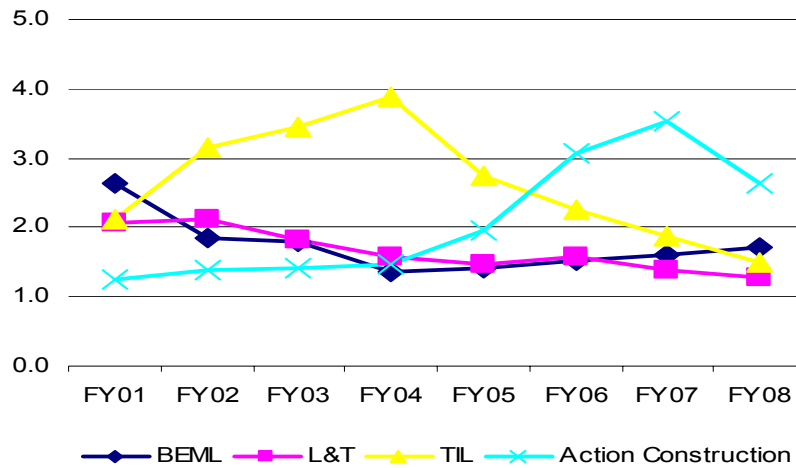
Source: DCSEC Research

Financials

Working Capital requirement for BEML is higher than its peers

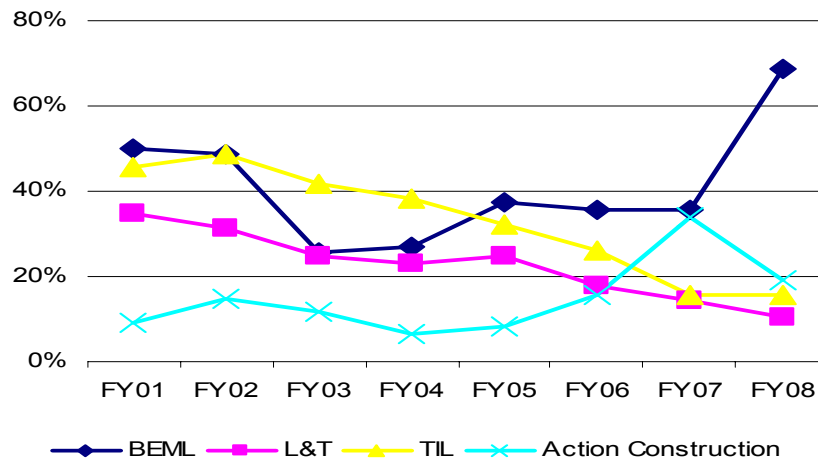
During the period FY04-FY08 working capital requirements for BEML increased at a faster pace as compared its peers. Other players such as L&T and TIL, however, witnessed significant improvement in working capital requirement.

Exhibit 8: Current asset/Current liability (X)



Source: DCSEC Research

Exhibit 9: WC/Revenue (%)



Source: DCSEC Research

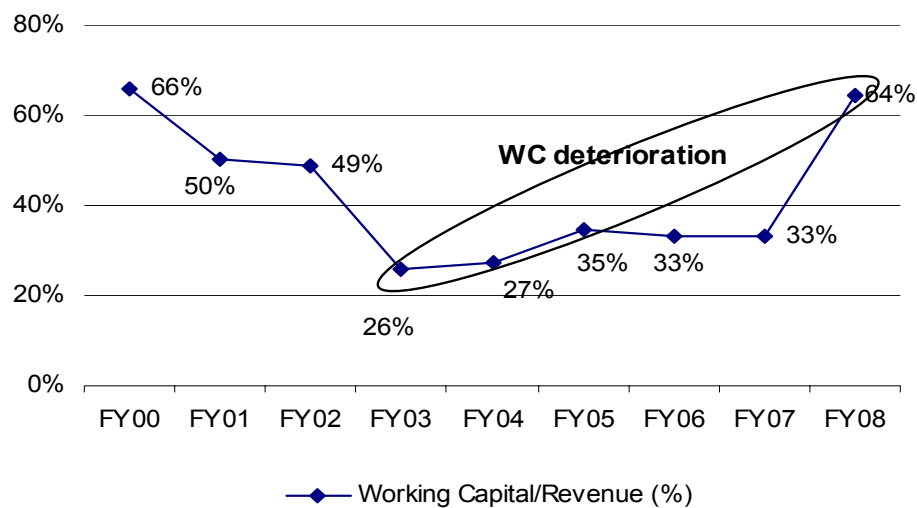
Based on our interaction with management, we have gathered key reasons for higher working capital as % of revenue for BEML.

