

INDUSTRY	REAL ESTATE		
CMP (as on 19 Mar 2018)	Rs 542		
Fair Value	Rs 713		
Nifty	10,094		
Sensex	32,923		
KEY STOCK DATA			
Bloomberg	NSE IN		
No. of Shares (mn)	70		
MCap (Rs bn) / (\$ mn)	39/592		
6m avg traded value (Rs mn)	37		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 650/455		
	3M	6M	12M
Absolute (%)	6.1	(2.8)	14.7
Relative (%)	8.8	(4.4)	3.6
SHAREHOLDING PATTERN (%)			
Promoters	68.18		
FIs & Local MFs	5.46		
FPIs	2.04		
Public & Others	24.32		
<i>Source : BSE</i>			

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Capitalizing on location!

We recently met the management of NESCO and were impressed by the company's execution skills and its longer term vision. NESCO leases out IT office space (0.8 msft) and exhibition centers (0.6 msft) in Goregaon (Mumbai) off the Western Express highway on a legacy land parcel of 65 acres.

NESCO is at an advanced stage of constructing the IT Park 4 (1.2 msft), which it expects to lease out from 1QFY20 onwards. IT Park 4 will provide a significant step up to earnings as project will add ~1.4bn in revenues in FY21E. At 95% occupancy and assuming EBIT margins of 85%, this asset is estimated to yield a pre-tax ROCE of 26.1%.

Beyond IT Park 4, NESCO aims to develop, additional IT buildings as well as exhibition, convention and hospitality spaces. Given high re-investment potential (on hitherto under-exploited land), a clean balance sheet (no debt, negative working capital) and a conservative management, we believe the stock can compound at ~15%+ pa for several years.

We estimate 18/16% revenue/PAT CAGR over FY18-FY21E. At Rs 542, NESCO trades at 24.6/21.4/14.8x FY19/20/21E EPS. Our SOTP based Mar-20 fair value for the stock is Rs 713 implying a 14.7% investment CAGR over the next two years. We believe that the target price may be achieved earlier as construction of IT Park 4 nears completion (est. Dec'18-Mar'19).

Key highlights

- **IT Park 4 set to complete:** NESCO currently has two buildings (IT Parks 2 & 3 totaling ~0.8msft) leased out

to marquee tenants. The construction of IT Park 4 (~1.2msft) is set to complete by Dec-18. By 4QFY21E, the property should generate rental income ~Rs 423mn/qtr on an investment of Rs 5.5bn.

- **New Business Exhibition Center (NBEC) phases 1-4 on drawing board; NBEC1 plans to be crystallized by Dec 18:** NESCO has long term plans to invest ~Rs 30bn over the next 15-20 years on developing additional phases of NBECs. In the near term it will firm up plans and obtain approvals for NBEC 1 (~0.9msft). Construction for this Rs 8bn expansion is expected to commence in 1HCY2019. We believe that these plans provide long term re-investment visibility in a high return business.
- **Strong balance sheet with superior return ratios and re-investment opportunities:** NESCO operates with a negative working capital (-25 days FY17), debt-free balance sheet with cash equivalents of ~Rs.4.9bn in FY17. The high return yielding re-investment opportunity makes the stock even more attractive. We expect NESCO to deliver RoE of 22.0% and RoIC of 30.2% in FY21E.

Financial Summary

(Rs mn)	FY17	FY18E	FY19E	FY20E	FY21E
Net Sales	3,114	3,158	3,206	3,866	5,176
EBITDA	2,146	2,174	2,131	2,659	3,812
APAT	1,698	1,658	1,551	1,787	2,586
Diluted EPS (Rs)	24.1	23.5	22.0	25.4	36.7
P/E (x)	22.5	23.0	24.6	21.4	14.8
EV / EBITDA (x)	15.5	16.0	16.8	13.0	8.5
RoE (%)	22.2	18.7	16.2	17.2	22.0

Source: Company, HDFC sec Inst Research

Jethabhai V Patel started 'Standard Engineering Company' a small engineering workshop with 5 workmen in a hired premises at Byculla, Mumbai in 1939

Company background

- New Standard Engineering Company Ltd was founded in 1939 and in January 2001 it was renamed as NESCO Ltd. The company leases out IT parks on a license basis, and exhibition and convention center spaces. NESCO also manufactures machinery, equipment and capital goods for the surface preparation and allied sectors.
- The Company, through its subsidiary, NESCO Hospitality Pvt Ltd, is engaged in the business of providing hospitality services like food courts and day care centers
- NESCO's segments include NESCO IT Park, Bombay Exhibition Centre, Hospitality, and Industrial Capital Goods Division.

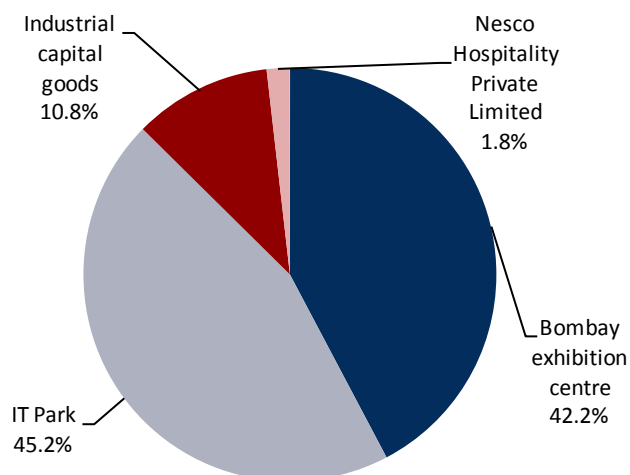
- The engineering group of the company provides equipment to the Indian Railways, ordnance factories and forging plants. It provides equipments such as forging hammers and presses, blowroom lines and production cards for the textile industry, and sucker rod pumps for on-shore oil recovery.

