

Indices	Last Close	% Chg 1-d	% Chg mtd
Sensex	18,274	0.4	0.3
Nifty	5,481	0.5	(0.5)
CNX 500	4,385	0.4	(0.9)
BSE Bank	12,429	1.5	3.0
BSE IT	6,245	(0.4)	(2.0)
BSE Oil & Gas	9,497	1.9	0.2
Dow Jones	12,227	(0.3)	2.8
Nasdaq	2,804	(0.5)	3.9
FTSE	6,037	(0.4)	3.0
DAX	7,400	0.1	4.6

Mkt Breadth	Advance	Decline	Unchanged
Nifty	31	19	0
Sensex	16	14	0

Turnover	INR Bn	% Chg
BSE Cash	38	9.4
NSE Cash	135	4.6
NSE F&O	1,507	4.3
Total	1,680	

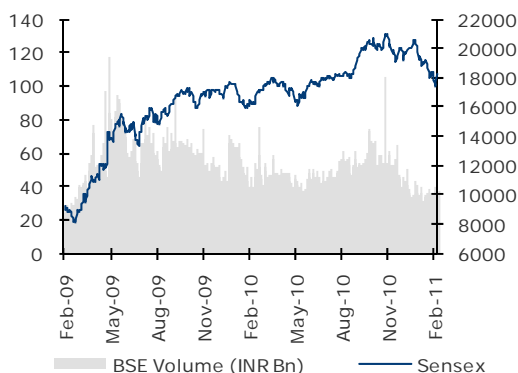
Fund Flows	US \$ mn	MTD	YTD
FII Equity	50	(319)	(1,706)
MF	56	99	230

Forex/Bond	Chg 1-d	Chg mtd
INR/USD	45.52	0.01 (0.39)
USD/EUR	1.352	0.00 (0.02)
YEN/USD	83.7	0.48 1.77
10 yr G-Sec	8.09	(0.03) (0.07)

Commodities	Last Close	% Chg 1-d	% Chg MTD
Brent (\$/bbl)	101.6	(1.4)	0.5
Gold (\$/oz)	1,372	0.6	2.6
Copper (\$/mt)	10,011	(1.5)	2.7
Aluminium (\$/mt)	2,505	(0.4)	(0.6)

ADR GDR	Scrip	Last Close*	% chg	% Prem.
	Dr Reddy's	33.4	(0.3)	(1.1)
	HDFC Bank	150.4	1.3	8.3
	ICICI Bank	46.2	0.2	(0.2)
	ITC	3.5	(0.5)	0.0
	Infosys	68.3	0.2	0.1
	Satyam	2.9	0.0	1.4
	Ranbaxy	11.4	(0.2)	0.8
	Reliance	41.5	2.4	0.2
	Wipro	13.0	1.3	38.6
	SBI	120.0	0.7	(0.2)
	Tata Motors	27.1	0.3	(0.4)

\* US\$

**Sensex**

**From the Research Desk**
**Reliance Communications – Q3FY11 Results Review**

Rcom's Q3FY11 revenue and EBITDA were below our expectations on account of poor operating performance in wireless business in a seasonally strong quarter. While the overall performance was significantly below peers, stable RPM, EBITDA margin in wireless business and improvement in Globalcom business were silver lining. Earnings were above expectation on account of lower finance charges at Rs1.3bn against expected Rs3bn. Management attributed lower finance cost to forex gain of Rs1bn. On operational front Rcom faces twin issues of bleak revenue growth and high leverage in addition to regulatory overhang. We downgrade our FY11/FY12 and subsequent year estimates and TP to Rs123 valuing it at 7x FY12E EV/EBITDA (20% discount to Bharti/Idea) against earlier 8.5x. We maintain Buy on Rcom in light of recent stock price correction.

**Tulip Telecom – Q3FY11 Results Review**

Tulip Telecom Q3FY11 results were in line with our expectation, with strong YoY growth in revenue, EBITDA and adjusted PAT of 20%, 27% and 19% respectively. Tulip continues to witness strong demand for its connectivity services. Progress on data center business remains on track. We reiterate our Buy rating on Tulip with revenue and earnings drivers in place, attractive valuations, superior execution track record and strengthening middle and top management team as key investment arguments. Tulip is currently trading at 6.8x FY12E earnings. We expect revenue and earnings CAGR of 15% and 28% over FY11-13 ex data center.