- BEML basically manufactures high end products which require longer lead times to complete the production process. The production cycle for some of the equipment manufactured by BEML is as long as 18 months. As inventory is locked up from initiation of any process of production and the completion of that process inventory as % of revenue is high. According to the management, BEML targets to reduce inventory days by 30% over the period 2009-11.
- Orders from PSUs, government and quasi-government bodies (municipal corporations, etc.) constitute almost 90% of the order book. Offlate collections these entities have been stretching their payment cycle causing an adverse impact on BEML's working capital cycle.

An increasing working capital cycle – a concern

During FY00-FY03, driven by various factors the working capital/revenue improved from 66% to 26%. Key among these were 1) reduction in inventory days 294 in FY00 to 240 in FY03, 2) reduction in average collection period from 156 in FY00 to 115 in FY03. Subsequently, however, it has increased from 26% in FY03 to 64% in FY08. This comes on the back of an increase in average collection period from 115 days in FY03 to 171 in FY08. Inventory days for the same period decreased from 240 in FY03 to 202 days during FY08.

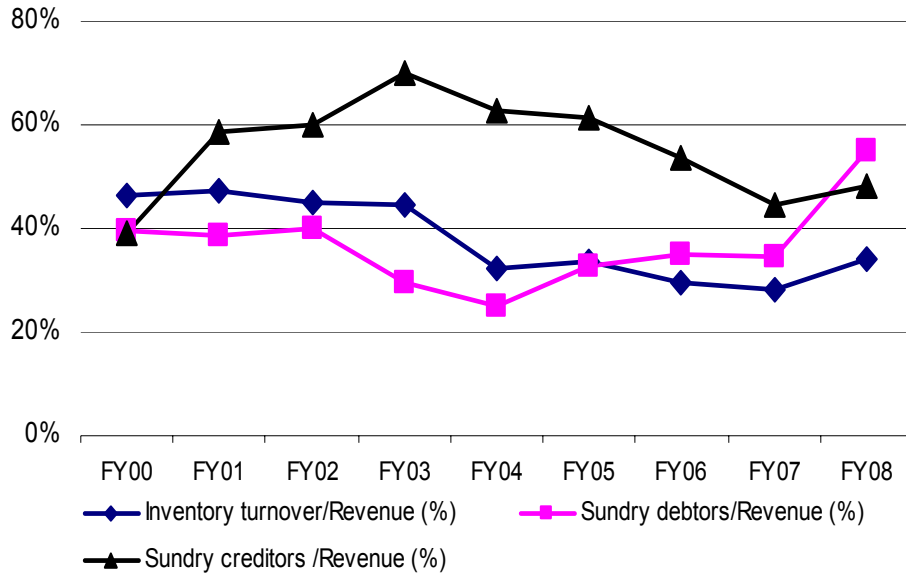
Exhibit 10: Working capital cycle weakens



Source: DCSEC Research

Even though the working capital cycle is stretched, customer advances provide cushion in managing the cycle. Customer advances as % of revenue for the BEML increased from 25% in FY04 to 55% in FY08 which has led to reduce the burden on working capital requirements.

Exhibit 11: Customer advance as % of revenue have improved



Source: DCSEC Research

Operational Overview

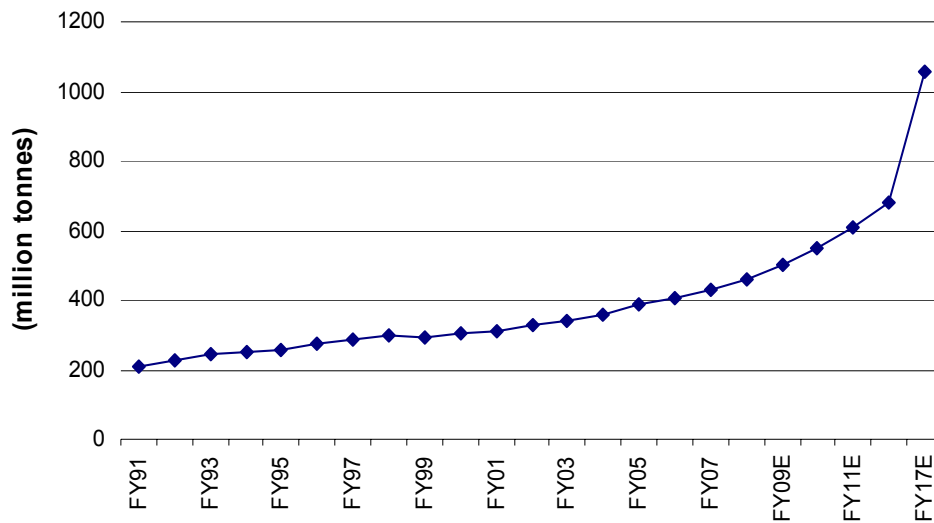
Construction and Mining Equipment

Background

BEML is the second largest manufacturer of earth moving equipment in Asia and has a 70% share in the domestic market. The company manufactures a slew of products for opencast mining, underground mining and construction. These sectors are critical to the economy and are poised for strong growth.