Revenue break-up

NESCO operates in largely four business verticals.

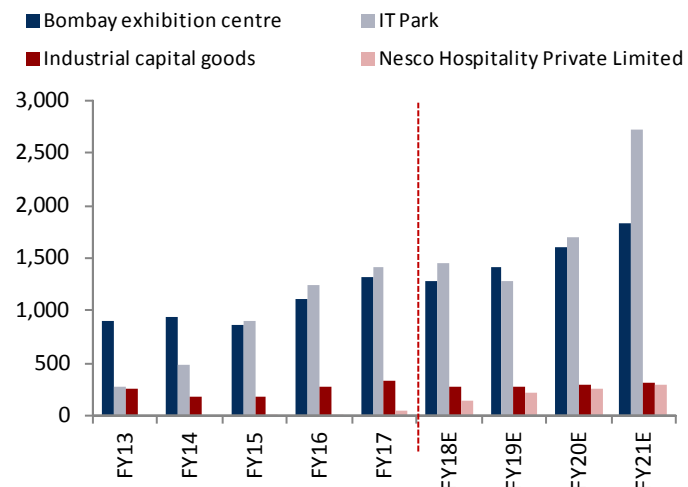
- Bombay Exhibition Centre (~42% of revenues)
- IT Park (~45% of revenues)
- Industrial Capital Goods (~11% of revenues)
- NESCO Hospitality Services (~2% of revenues)

Revenue mix as on FY17



Source: Company, HDFC sec Inst Research

Segmental revenue trend



Source: Company, HDFC sec Inst Research

We estimate IT Park/BEC revenues to grow at a CAGR of 23/13% for FY18-21. While the consolidated revenues to grow at a CAGR of 18% for the same period

Segment Revenue	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E	FY21E
Bombay exhibition centre	905	949	859	1,118	1,328	1,283	1,414	1,613	1,830
% YoY	3.8%	4.8%	-9.5%	30.2%	18.7%	-3.3%	10.1%	14.1%	13.4%
% of total	63.1%	58.9%	44.1%	42.0%	42.2%	40.6%	44.1%	41.7%	35.3%
IT Park	279	478	907	1,244	1,419	1,458	1,291	1,695	2,722
% YoY	4.3%	71.7%	89.6%	37.2%	14.1%	2.7%	-11.4%	31.3%	60.6%
% of total	NA	29.7%	46.6%	46.7%	45.2%	46.2%	40.3%	43.8%	52.6%
Industrial capital goods	251	184	179	279	339	275	288	303	318
% YoY	-1.7%	-26.7%	-2.6%	56.0%	21.3%	-19.0%	5.0%	5.0%	5.0%
% of total	17.5%	11.4%	9.2%	10.5%	10.8%	8.7%	9.0%	7.8%	6.1%
NESCO Hospitality	NA	NA	1	22	57	142	213	256	307
% YoY	NA	NA	NA	3555.7%	154.7%	150.0%	50.0%	20.0%	20.0%
% of total	NA	0.0%	0.0%	0.8%	1.8%	4.5%	6.6%	6.6%	5.9%
Total Revenues	1,435	1,611	1,945	2,664	3,143	3,158	3,206	3,866	5,176
% YoY	2.9%	12.3%	20.7%	37.0%	18.0%	0.5%	1.5%	20.6%	33.9%

IP Park/BEC EBIT to grow at a CAGR of 20/12% for FY18-21E. While the consolidated EBIT to grow at 17% CAGR for the same period

Segmental EBIT	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E	FY21E
Bombay exhibition centre	1,100	1,177	697	954	1,029	967	1,037	1,198	1,375
EBIT %	121.5%	124.0%	81.1%	85.3%	77.5%	75.4%	73.3%	74.2%	75.2%
% YoY	14.8%	7.0%	-40.8%	36.9%	7.9%	-6.0%	7.1%	15.6%	14.8%
IT Park	NA	NA	731	1,060	1,253	1,335	1,175	1,431	2,294
EBIT %	NA	NA	80.6%	85.2%	88.3%	91.6%	91.0%	84.4%	84.3%
% YoY	NA	NA	NA	45.0%	18.3%	6.5%	-12.0%	21.8%	60.3%
Industrial capital goods	44	-6	-4	2	3	-5	3	3	3
EBIT %	17.7%	-3.5%	-2.2%	0.9%	1.0%	-1.9%	1.0%	1.0%	1.0%
% YoY	81.8%	-114.4%	-39.0%	-161.2%	42.9%	-252.4%	-155.5%	5.0%	5.0%
NESCO Hospitality	NA	NA	-1	0	7	21	43	51	61
EBIT %	NA	NA	-213.3%	0.5%	12.6%	15.0%	20.0%	20.0%	20.0%
% YoY	NA	NA	NA	-108.9%	6065.5%	197.8%	100.0%	20.0%	20.0%
Total EBIT	1,144	1,170	1,422	2,016	2,293	2,319	2,257	2,683	3,734
Total EBIT %	79.7%	72.6%	73.1%	75.7%	73.0%	73.4%	70.4%	69.4%	72.1%
% YoY	16.5%	2.3%	21.6%	41.7%	13.7%	1.1%	-2.7%	18.9%	39.2%