**IVRCL Infra – 3QFY11 Results Review**

IVRCL Infra's 3QFY11 results signal a recovery in execution in comparison to 1HFY11 when heavy monsoons and issues with its own projects caused a slowdown. IVRCL Infra posted revenues of Rs14bn (20% YoY, 32% QoQ), EBITDA of Rs1.4bn (47% YoY, 24% QoQ) and PAT of Rs422mn (82% YoY, -3% QoQ). Interest costs which grew by 23% YoY continues to hurt profitability. Order book stands at Rs242bn with water projects making up 50% of the book. We maintain a hold rating on the stock with a target price of Rs84/share.

**Bilcare – Q3FY11 Result Review**

Bilcare results for Q3FY11 were affected by high employee cost and operating expenses due to Ineos acquisition. Consolidated revenues grew by 149%YoY from Rs2.81bn to Rs7.01bn due to the acquisition of Ineos film division. Excluding Ineos, the revenue growth was 16%YoY. India sales grew by 17%YoY whereas global revenues (excluding Ineos) grew by 14%YoY. The company's EBITDA margin declined by 1130bps from 24.7% to 13.4% due to the overall increase in expenses. Personnel expenses increased by 630bps from 9.4% to 15.7% of total revenues due to additional salaries and bonus of Ineos employees. Bilcare's interest cost increased by 77% from Rs115m to Rs203m due to the rise in working capital and additional borrowing for Ineos acquisition. Depreciation was up by 58% from Rs143m to Rs226m due to additional depreciation of Ineos assets. Net profit grew by 13% from Rs314m to Rs353m. We maintain BUY rating for the scrip with target price of Rs808 over the next 12 months.

**Headlines**

- **Future Group** to spin off its consumer durable business Ezone into a separate entity. (ET)
- **CMS Info Systems** has received a Rs3bn order from BSNL to centralise its billing across three locations; Northeast, east and south for seven years. (BL)
- Environment Ministry has approved **Jindal Steel's** 6MTPA steel plant and 1000mw power plant at Orissa. (ET)
- **Cairn-Vedanta** deal may go to Cabinet in 2-3 weeks. (ET)
- **GMR Infrastructure** has raised around Rs5.2bn of debt from India Infrastructure Finance Co Ltd for modernising Delhi International Airport. (BS)
- **Cisco** has been chosen by Gujarat Telelinks Private Ltd. (GTPL) for cable digitisation across Gujarat, West Bengal, Maharashtra and Jharkhand. (BL)
- **Venus Remedies Limited** to enter super specialty oncology segment under the sub-business unit 'Passion Oncobiz' with a product basket of 21 products. (BS)
- **Fineotex Chemical's** IPO to open in the market on Feb 23, 2011 at a price band of Rs60-72. (FE)
- **Tata Steel's** consolidated net profit for 3QFY11 up 112% yoy at Rs10.03bn. (ET)
- **IL& FS Engineering and Construction Company Ltd.'s** net profit for 3QFY11 at Rs120m against a net loss of Rs553.4m last fiscal. (FE)
- **Religare Enterprises Ltd's** net loss for 3QFY11 at Rs984.5m against a net profit of Rs216.6m last fiscal. (BS)
- **Reliance MediaWorks'** net loss for 3QFY11 up 109% yoy at Rs570.4m. (FE)
- **Man Industries'** net profit for 3QFY11 down 16% yoy at Rs260m. (BL)
- **Marg's** net profit for 3QFY11 up 19% yoy at Rs159m. (FE)
- **Balmer Lawrie & Co Ltd's** net profit for 3QFY11 down 4% yoy at Rs254.6m. (BL)
- **Rajesh Exports'** net profit for 3QFY11 up 73% yoy at Rs760m. (BL)

**From the Blogosphere****Business Insider: The First Bondholders In Europe Have Faced A Haircut And It May Not Be The Last (Source)**

The European Central Bank (ECB) has been focused entirely on saving as many insolvent countries as possible since 2009.