Growth drivers

Exhibit 12: Coal production



Source: Planning commission, DCSEC Research

Over the period 1990-08, the domestic coal production has registered a 4.4% growth. For FY08, the coal production estimates has been pegged at 461 million tonnes (mnt). According to the planning commission, coal demand is projected to reach 731 mnt by the end of the Eleventh Plan. However, coal production is estimated to be around 680 mnt during FY12 - a cumulative annual growth rate of 9.47% during the 11th year plan. This provides opportunity to BEML for supply of equipments to entities engaged in mining exploration and production activities.

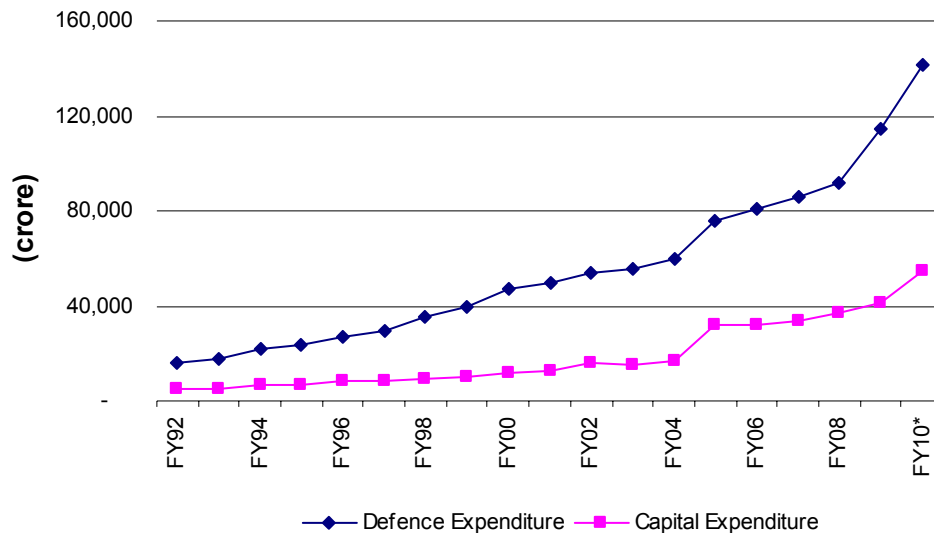
Defence Products – Steady growth

Background

Over the past four decades BEML has been India's leading defence equipment manufacturer. The company continues to hold a major share of supplies for the ground support equipment to the Indian defence forces. BEML's rugged and all-terrain state-of-the-art vehicles and equipment are deployed extensively for movement of ammunition and men to forward areas, for construction of border roads and for gun towing applications.

Growth drivers

Exhibit 13: Defence Expenditure allocated in budget



Source: Ministry of Finance, DCSEC Research

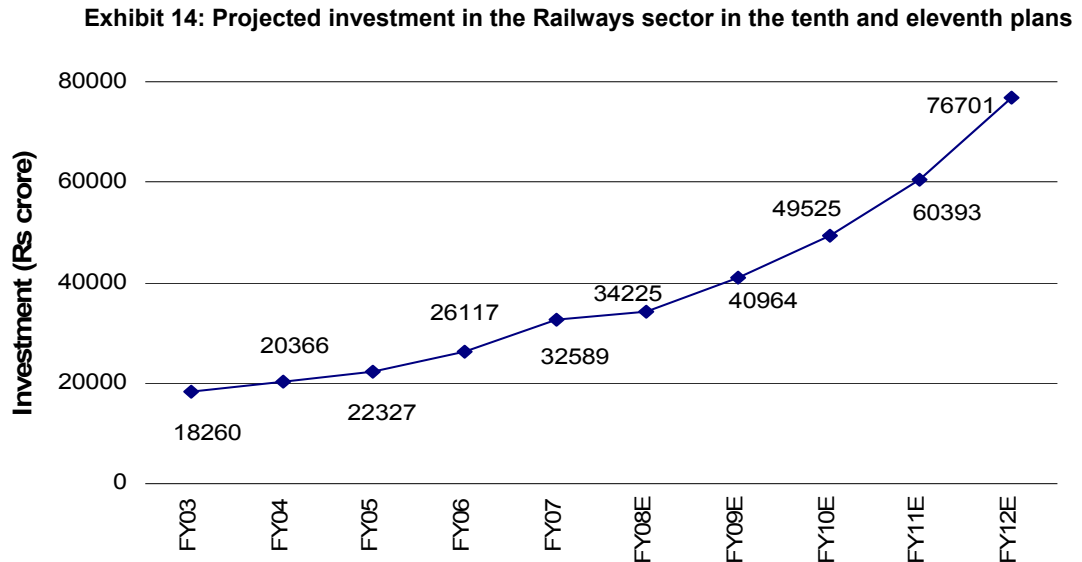
The total defence budget increased at 12.1% over the period FY92-09 and capital expenditure for defence purpose has registered a CAGR of 13.3% over the same period. However, the government has ramped up outlay for the defence sector. The Union Budget provides for FY10 Rs141,703 crore which is an increase of 23.7% over the previous budget estimates. Outlay for capital expenditure has been increased to Rs 54,824 crore a 33.7% growth over the previous actuals. Being part of Department of Defence Production BEML is likely to bag sizeable orders from the defence ministry contributing to steady revenue growth.