NESCO: The Story So Far

YEAR	MILESTONE
1939	Jethabhai V Patel started 'Standard Engineering Company' a small engineering workshop with 5 workmen in a hired premises at Byculla, Mumbai
1950's	Expanded operations to Parel and SantaCruz with foundry, fabrication, machining and assembly facilities for manufacture of capital equipments
1960's	The company went public with equity shares, purchased ~ 70 acres land at Goregaon, Mumbai
1970's	Acquired land at Karamsad, Gujarat and expanded manufacturing operations to Gujarat
1990's	Diversified into Exhibition & Convention Centre. Retained the surface preparation equipment business and shifted to Gujarat. Acquired land at Vishnoli, Gujarat
2000's	The name of the company was changed from New Standard Engineering Co Ltd to NESCO Ltd in January 2001. Further diversified into Private IT Park
2010's	IT Park 3 was established over an area of 650,000 sq.ft. and the whole area was leased out to various companies
2014	NESCO Hospitality Pvt Ltd is 100% subsidiary of NESCO was incorporated on 26 December 2014 with a motto to serve healthy food to the employees and guests arriving in the NESCO compound for exhibitions as well as for work

Source: Company, HDFC sec Inst Research

NESCO: The key management personnel

Name	Designation	Brief Profile
Sumant Patel	Executive Chairman	Over 50 years of experience in exhibition and real estate industry, Mr.Patel transformed NESCO from purely engineering company to a diversified company
Krishna S Patel	Managing Director	Member of board since 2008
Mahendra. K.Chauhan	Independent Director	Holds B Sc, MBA(Finance),Member of board since 2005
K S Srinivasa Murty	Independent Director	
Sudha S Patel	Non Executive Director	
Dipesh R Singhania	Chief Financial Officer	
Jinal J Shah	Company Secretary	

Source: Company, HDFC sec Inst Research

NESCO owns 65-acre plot in close proximity to the airport and has good suburban rail connectivity. The company has built an exhibition center and IT park which it leases out

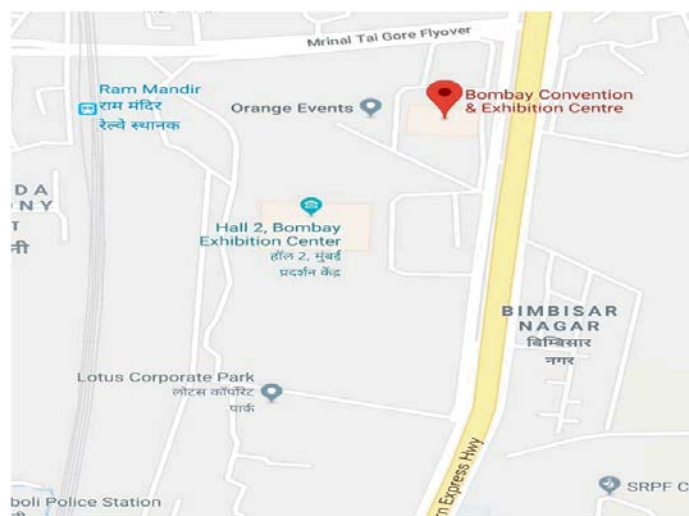
NESCO currently has two buildings (IT park 2 & 3 totaling ~0.8msft) leased out to marquee tenants. Tenant list includes Blackrock, HSBC, MSCI, KPMG, PWC, Intelenet etc

Investment arguments

Strong, stable rent yielding existing portfolio

- NESCO Ltd. (Renamed from New standard Engineering Company Ltd.), owns a 65-acre land parcel near Mumbai’s airport. The company has built exhibition centers and IT parks which it leases out. Bombay Exhibition Centre is the largest private sector exhibition center and commenced operations in 1991.
- The 65-acre plot is in close proximity to the airport and has good suburban rail connectivity as well as excellent road connectivity. Recently Western Railway has constructed a new railway stop - Ram Mandir, adjacent to the plot improving connectivity further. The Western Express Highway runs along the plot making road access convenient.

New Business Exhibition Center



Source: Company, HDFC sec Inst Research

IT Park division

- NESCO currently has two buildings (IT park 2 & 3 totaling ~0.8msft) leased out to marquee tenants such as Blackrock, HSBC, MSCI, KPMG, PWC, and Intelenet, etc.
- For FY16/17 the division has generated revenues and EBIT of Rs 1.2/1.4bn and Rs 1.1/1.3bn respectively implying FY16/17 margins of 85.2/88.3%. We expect the division to continue to grow FY18E-21E revenues and EBIT at a CAGR of 23% and 20% respectively.
- NESCO last added IT park 3 (0.65msft) in FY13 for ~Rs 1.1bn. IT Park 3 currently generates a rental income of ~Rs 1bn in FY17.
- For FY19E we expect a drop in rental revenue by ~Rs 160mn as IT Park 1 goes into re-development (the space will be used in the development of New Business Exhibition Center 1).

IT Park – 3



Source: Company, HDFC sec Inst Research

NESCO has consistently maintained its leadership position in this segment. Over the years the company has added several new clients, such as Google India, JP Morgan, Engineering Export Promotion Council etc

NESCO IT Park 4 (~1.2msft) is 65% complete as of Dec 2017. Management expects to complete construction by Dec 2018. When fully leased out by 4QFY21E, the property should generate rental income ~Rs 423mn/qtr on an investment of Rs 5.5bn

IT Park - 3



Source: Company, HDFC sec Inst Research

Bombay exhibition center (BEC):

- NESCO currently has about 0.6msft (0.48msft in FY17) of usable area from which it generates exhibition and convention revenues. For FY17 BEC has generated revenues of ~Rs 1.3bn (+18.7% YoY) and EBIT of Rs 1.0bn (+7.9% YoY), on an extremely low closing capital employed of only Rs 83mn.
- With additional space coming online we expect FY19E revenues/EBIT from this division to grow to Rs 1.4bn (+10.1% YoY)/Rs 1bn (+7.1% YoY). We expect a revenue/EBIT FY18E-21E CAGR of 13/12% respectively.
- NESCO has consistently maintained its leadership position in this segment. Over the years the company has added several new clients, such as Google India, JP Morgan, Engineering Export Promotion Council etc.