Its bond purchases and bailouts are solely focused on financing each troubled sovereign until they can either solve their own problems, or the Eurozone economy heals itself enough to begin reducing debt loads through growth.

This is the European form of "extend and pretend," and is similar in many respects to the US version.

Where the two diverge is the favored growth engine. The US Federal Reserve is trying to encourage consumer spending through a stock market wealth effect. Europe's hopes lie in exporting goods to those same US consumers.

In bailing out "peripheral" countries the ECB has to maintain some form of stable currency to protect against capital flight. Fleeing investors almost destroyed the Euro in mid-2010 as money poured out of the Euro and into the Swiss franc. That triggered massive currency interventions by the Swiss central bank. This kind of capital flight is still occurring in Ireland, forcing that country to continually bail out its banks and seek help from Brussels.

**Zero Hedge: China, Where GM Sold More Cars In 2010 Than In The US, Sees January Car Sales Plunge 10.3% (Source)**

And some bad news for the world's worst car maker (recently bankrupt), which has bet its entire "growth" platform as per the recent IPO on the one market that is so far unfamiliar with said carmaker's "quality" reputation. In January, the Shanghai-based China Passenger Car Association reported that sales of passenger cars fell 10.3 percent in January from the month before to 965,238. Per Manufacturing.net: "Chinese bought 13.7 million passenger vehicles last year, up by a third from 2009. But that robust growth is forecast to cool this year due to the expiration of tax incentives for some vehicle purchases and a renewed effort by cities to bring traffic under control." Is the recent collectivist action to cool off purchasing actually going to have an adverse impact not only on GM's margins but its sales as well? Why yes. But the market will be stunned when this is publicly announced shortly.

Furthermore, the deterioration in car sales is accelerating:

"Of course the withdrawal of financial incentives would impact any country's auto market, and sales did continue to grow in January, but toward the end of the month there was a sharp cooling in sales," the Passenger Car Association report said.

It said sales in February were bound to decline due to the usual slump following the Lunar New Year holiday, which was longer than usual

**February 16, 2011**

<b>Recommendation</b>	<b>BUY</b>
<b>CMP</b>	<b>101</b>
<b>Target</b>	<b>123</b>
<b>Stock Return</b>	<b>20%</b>

Nifty	5,481
Sensex	18,274

**Key Stock Data**

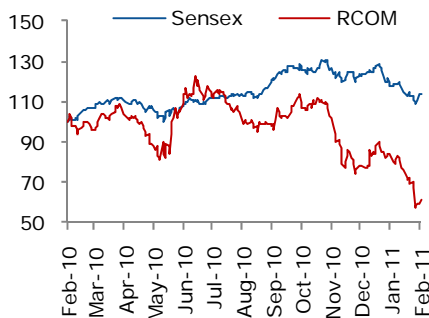
Sector	Telecom
Reuters Code	RLCM.BO
BLOOMBERG Code	RCOM IN
No. of Shares (mn)	2,064
Market Cap (Rs bn)	210
Market Cap (\$ mn)	4,605
6 mth avg traded value (Rs. mn)	971

**Stock Performance (%)**

52 - Week high / low	Rs 208/90		
	<b>3M</b>	<b>6M</b>	<b>12M</b>
Absolute (%)	(37.1)	(37.9)	(39.3)
Relative (%)	(29.1)	(39.2)	(52.0)

**Shareholding Pattern (%)**

Promoters	67.86
FIs & Local MFs	9.10
FIIIs	8.44
Public & Others	14.60

*Source: Company*
**Sensex and Stock Movement**

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**Operating performance way below peers**

Rcom's Q3FY11 revenue declined 2.2% QoQ on back of MOUs/subscriber and ARPU fall of 9% QoQ to 251/Rs111 respectively. Idea's ARPU increased 0.6% whereas Bharti and Vodafone ARPU declined by 1.5% and 0.9% respectively. Management attributed decline in minutes to conspicuous reduction in free minutes in the wholesale PCO and FWP phones with relatively lower margin.

**Cost curtailment help improves margin**

EBITDA margin improved for third straight quarter by 91bps QoQ (+0.5% EBITDA growth QoQ) on of lower network cost (down QoQ by 9.6%). Management attributed the same to efficient cost management especially of power & fuel cost.