Railway & metro business – Market Leaders

Background

In recent years, BEML has forayed into high-tech metro trains deployed for intra-city commuting. BEML is expanding its infrastructure to meet the growing needs of metro projects coming up in various parts of the country. BEML supply ~500 railway coaches to Indian Railways every year and also has a capacity to manufacture 10 metro coaches per month (120 metro coaches per annum). The company has developed low cost metro coaches, which cost Rs 6 crore per coach, compared to the traditional metro coaches that cost Rs10-11 crore.

Growth drivers



Source: Planning commission, DCSEC Research

To improve the country's railway infrastructure, in the Eleventh five year plan the total investment is estimated at Rs261,808 crore over 2007-12 which is an increase of 118.8% over the Tenth five-year plan. In addition to this, to cater the increase in metro and sub-urban traffic many urban cities in India having a population of more than 3 million are planning to introduce metro transportation and central government also planned to expand supply by increase in train services and augmentation of seating capacity of trains. These projects would create substantial demand for metro coaches and integral rail coaches. BEML being a leading metro coach manufacturer is well placed to provide metro coaches for the upcoming and ongoing metro projects in cities such as Delhi, Mumbai, Bangalore, Chennai, Hyderabad, Ahmedabad and Kochi.

Indian Capital Goods Scenario

An approach to understand Capital goods Industry through Porter's 5 forces model

New Entrants – Medium

Supply side economies of scale, huge capital requirements and high exit costs deter entry of new players. However, MNCs looking to diversify their business could find India as an attractive destination.

Supplier Power - Low to Medium

Raw materials used in capital goods companies are mostly standardised and largely domestic in origin, which leaves little scope for a bargain. However, if production line is set up adjacent to supplier's manufacturing facility, manufacturer may face switching cost in changing suppliers.

Buyer Power – Medium to High

- Large volume buyers like industrial customers are major purchasers of capital goods which pressurise manufacturers to offer products on thin margins.
- Indian capital goods sectors are characterized by a large array of standardised products which provides ample scope for buyers to switch between suppliers.

Substitute Products - Low

There is less number of products that can be substituted with other products in the sector.

Rivalry Intensity – Medium to High

The Indian capital goods space is highly fragmented industry with dominance of PSEs in heavy engineering, machine tools, boiler manufacturing while private firms exist in industrial segments such as cement, sugar and non-electrical machinery. There is high level of competition among organised players.

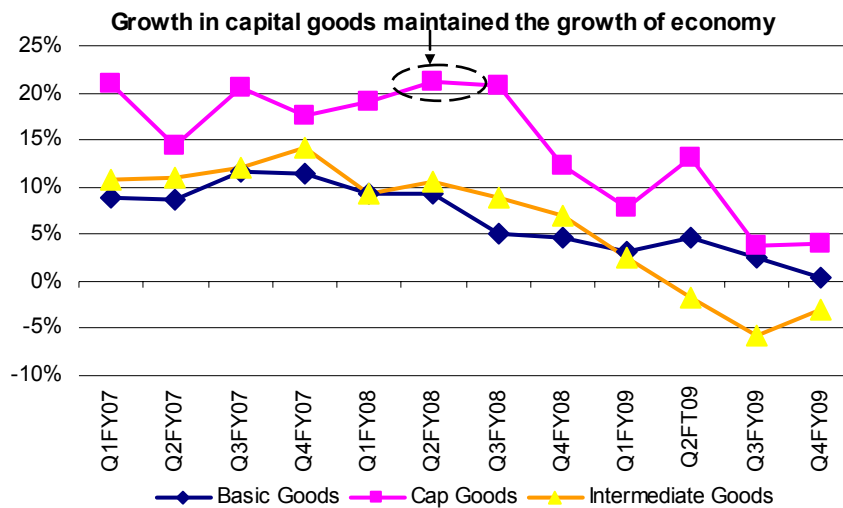
Risk Factors

Cyclicality	High
Competition	High
Capital Intensity	High
Technology Risk	Medium to High
Regulatory Environment	High