Total No of conventions and exhibitions held at BEC

Year	No of conventions & exhibitions held	No of new client addition	New clients added
FY12	116	48	Engineering Export Promotion Council, The Energy Resources Institution & Multimedia
FY13	95	34	Trade Association of Information Technology and Google India
FY14	114	37	Sugar Technology, Steel Technology and Concrete Technology
FY15	130	37	LED Technology, Ecobuid India 2014, AISA Coat and Ink Show 2015
FY16	156	33	Infinity Exhibitions & Conferences, JP Morgan, V-Rock Entertainment
FY17	109	27	Business Live, Radeecal Exhibitions, Times Conferences and Sumansa Exhibitions

Source: Company, HDFC sec Inst Research

NBEC1 plans to be crystallized by Dec 18: By Dec 2018, NESCO will have firmed up plans and will be obtaining approvals for NBEC 1 (~0.9msft). NBEC 1 construction is expected to cost ~Rs 8bn and will take about 3-4 years to complete

NESCO has long term plans to develop additional phases of NBECs. For all the 4 phases the company is expected to invest ~Rs 30bn over the next 15-20 years

IT Park 4 near completion

- NESCO IT Park 4 (~1.2msft) is 65% complete as of Dec 2017. Management expects to complete construction by Dec 2018. When fully leased out by 4QFY21E, the property should generate rental income ~Rs 423mn/qtr on an investment of Rs 5.5bn. Future phases of IT parks are also being planned.

IT Park - 4



Source: Company

- NESCO has already spent ~Rs 3.5bn on the construction of this building. Tenants and lease deals will be finalized when building is closer to completion. The company expects that it will take about two years to ramp up occupancy.
- Current rental expectations are at ~Rs 150/sft/pm, we have built in Rs 120/sft/pm.

IT Park - 4



Source: Company

We value surplus land at Rs 5.6bn, 50% discount to the current market value of the unused land owned by the company

Nesco has commissioned two food courts and started food services within the Nesco Complex.

New Business Exhibition Center (NBEC) 1 plans to be crystallized by December 2018; NBEC 2-4, future expansion also under consideration.

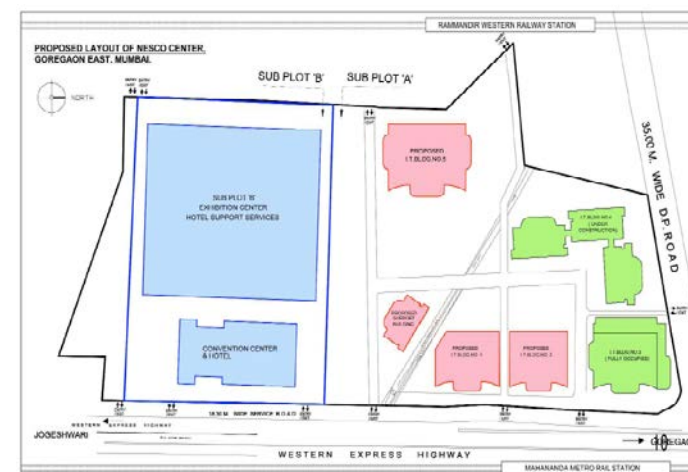
- **NBEC1 plans to be crystallized by Dec 18:** By Dec 2018, NESCO will have firmed up plans and will be obtaining approvals for NBEC 1 (~0.9msft). NBEC 1 construction is expected to cost ~Rs 8bn and will take about 3-4 years to complete. Construction is expected to commence in 1HCY2019.
- In phase 1 the company is planning hotel and convention space. NESCO’s clients have been asking for development of an ecosystem- accommodation and eating options in the vicinity. We believe hotel and food courts will have bright economic prospects given the captive clientele of the IT parks, and visitors, organizers and exhibitors of the exhibition business.
- **NBEC phases 2-4 on drawing board:** NESCO has long term plans to develop additional phases of NBECs. For all the 4 phases the company is expected to invest ~Rs 30bn over the next 15-20 years.
- These expansion plans offer high return re-investment potential. NESCO plans to fund these expansions completely through internal accruals without taking debt or raising additional equity.
- We have not built in NBEC1-4 in our projections but are adding an option value for this additional developmental potential to our SOTP.
- We value this potential at Rs 5.6bn, 50% discount to the current market value of the unused land owned by the company.

Valuation for Additional land

Valuation for Additional Land	Rs mn
Additional land to be developed (sq. mt.)	90,985
Additional land to be developed (acres)	22
Land price (Rs Mn. per acre)	500
Land value of future developmental potential (Rs mn.)	11,216
Discount applied	50%
Discounted value included in SOTP (Rs Mn.)	5,608

Source: Company, HDFC sec Inst Research

Proposed layout of NESCO Center



Source: Company

NESCO operates with a negative working capital (-25 days FY17), debt-free balance sheet with cash equivalents of Rs4.9bn in FY17

Other divisions: NESCO hospitality and Industrial capital goods

- **NESCO Hospitality:** NESCO has commissioned two food courts and started food services within the NESCO Complex. The company's target segments are exhibition organizers, exhibitors, visitors and employees working in NESCO IT Park. Given the lack of quality eating options in the vicinity we believe business potential will be strong for these services.
- NESCO has also set up a large kitchen facility which has the capacity to produce about 15,000 meals per day at an investment of ~Rs 150mn.
- For FY17 this division has generated revenues and EBIT of Rs 57mn and Rs 7mn respectively.
- **Industrial capital goods:** The engineering group of the company provides equipment to the Indian Railways, ordnance factories and forging plants. The division manufactures tools such as forging hammers and presses, blowroom lines and production cards for the textile industry, and sucker rod pumps for on-shore oil recovery.