**Stemming revenue decline and de-leveraging key price trigger**

Revenue growth remains challenging for Rcom with continuous decline (down 18% from Mar'09) despite Pan India GSM launch. Net debt/EBITDA at 4.8x (annualized) remains high and stretched. Resolving underlying issue of revenue/EBITDA growth coupled with deleveraging of balance sheet key price trigger. Revenue growth to remain curtailed for next couple of quarters as company further cut backs free minutes. A longer term revenue growth driver from corporate postpaid subscribers and data services too remains unlikely in competitive market and will be further constrained by weak balance sheet.

**Table 1: Financial summary**

Rs mn	FY09	FY10	FY11E	FY12E	FY13E
Revenues	227,891	221,323	202,590	219,742	248,081
Growth (%)	19.5	(2.9)	(8.5)	8.5	12.9
EBITDA	91,453	78,206	65,893	73,969	84,787
Growth (%)	11.3	(14.5)	(15.7)	12.3	14.6
EBITDA Margin (%)	40.1	35.3	32.5	33.7	34.2
Adj. Net Profit	45,543	46,927	13,286	7,095	16,470
EPS (Rs)	22.1	22.7	6.4	3.4	8.0
Growth (%)	8.9	3.0	(71.7)	(46.6)	132.1
P/E (x)	4.8	7.3	15.7	29.4	12.7
EV/EBITDA (x)	5.2	5.7	7.9	6.9	5.6
ROE (%)	25.8	15.9	6.7	3.4	7.5
ROCE (%)	10.1	6.4	5.1	3.8	5.1

*Source : Company, HDFC Securities Institutional Research*

**Institutional Research**

EBITDA higher than estimate on account of lower network cost (down QoQ by 9.6%)

PAT higher than expected on account of lower finance charges due to forex and gain

**Table 2: Actual vs. Estimated Performance**

	Actual	Estimate	% Var
<b>Key operating matrix</b>			
EOP Subs (in 000's)	125,652	122,837	140.2
MOU (in mins/sub)	251	268	(6.2)
RPM (in Rs)	0.44	0.44	1.1
ARPU (in Rs)	111	117	(5.3)
MOUs (in mn)	91,486	96,449	(5.1)
Wireless Rev. (Rs in mn)	40,644	42,207	(3.7)
<b>Financial performance</b>			
Overall Revenue	50,041	52,319	(4.4)
EBITDA	16,681	17,108	(2.5)
EBITDA margin %	33.3	32.7	63 bps
Rep .PAT	4,804	3,788	26.8
Rep. PAT margin %	9.6	7.2	236 bps

Source : Company, HDFC Securities Institutional Research

Revenue drop of QoQ by 2.2% due to reduction of free minutes and downsizing of low margin wholesale PCO and FWP business