Industrial Growth by sectors

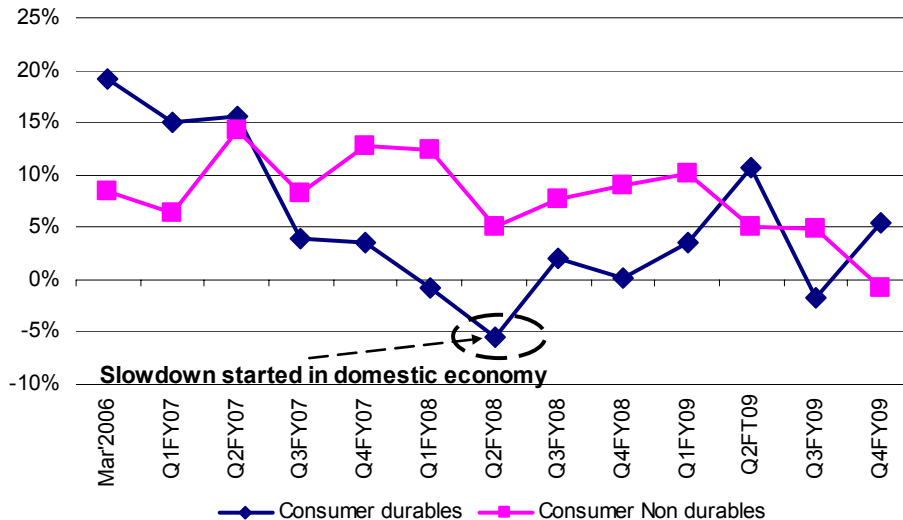
IIP numbers for consumer durables shows that perhaps slowdown started from the second quarter of FY08, but overall IIP was well supported by other use-based categories such as capital goods where production of capital goods was well supported by investments made by private players in this sector. However, with the decline in the growth of intermediate goods (with a weight of 26.5 per cent) from Q1 of 2008-09, the growth in overall IIP showed a sharp dip that got accentuated in Q3 of 2008-09 when the remaining groups also showed a sharp drop in growth.