Strong balance sheet, superior return ratios

- NESCO operates with a negative working capital (-25 days FY17), debt-free balance sheet with cash equivalents of Rs4.9bn in FY17. We expect the company to deliver RoE of 22.0% and RoIC of 30.2% in FY21E, from the FY18E RoE and RoIC of 18.7% and

26.7% respectively. FY18E return ratios have also been weighed down by the investment in IT Park 4 which is yet to become operational.

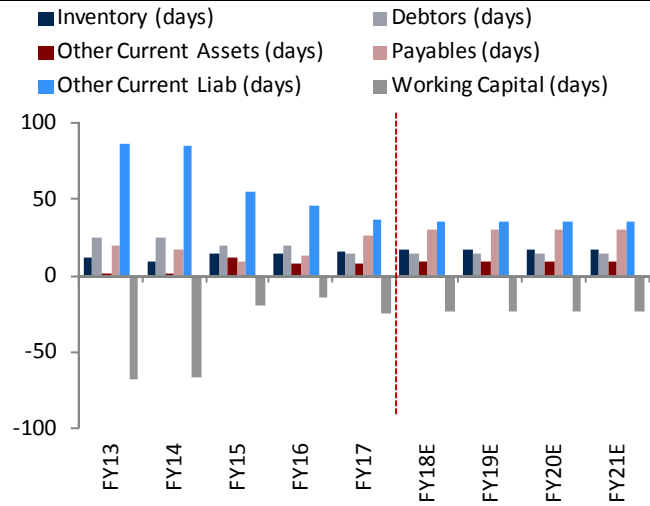
- The company plans to fund the construction of additional phases of IT parks and NBECs completely through internal accruals, and without debt or issuance of additional equity. This enhances per share value.
- One may also argue that NESCO should be more aggressive on its development plans and should be building out NBEC 1-4 at a much faster pace but this would involve taking debt. Management is too conservative in this respect. We believe a little calculated aggression on this front could help enhance shareholders returns.
- Management should also seriously consider converting to REIT. REITs enjoy significant tax benefits; few major ones are listed below:
 - Pass through status of rental income in the hands of REIT. Thus rental income generated by REIT would not be taxable in the hands of the REIT.
 - Distribution of rental income by REIT to the REIT unit holders is chargeable to tax in the hands of the REIT unit holders on distribution and also attracts tax withholding at 10%. Thus a REIT does not have to pay dividend distribution tax and a credit of the tax withheld may be claimed by the REIT unit holder.

Consistently negative working capital

Capex high for FY19E as company completes IT Park 4

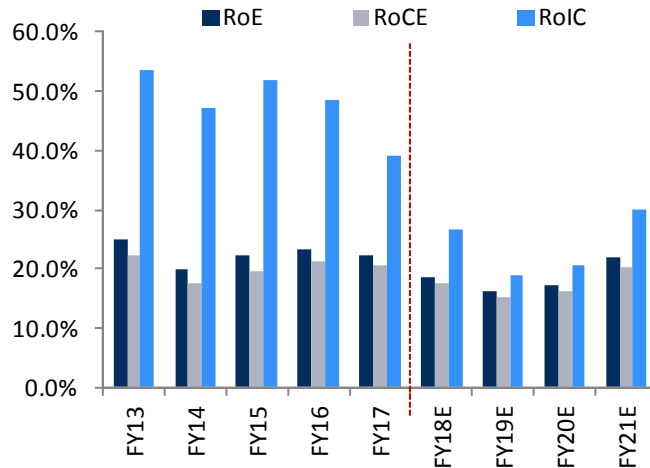
ROICs depressed for FY18E-FY20E as IT Park 4 still has to contribute significantly to revenues

Movement of working capital



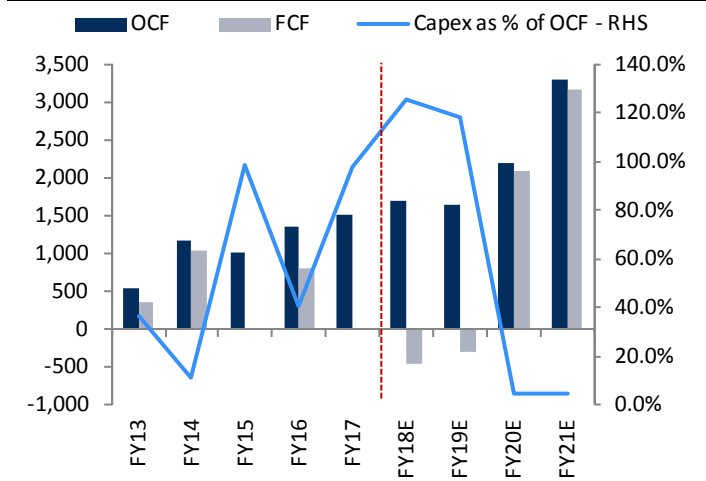
Source: Company, HDFC sec Inst Research

Return ratios



Source: Company, HDFC sec Inst Research

OCF, FCF and capex as % of OCF



Source: Company, HDFC sec Inst Research

Outlook and valuation

- We value NESCO on a SOTP basis.
- We have used a 9% cap rate for the real estate assets.
- The hospitality business is a fast growing business and we have given it a multiple of 20x.
- Currently unused land but which will be developed / re-developed has been valued after discounting market value by ~50%.
- Cash and cash equivalents have been added after reducing the value of deposits re-payable to lessee.
- The unallocated expenses have been capitalized at a multiple of 10x and reduced from total value.
- Our SOTP based target price for FY20 is Rs 713/share (14.8x FY21E EPS).