QoQ decline in network cost of 9.6% due to better management

Decline in finance charge due to forex gain of Rs1bn

**Table 3: Consolidated Financial Performance**

(Rs mn)	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	% Var QoQ	% Var YoY
<b>Revenue</b>	<b>53,098</b>	<b>50,928</b>	<b>51,092</b>	<b>51,183</b>	<b>50,041</b>	<b>(2.2)</b>	<b>(5.8)</b>
Access cost	5,501	6,294	6,610	6,572	6,640	1.0	20.7
% of revenue	10.4	12.4	12.9	12.8	13.3	43 bps	291 bps
License cost	2,836	2,668	3,102	3,033	2,830	(6.7)	(0.2)
% of revenue	5.3	5.2	6.1	5.9	5.7	-27 bps	31 bps
Network cost	16,708	15,251	13,079	13,813	12,493	(9.6)	(25.2)
% of revenue	31.5	29.9	25.6	27.0	25.0	-202 bps	-650 bps
Staff cost	3,677	3,396	3,535	3,596	3,558	(1.1)	(3.2)
% of revenue	6.9	6.7	6.9	7.0	7.1	8 bps	19 bps
SG & A	6,250	7,300	8,446	7,574	7,840	3.5	25.4
% of revenue	11.8	14.3	16.5	14.8	15.7	87 bps	390 bps
<b>Total Cost</b>	<b>34,971</b>	<b>34,909</b>	<b>34,772</b>	<b>34,588</b>	<b>33,361</b>	<b>(3.5)</b>	<b>(4.6)</b>
% of revenue	65.9	68.5	68.1	67.6	66.7	-91 bps	80 bps
<b>EBITDA</b>	<b>18,126</b>	<b>16,019</b>	<b>16,320</b>	<b>16,595</b>	<b>16,681</b>	<b>0.5</b>	<b>(8.0)</b>
% of revenue	34.1	31.5	31.9	32.4	33.3	91 bps	-80 bps
Depreciation	8,331	10,847	9,648	9,553	10,338	8.2	24.1
% of revenue	15.7	21.3	18.9	18.7	20.7	199 bps	497 bps
<b>EBIT</b>	<b>9,796</b>	<b>5,173</b>	<b>6,672</b>	<b>7,042</b>	<b>6,343</b>	<b>(9.9)</b>	<b>(35.3)</b>
% of revenue	18.4	10.2	13.1	13.8	12.7	-108 bps	-577 bps
Finance charges (net)	(4,076)	(8,134)	4,396	2,797	1,296	(53.7)	(131.8)
% of revenue	(7.7)	(16.0)	8.6	5.5	2.6	-287 bps	1027 bps
<b>Profit before tax</b>	<b>13,871</b>	<b>13,307</b>	<b>2,276</b>	<b>4,245</b>	<b>5,047</b>	<b>18.9</b>	<b>(63.6)</b>
% of revenue	26.1	26.1	4.5	8.3	10.1	179 bps	-1604 bps
Tax	2,003	1,923	(719)	(661)	(214)	(67.6)	(110.7)
% of revenue	3.8	3.8	(1.4)	(1.3)	(0.4)	86 bps	-420 bps
% of PBT	5.7	5.5	(2.1)	(1.9)	(0.6)	127 bps	-637 bps
Minority & Others	561	(826)	486	447	457	2.2	(18.5)
% of revenue	1.1	(1.6)	1.0	0.9	0.9	4 bps	-14 bps
<b>Rep. PAT</b>	<b>11,308</b>	<b>12,209</b>	<b>2,509</b>	<b>4,459</b>	<b>4,804</b>	<b>7.7</b>	<b>(57.5)</b>
% of revenue	21.3	24.0	4.9	8.7	9.6	89 bps	-1170 bps

Source : Company, HDFC Securities Institutional Research

**Institutional Research**

Downward revision in estimates due to poor operating performance

**Table 4: Revision in estimates table**

(Rs mn)	FY11		% Chg	FY12		% Chg
	Revised	Earlier		Revised	Earlier	
Subs	132	126	4.5	146	144	1.4
MOUs	265	289	(8.3)	250	304	(17.6)
RPM	0.44	0.43	2.5	0.43	0.40	5.4
ARPU	117	124	(6.0)	107	123	(13.2)
Wireless Revenue	163,748	169,156	(3.2)	178,439	163,748	9.0
Revenue	202,590	208,181	(2.7)	219,742	240,703	(8.7)
EBITDA	65,893	67,175	(1.9)	73,969	82,255	(10.1)
EBITDA margin	32.5	32.3	26 bps	33.7	34.2	-51 bps
Reported PAT	13,286	10,626	25.0	7,095	11,387	(37.7)
Rep PAT margin	6.6	5.1	145 bps	3.2	4.7	-150 bps
FEPS	6.2	4.9	25.0	3.3	5.3	(37.7)