Exhibit 15: Growth of Basic, intermediate and capital goods



Source: CSO, DCSEC Research

Exhibit 16: Growth of consumer – durables & non durables

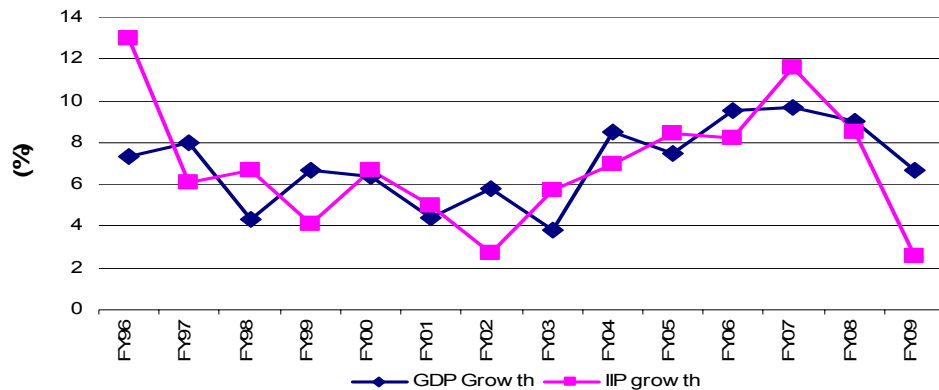


Source: CSO, DCSEC Research

Domestic economy- Improving Sentiments

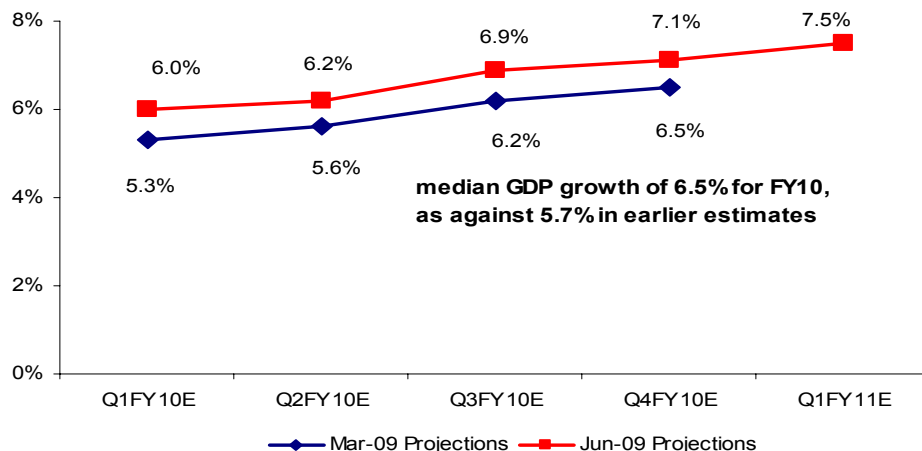
On account of the global financial meltdown and slowdown in industrial activity, the growth in domestic GDP has fallen from the peak of 9.7 per cent during FY07 to 6.2% in 2008-09. This has negatively impacted IIP numbers too and it has fallen by over 900bps for the same period and registered a growth of mere 2.9 per cent during 2008-09. Over the past 14 years IIP numbers on a month basis has always been positive even during the East Asian crisis and .dot com bubble. Driven by the current slowdown the IIP numbers for Dec-08, Feb-09 and Mar-09 turned negative which reflects the current crisis. However, during the last quarter, IIP numbers for the months of April and May has shown some sign of improvements in the economy which augurs well for the economy and companies in the engineering sector. However, during the last quarter, IIP numbers for the months of April and May has shown some signs of improvement and in the RBI's survey conducted in June 2009 median GDP was revised upward to 6.5% for 2009-10, as against 5.7% as per the previous survey conducted in March 2009. This shows a significant upward revision in the projection of India, GDP growth rate which augurs well for companies in the engineering sector.

Exhibit 17: GDP vs. IIP



Source: CSO, DCSEC Research

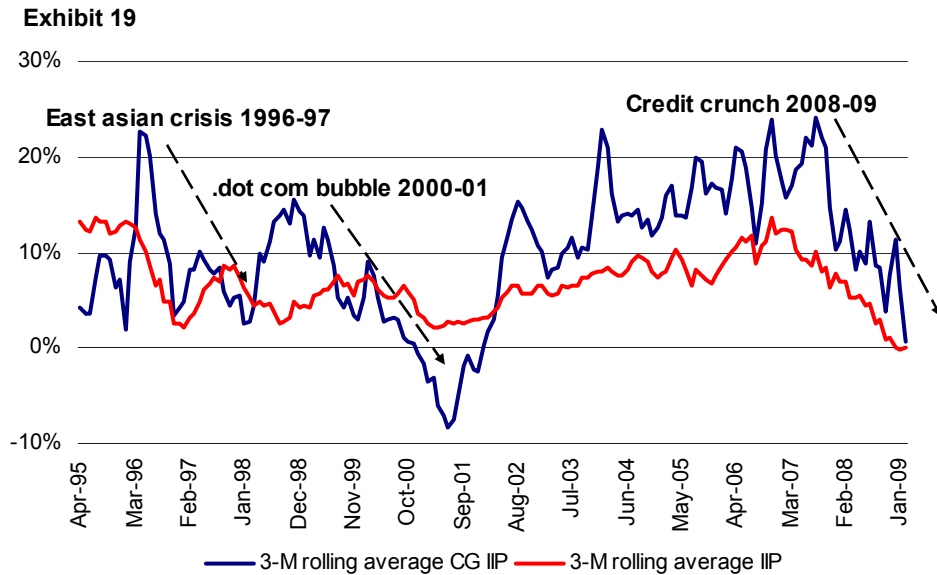
Exhibit 18: Median forecast of real GDP by RBI



Source: RBI, DCSEC Research

High correlation – Capital goods vs. IIP

We compared the current de-growth in Capital Goods IIP with the major slowdown in capital goods sector during East Asian crisis and .dot com bubble. We noticed last time negative growth of 2.5% in capital goods IIP was seen during Feb-02 during .dot com bubble (lasted from sep-99 to Apr-02). The 3-m rolling average of growth in capital goods IIP have fallen from the peak of 24.2% during Oct-07 to 0.7% during Apr-09, while the IIP for the same period dipped from 10.0% to 0%.



Source: CSO, DCSEC Research

Capital goods sector – worst is over, but recovery will be gradual...