Sensitivity analysis

Growth in rental income	Capitalisation rate			
	713	7%	9%	11%
	1%	863	701	598
	3%	878	713	608
	5%	893	725	617

SOTP valuation

Segment	Revenues			NOI			Cap Rate / Multiple	Asset Value			Per share		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E		FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
IT Park	1,291	1,695	2,722	1,175	1,431	2,294	9%	13,055	15,900	25,492	185	226	362
BEC	1,414	1,613	1,830	1,037	1,198	1,375	9%	11,518	13,309	15,281	163	189	217
Hospitality	213	256	307	43	51	61	20	852	1,022	1,227	12	15	17
Construction potential								5,608	5,608	5,608	80	80	80
Cash & Equivalents less deposits								3,085	2,941	5,104	44	42	72
Less: unallocated expenses				250	250	250	10	(2,500)	(2,500)	(2,500)	-35	-35	-35
Valuation								31,618	36,281	50,213	449	515	713
CMP													542
Upside/Downside													31.5%
2 year return CAGR													14.7%

Source: HDFC sec Inst Research

IT Park 4 completion and additional capacity coming in from Reliance need to be monitored

Risks to our investment thesis

- **Delays in construction and leasing of IT park 4:** We have built in a completion time line of 4QFY19. Our leasing timeline has built in 95% occupancy by 4QFY21. Any delays in these timelines will affect earnings and valuations.
- **A macro slowdown may affect offtake of exhibition space:** Management indicated that in the current environment the company is seeing a general slowdown in clients actually reserving spaces for exhibitions. Clients have been only reserving minimum required space. An extended slow environment may prove detrimental to NESCO's earnings.
- **Additional capacity of Reliance coming up at BKC:** RIL is constructing additional exhibition and convention centre of ~0.3msft at BKC. The completion of this center has been delayed by a number of years, whenever launched this center will compete with NESCO's BECs. NESCO management has indicated that exhibitions that do not involve fabrication of stalls may also be conducted at Reliance's new convention center and some of them may also move there; implying pricing pressure for such exhibitions. Having said that the timelines of construction completion and commencement of operation by Reliance convention center are yet not clear.
- **Rise in interest rates:** As real estate rental assets are valued by capitalizing net operating incomes. Any sharp increase in rates without any corresponding increase in rents may affect valuation of the stock.

Peer valuation

Particulars	CMP (Rs/Sh)	Mcap (Rs bn)	Rating	TP	EPS (Rs)			P/E (x)			EV/EBITDA (x)			RoE %		
					FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Oberoi Realty	494	167.6	NEU	487*	12.6	35.0	42.2	39.1	14.1	11.7	26.6	12.2	8.7	7.2	17.8	18.1
Phoenix Mills	609	93.2	NA	NA	17.7	23.7	28.7	34.4	25.6	21.2	14.2	12.5	11.2	11.0	12.7	13.9
NESCO	542	38.2	NA	NA	23.5	22.0	25.4	23.0	24.6	21.4	16.0	16.8	13.0	18.7	16.2	17.2

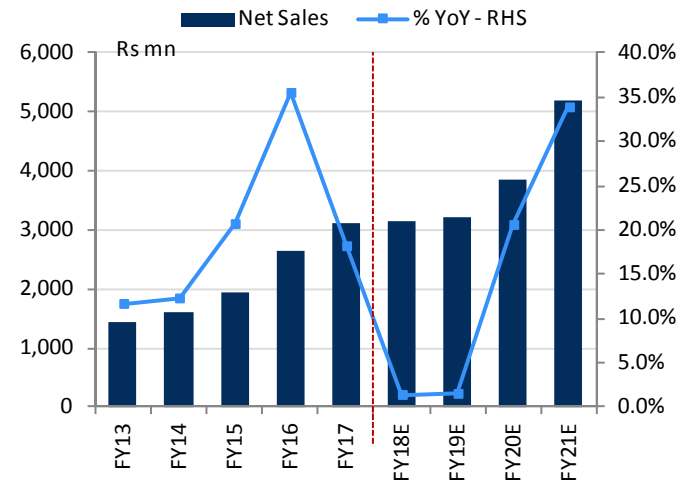
Source: HDFC sec Inst Research, Bloomberg, *Price Target as per last published report

We estimate NESCO revenues to grow at a CAGR of 18% for FY18-21E, and EBITDA to grow at a CAGR of 21% for the same period respectively. EBITDA margins likely to enhance to 73.6% vs. 68.9% in FY17

AEPS to grow from Rs 24 in FY17 to Rs 37 in FY21E, and Book Value per share will grow from Rs 121 in FY17 to Rs 179 in FY21E