Source : HDFC Securities Institutional Research

**Table 5: Segment-wise KPIs**

	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	% Var QoQ	% Var YoY
<b>Wireless</b>							
Subs (in 000's)	93,800	102,420	110,806	117,337	125,652	7.1	34.0
MOUs (in mn)	89,000	93,597	94,353	94,451	91,486	(3.1)	2.8
MOU (in mins/sub)	330	318	295	276	251	(9.1)	(23.9)
ARPU (in Rs)	149	139	130	122	111	(9.0)	(25.5)
RPM (in Rs)	0.45	0.44	0.44	0.44	0.44	0.0	(2.1)
EBITDA/min (in Rs)	0.14	0.13	0.13	0.13	0.13	0.6	(8.6)
<b>Globalcom</b>							
NLD MOUs (in min)	2,823	2,656	3,123	3,753	4,084	8.8	44.7
ILD MOUs (in min)	13,643	16,086	15,265	16,383	16,569	1.1	21.4
<b>Total (in min)</b>	<b>16,466</b>	<b>18,742</b>	<b>18,388</b>	<b>20,136</b>	<b>20,653</b>	<b>2.6</b>	<b>25.4</b>
RPM (in Rs)	1.20	1.08	0.99	0.91	0.93	2.0	(22.6)
EBITDA/min (in Rs)	0.25	0.19	0.18	0.17	0.19	14.0	(24.6)
<b>Broadband</b>							
Subs (in 000's)	1,455	1,469	1,470	1,484	1,510	1.8	3.8
ARPU (in Rs)	1,642	1,551	1,534	1,494	1,377	(7.8)	(16.1)

Source : HDFC Securities Institutional Research

**Table 6: Segment-wise financial performance**

	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	% Var QoQ	% Var YoY
<b>Revenue (Rs mn)</b>							
Mobile	40,225	40,900	41,528	41,613	40,644	(2.3)	1.0
Globalcom	19,818	20,278	18,137	18,391	19,233	4.6	(3.0)
Broadband	7,045	6,798	6,763	6,617	6,184	(6.5)	(12.2)
Others	3,160	2,845	3,348	3,984	3,107	(22.0)	(1.7)
<b>Gross revenue</b>	<b>70,248</b>	<b>70,821</b>	<b>69,776</b>	<b>70,605</b>	<b>69,168</b>	<b>(2.0)</b>	<b>(1.5)</b>
Less: Intersegment	(17,150)	(19,894)	(18,684)	(19,422)	(19,127)	(1.5)	11.5
<b>Net revenue</b>	<b>53,098</b>	<b>50,927</b>	<b>51,092</b>	<b>51,183</b>	<b>50,041</b>	<b>(2.2)</b>	<b>(5.8)</b>
<b>EBITDA (Rs mn)</b>							
Mobile	12,545	11,815	11,989	12,101	11,792	(2.6)	(6.0)
Globalcom	4,194	3,555	3,317	3,393	3,966	16.9	(5.4)
Broadband	2,755	2,526	2,477	2,481	2,267	(8.6)	(17.7)
Others	(1,250)	(1,759)	(1,350)	(1,343)	(1,345)	0.1	7.6
<b>Gross EBITDA</b>	<b>18,244</b>	<b>16,137</b>	<b>16,433</b>	<b>16,632</b>	<b>16,680</b>	<b>0.3</b>	<b>(8.6)</b>
(-): Intersegment	(118)	(117)	(113)	(37)	-	(100.0)	(100.0)
<b>Net EBITDA</b>	<b>18,126</b>	<b>16,020</b>	<b>16,320</b>	<b>16,595</b>	<b>16,680</b>	<b>0.5</b>	<b>(8.0)</b>
<b>EBITDA %</b>							
Mobile	31.2	28.9	28.9	29.1	29.0	-7 bps	-217 bps
Globalcom	21.2	17.5	18.3	18.4	20.6	217 bps	-54 bps
Broadband	39.1	37.2	36.6	37.5	36.7	-83 bps	-244 bps
Others	(39.6)	(61.8)	(40.3)	(33.7)	(43.3)	-959 bps	-373 bps
<b>Blended %</b>	<b>34.1</b>	<b>31.5</b>	<b>31.9</b>	<b>32.4</b>	<b>33.3</b>	<b>91 bps</b>	<b>-80 bps</b>
<b>EBIT (Rs mn)</b>							
Mobile	8,480	7,605	6,817	7,135	6,343	(11.1)	(25.2)
Globalcom	1,806	1,316	1,035	1,030	1,450	40.8	(19.7)
Broadband	1,580	1,353	1,304	1,263	1,068	(15.4)	(32.4)
Others	(2,069)	(2,999)	(2,370)	(2,348)	(2,519)	7.3	21.7
<b>Gross EBITDA</b>	<b>9,797</b>	<b>7,275</b>	<b>6,786</b>	<b>7,080</b>	<b>6,342</b>	<b>(10.4)</b>	<b>(35.3)</b>
<b>EBIT margin %</b>							
Mobile	21.1	18.6	16.4	17.1	15.6	-154 bps	-548 bps
Globalcom	9.1	6.5	5.7	5.6	7.5	194 bps	-157 bps
Broadband	22.4	19.9	19.3	19.1	17.3	-182 bps	-516 bps
Others	(65.5)	(105.4)	(70.8)	(58.9)	(81.1)	-2215 bps	-1561 bps
<b>Overall</b>	<b>18.5</b>	<b>14.3</b>	<b>13.3</b>	<b>13.8</b>	<b>12.7</b>	<b>-116 bps</b>	<b>-578 bps</b>