With the formation of the new government, the fortunes of the capital goods sector seem to have solidified. Over the past three months capital goods sector has seen revival in sentiments. The BSE capital goods index has risen by nearly 50% since start of May while the Sensex has increased by 29%. Players hope the new government will continue favourable policies, and accelerate economic reforms to steer the country ahead amidst difficult global economic conditions. However, the demand side across verticals in the capital goods space still looks weak. Lack of big-ticket project announcements is likely to prolong a strong comeback. On the positive side, the capital goods players catering to infrastructure and power sector continue to see strong inflow of orders.

Company Background

BEML is a Mini-Ratna (Category 1) Company under the Ministry of Defence and is engaged in design, manufacturing, sales and after-sales-service of a wide range of construction and mining equipment, defence products and rail and metro coaches. In addition, the company also provides engineering solutions in certain specialized areas such as automotive and aeronautics. The newly formed trading division of the company deals in third party products catering to the requirements of its domestic and overseas customers. The company has four manufacturing facilities in Bangalore, Mysore and Kolar Gold Fields, in Karnataka and Palakkad in Kerala.

Global Operations:

- BEML's products are also exported to the countries across the world particularly in the West Asia, North and South Africa and Latin America.
- In order to tap the vast market potential in contract mining segment, BEML has entered into a JV with M/s Midwest Granite, Hyderabad and M/s SMJ, Malaysia.
- BEML Brazil Participacoes Ltda was registered at Victoria State, Brazil for marketing BEML range of Construction and Mining equipment in Brazil and other Latin American countries.

Detailed financial statements (Standalone)

Income Statement

Exhibit 20

(Rs crore)	FY07	FY08	FY09P	FY10E	FY11E
Gross Sales	2,602	2,713	3,013	3,616	4,339
Less : Value of consortium supply	-	-	83	-	-
Excise Duty	178	174	134	260	311
Net Sales	2,424	2,540	2,797	3,357	4,028
Var %	17.7%	4.8%	10.1%	20.0%	20.0%
Other Income	55	95	110	110	110
Total Income	2,479	2,634	2,907	3,467	4,138
Expenditure					
Increase/(Decrease) in work-in-progress/ Finished goods	11	(114)	(281)	(281)	(300)
Raw material cost	1,484	1,610	1,779	2,035	2,442
Purchase of traded goods	-	-	72	86	104
Employees remuneration and Benefits	364	447	569	669	769
Other expenses	288	312	314	377	452
Less: Expenditure allocated to capital and other accounts	(3)	(0)	-	-	-
Operating expenditure	2,144	2,254	2,453	2,887	3,467
Var %	17.8%	5.1%	8.8%	17.7%	20.1%
EBITDA	280	286	344	470	561
% Margin	11.5%	11.3%	12.3%	14.0%	13.9%
Var %	17.0%	2.1%	20.4%	36.6%	19.4%
Depreciation	14	18	27	40	46
EBIT	266	268	317	430	515
PBIT	322	363	427	540	625
Financial Expenses	6	23	39	20	10
Prior period adjustments	0	-8	0	0	0
PBT	316	348	387	520	615
Taxation	111	122	119	182	215
Profit after taxation	205	226	269	338	399
% Margin	8.5%	8.9%	9.6%	10.1%	9.9%
Var%	9.6%	10.1%	19.1%	25.7%	18.2%
Number of equity shares (Cr)	3.7	3.7	4.2	4.2	4.2
Basic EPS	55.6	61.2	64.4	80.9	95.6
Diluted EPS	55.6	61.2	64.4	80.9	95.6

Source: DCSEC Research

Balance Sheet

Exhibit 21

(Rs crore)	FY07	FY08	FY09P	FY10E	FY11E
Shareholder's Fund					
Share Capital	37	42	42	42	42
Reserve and Surplus	997	1,664	1,836	2,109	2,432
Networth	1,033	1,706	1,877	2,151	2,474
Secured Loans	26	303	203	103	53
Total Debt	26	303	203	103	53
Deferred tax liability	1	-	-	-	-
Sources of Funds	1,060	2,009	2,081	2,254	2,527
Application of Funds					
Fixed assets					
Gross Block	596	680	880	1,290	1,490
Less: Depreciation	453	470	497	537	583
Net Block	144	211	383	753	907
Capital WIP	28	25	-	-	-
Investments	3	8	8	8	8
Current assets, Loans and Advance					
Inventory	729	930	1,100	943	1,151
Sundry debtors	904	1,496	1,200	1,609	1,931
Cash and Bank Balances	348	521	527	284	181
Other current assets	6	19	20	21	24
Loans and Advances	84	155	161	174	195
Less: Current Liabilities and Provisions					
Current Liabilities	1155	1304	1248	1463	1784
Provisions	50	68	70	76	85
Net current assets	867	1,749	1,689	1,493	1,612
Deferred tax assets	-	3	-	-	-
Miscellaneous Expenditure	19	14	0	0	0
Application of Funds	1,060	2,009	2,081	2,254	2,527