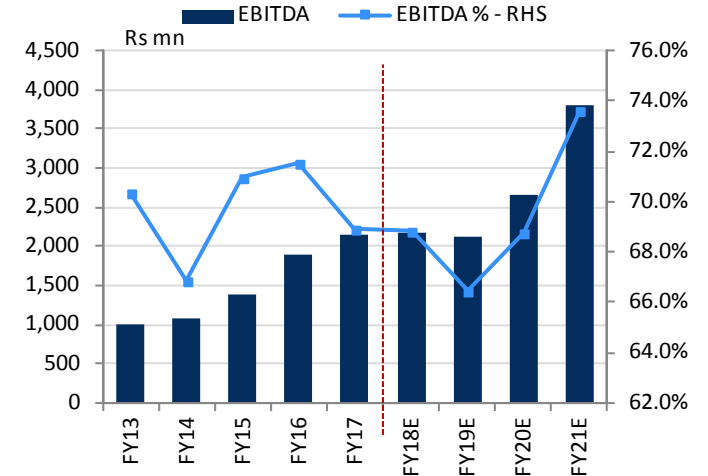
Yearly Performance

Net Revenue And Growth



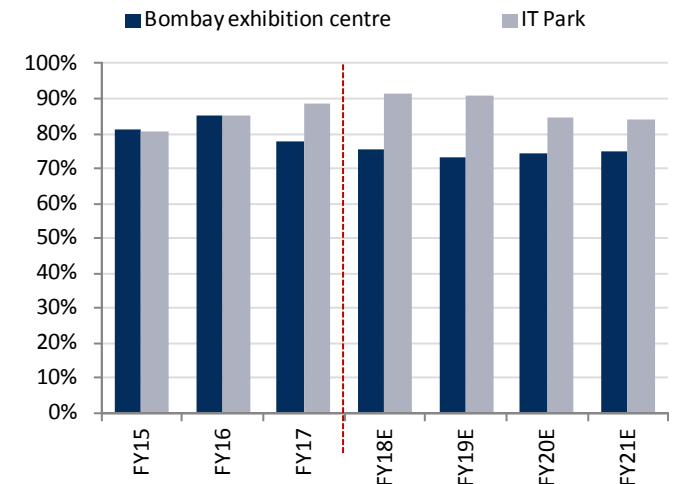
Source: Company, HDFC sec Inst Research

EBITDA And EBITDA Margin



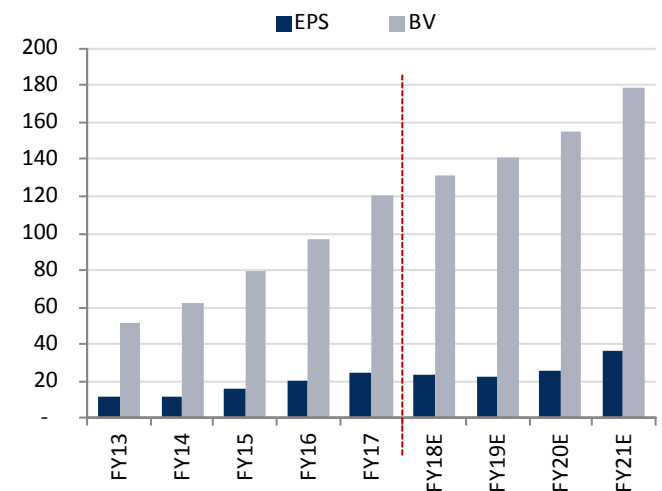
Source: Company, HDFC sec Inst Research

Major segment EBIT margin



Source: Company, HDFC sec Inst Research

EPS And BV On An Upward Trend



Source: Company, HDFC sec Inst Research

Income Statement

(Rs mn)	FY17	FY18E	FY19E	FY20E	FY21E
Net Revenues	3,114	3,158	3,206	3,866	5,176
Growth (%)	18.2	1.4	1.5	20.6	33.9
Raw Material Expenses	180	189	192	232	311
Employee Expenses	136	143	164	181	199
Other Operating Expenses	651	652	719	795	855
Operating Profits	2,146	2,174	2,131	2,659	3,812
Operating Profit Margin (%)	68.9	68.8	66.5	68.8	73.6
Other Operating Income	-	-	-	-	-
EBITDA	2,146	2,174	2,131	2,659	3,812
EBITDA Margin (%)	68.9	68.8	66.5	68.8	73.6
EBITDA Growth (%)	13.9	1.3	(2.0)	24.8	43.3
Depreciation	81	105	124	226	327
EBIT	2,065	2,069	2,007	2,433	3,484
Other Income (Including exceptional items)	430	366	281	190	289
Interest & Financial Charges	50	50	40	32	26
PBT	2,444	2,384	2,248	2,590	3,748
Tax	745	727	697	803	1,162
RPAT	1,699	1,658	1,551	1,787	2,586
EO (Loss) / Profit (Net Of Tax)	1	-	-	-	-
APAT	1,698	1,658	1,551	1,787	2,586
APAT Growth (%)	17.9	(2.4)	(6.5)	15.3	44.7
AEPS	24.1	23.5	22.0	25.4	36.7
EPS Growth (%)	17.9	(2.4)	(6.5)	15.3	44.7

Source: Company, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY17	FY18E	FY19E	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital	141	141	141	141	141
Reserves	8,369	9,097	9,803	10,744	12,485
Total Shareholders Funds	8,510	9,238	9,943	10,885	12,626
Long-term Debt	-	-	-	-	-
Short-term Debt	-	-	-	-	-
Total Debt	-	-	-	-	-
Other Financial Liabilities & Provisions	849	813	804	955	1,265
Other Non Current Liabilities	77	77	77	77	77
Net Deferred Tax Liability	273	273	273	273	273
TOTAL SOURCES OF FUNDS	9,708	10,400	11,096	12,189	14,241
APPLICATION OF FUNDS					
Net Block	1,878	2,623	2,699	8,123	7,946
CWIP	2,623	3,915	5,650	100	100
Loans & Deposits	28	28	28	28	28
Other Non Current Assets	499	524	550	577	606
Total Non-current Assets	5,028	7,089	8,927	8,828	8,680
Inventories	134	147	149	180	241
Debtors	121	130	132	159	213
Cash & Equivalents	4,884	3,512	2,371	3,617	5,931
Loans & Advances	92	94	96	98	100
Other Current Assets	73	77	81	85	89
Total Current Assets	5,305	3,960	2,829	4,139	6,574
Creditors	229	260	264	318	425
Other Current Liabilities	395	389	395	460	588
Total Current Liabilities	624	649	659	778	1,013
Net Current Assets	4,681	3,311	2,170	3,361	5,561
TOTAL APPLICATION OF FUNDS	9,708	10,400	11,096	12,189	14,241

Source: Company, HDFC sec Inst Research

Cash Flow

(Rs mn)	FY17	FY18E	FY19E	FY20E	FY21E
Reported PBT	2,444	2,384	2,248	2,590	3,748
Non-operating & EO Items	(463)	-	-	-	-
Interest Expenses	50	-	-	-	-
Depreciation	81	105	124	226	327
Working Capital Change	96	(64)	(35)	179	396
Tax Paid	(684)	(727)	(697)	(803)	(1,162)
OPERATING CASH FLOW (a)	1,526	1,699	1,639	2,192	3,309
Net Capex	(1,500)	(2,142)	(1,935)	(100)	(150)
<i>Free Cash Flow (FCF)</i>	<i>26</i>	<i>(442)</i>	<i>(296)</i>	<i>2,092</i>	<i>3,159</i>
Investments	(8)	1,438	1,400	-	-
Non-operating Income	(22)	-	-	-	-
INVESTING CASH FLOW (b)	(1,530)	(703)	(535)	(100)	(150)
Debt Issuance/(Repaid)	-	-	-	-	-
Interest Expenses	(1)	-	-	-	-
<i>FCFE</i>	<i>25</i>	<i>(442)</i>	<i>(296)</i>	<i>2,092</i>	<i>3,159</i>
Proceeds From Issue of Share Capital	-	-	-	-	-
Dividend	-	(930)	(845)	(845)	(845)
Others	-	-	-	-	-
FINANCING CASH FLOW (c)	(1)	(930)	(845)	(845)	(845)
NET CASH FLOW (a+b+c)	(4)	66	259	1,247	2,314
Opening Cash	50	45	112	371	1,617
Closing Cash	45	112	371	1,617	3,931

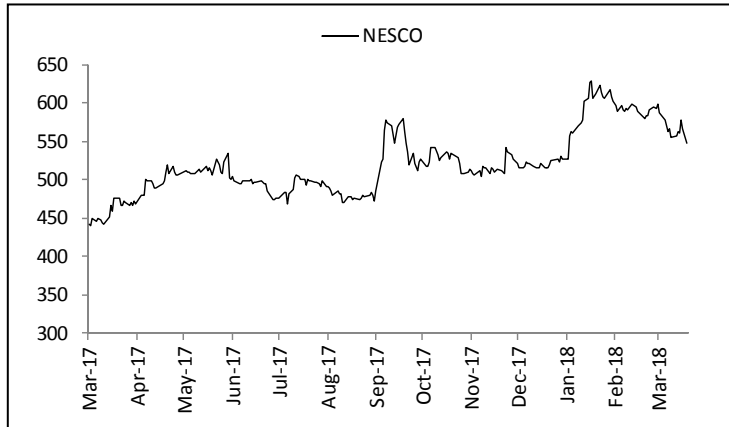
Source: Company, HDFC sec Inst Research

Key Ratios

	FY17	FY18E	FY19E	FY20E	FY21E
PROFITABILITY (%)					
GPM	94.2	94.0	94.0	94.0	94.0
EBITDA Margin	68.9	68.8	66.5	68.8	73.6
EBIT Margin	66.3	65.5	62.6	62.9	67.3
APAT Margin	54.5	52.5	48.4	46.2	50.0
RoE	22.2	18.7	16.2	17.2	22.0
Core RoCE	39.0	26.7	18.9	20.5	30.2
RoCE	20.7	17.7	15.4	16.2	20.4
EFFICIENCY					
Tax Rate (%)	30.5	30.5	31.0	31.0	31.0
Asset Turnover (x)	0.4	0.3	0.3	0.3	0.4
<i>Inventory (days)</i>	<i>16</i>	<i>17</i>	<i>17</i>	<i>17</i>	<i>17</i>
<i>Debtors (days)</i>	<i>14</i>	<i>15</i>	<i>15</i>	<i>15</i>	<i>15</i>
<i>Other Current Assets (days)</i>	<i>9</i>	<i>10</i>	<i>10</i>	<i>10</i>	<i>10</i>
<i>Payables (days)</i>	<i>27</i>	<i>30</i>	<i>30</i>	<i>30</i>	<i>30</i>
<i>Other Current Liab & Prov (days)</i>	<i>36</i>	<i>35</i>	<i>35</i>	<i>35</i>	<i>35</i>
Working Capital (days)	(25)	(23)	(23)	(23)	(23)
Debt/EBITDA (x)	-	-	-	-	-
Net D/E	(0.6)	(0.4)	(0.2)	(0.3)	(0.5)
Interest Coverage	40.9	41.0	49.7	75.3	134.8
PER SHARE DATA					
AEPS (Rs/sh)	24.1	23.5	22.0	25.4	36.7
CEPS (Rs/sh)	25.3	25.0	23.8	28.6	41.4
DPS (Rs/sh)	2.1	11.0	10.0	10.0	10.0
BV (Rs/sh)	120.8	131.1	141.1	154.5	179.2
VALUATION					
P/E	22.5	23.0	24.6	21.4	14.8
P/BV	4.5	4.1	3.8	3.5	3.0
EV/EBITDA	15.5	16.0	16.8	13.0	8.5
OCF/EV (%)	4.6	4.9	4.6	6.3	10.3
FCF/EV (%)	0.1	(1.3)	(0.8)	6.1	9.8
FCFE/MCAP (%)	0.1	(1.2)	(0.8)	5.5	8.3
Dividend Yield (%)	0.4	2.0	1.8	1.8	1.8

Source: Company, HDFC sec Inst Research

1YR PRICE MOVEMENT



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- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH

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