Source: DCSEC Research

Cash Flow Statement

Exhibit 22

(Rs crore)	FY07	FY08	FY09P	FY10E	FY11E
Net Profit	205	226	269	338	399
Add:					
Depreciations	14	18	27	40	46
Amortization	20	15	-	-	-
Profit/Loss on sale of investments / fixed assets	(0)	0	-	-	-
Increase in deferred tax liability	0	(1)	-	-	-
Increase in deferred tax assets	-	(3)	-	-	-
Profit before working capital changes	238	254	296	378	446
Increase/Decrease in working capital	(178)	(729)	69	(37)	(208)
Cash flow from operations	60	(474)	365	341	238
Cash flow from investing activities					
Purchase of fixed assets	(42)	(80)	(200)	(410)	(200)
Sales of fixed assets	0	0	-	-	-
Purchase of investments	-	(5)	-	-	-
Net cash from investing activities	(42)	(85)	(200)	(410)	(200)
Cash flow from financing activities					
Share Issue expenses	-	(13)	-	-	-
Increase in capital	-	5	-	-	-
Share Premium	-	522	-	-	-
Dividend Paid	(51)	(58)	(59)	(73)	(91)
Proceeds from borrowings	1	278	(100)	(100)	(50)
Net cash flow from financing activities	(50)	733	(159)	(173)	(141)
Increase/Decrease in Cash	(32)	173	6	(243)	(103)
Opening cash Balance	380	348	521	527	284
Closing cash Balance	348	521	527	284	181
Free cash flow	18	(560)	165	(69)	38
FCFF	16	(531)	(733)	(870)	(539)
FCFE	13	(268)	(861)	(983)	(595)

Source: DCSEC Research

Ratio Analysis

Exhibit 23

(Rs crore)	FY07	FY08	FY09P	FY10E	FY11E
Margin Ratios (%)					
EBITDA Margin	11.5	11.3	12.3	14.0	13.9
EBIT Margin	11.0	10.6	11.3	12.8	12.8
PBT Margin	13.0	13.7	13.9	15.5	15.3
PAT Margin	8.5	8.9	9.6	10.1	9.9
Solvency Ratios (X)					
Debt/Equity	0.0	0.2	0.1	0.0	0.0
Net debt/Equity	(0.3)	(0.1)	(0.2)	(0.1)	(0.1)
EBITDA/Interest	49.9	12.4	8.8	23.6	54.5
EBIT/Interest	47.5	11.6	8.1	21.6	50.1
Debt/EBITDA	0.1	1.1	0.6	0.2	0.1
Valuation Ratio (X)					
P/E	19.5	19.4	16.9	13.5	11.4
P/BV	4.4	2.7	2.4	2.1	1.8
EV/EBITDA	15.1	15.1	12.3	9.3	7.9
Du- Pont Analysis/Profitability Ratio					
Tax Burden (%)	78.6	89.1	96.9	82.4	79.2
Interest Burden (%)	97.8	94.4	87.6	95.4	98.0
EBIT Margin (%)	11.0	10.6	11.3	12.8	12.8
Asset turnover ratio (X)	2.5	1.7	1.4	1.5	1.7
Leverage ratio (X)	1.0	1.1	1.1	1.1	1.0
ROE (%)	21.4	16.5	15.0	16.8	17.3
ROCE (%)	16.3	8.7	10.6	12.4	13.2
Per share (Rs)					
Basic EPS	55.8	56.1	64.6	80.9	95.6
Diluted EPS	55.8	56.1	64.6	80.9	95.6
CEPS	59.2	58.3	70.9	90.5	106.7
BVPS	280.6	408.3	449.4	515.0	592.3
Turnover Ratio					
Inventory Turnover (X)	2.2	1.8	1.5	1.8	2.1
Days of Inventory on Hand	168.3	202.4	235.9	202.6	170
Receivable Turnover (X)	2.9	2.1	2.1	2.4	2.3
Average Collection Period	126.1	172.5	175.9	152.7	160.4
Payable Turnover (X)	1.3	1.4	1.4	1.2	1.5
Number of days of payable	271.0	264.6	267.6	293.7	241.5
Operating Cycle (X)	294	375	412	355	331

Source: DCSEC Research

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