Source : Company, HDFC Securities Institutional Research

**Table 7: Income statement**

FYE March, Rs mn	FY09	FY10	FY11E	FY12E	FY13E
Revenues	227,891	221,323	202,590	219,742	248,081
<i>Growth (%)</i>	19.5	(2.9)	(8.5)	8.5	12.9
EBITDA	91,453	78,206	65,893	73,969	84,787
<i>Growth (%)</i>	11.3	(14.5)	(15.7)	12.3	14.6
Depreciation & amortization	36,075	37,465	40,163	48,598	50,476
EBIT	55,378	40,741	25,729	25,371	34,312
<i>Growth (%)</i>	2.4	(26.4)	(36.8)	(1.4)	35.2
Interest	8,318	(11,863)	12,368	16,209	13,043
Other income	-	-	-	-	-
EBT	47,061	52,604	13,361	9,162	21,268
Income taxes	(518)	4,454	(1,737)	1,099	2,552
<i>Effective tax rate (%)</i>	(1.1)	8.5	(13.0)	12.0	12.0
Extra-ordinary items	14,906	(376)	-	-	-
Min int / inc from assoc	2,036	1,223	1,812	968	2,246
Reported net income	60,449	46,551	13,286	7,095	16,470
Adjustments	14,906	(376)	-	-	-
Adjusted net income	45,543	46,927	13,286	7,095	16,470
<i>Growth (%)</i>	(15.7)	3.0	(71.7)	(46.6)	132.1
Shares outstanding (mn)	2,064.0	2,064.0	2,064.0	2,064.0	2,064.0
EPS (Rs)	22.1	22.7	6.4	3.4	8.0
<i>Growth (%)</i>	8.9	3.0	(71.7)	(46.6)	132.1

Source : Company, HDFC Securities Institutional Research

**Table 8: Balance Sheet**

FYE March, Rs mn	FY09	FY10	FY11E	FY12E	FY13E
Cash and cash eq	16,829	8,185	10,720	12,991	11,975
Accounts receivable	39,618	33,117	30,527	33,112	37,382
Inventories	5,427	5,446	5,555	5,666	5,780
Others current assets	85,271	74,825	61,054	66,224	74,764
Investments	95,657	41,599	-	-	-
Gross fixed assets	755,101	786,653	909,109	935,478	962,767
Net fixed assets	613,957	595,982	666,212	631,922	596,673
CWIP	113,096	116,557	117,127	114,784	112,488
Intangible assets	52,215	49,976	49,976	49,976	49,976
Deferred tax assets, net	(281)	(991)	(1,288)	(1,674)	(2,176)
Other assets	-	-	-	-	-
<b>Total assets</b>	<b>1,021,789</b>	<b>924,696</b>	<b>939,884</b>	<b>913,000</b>	<b>886,862</b>
Accounts payable	159,718	147,085	124,401	114,037	106,121
Other current liabilities	-	-	-	-	-
Provisions	41,096	40,267	41,628	39,734	44,858
Debt funds	391,623	297,154	330,627	320,000	290,000
Other liabilities	6,549	6,584	8,396	9,363	11,609
Equity capital	10,320	10,320	10,320	10,320	10,320
Reserves & surplus	412,483	423,286	424,511	419,544	423,952
Shareholder's funds	422,803	433,606	434,831	429,864	434,272
<b>Total liabilities</b>	<b>1,021,789</b>	<b>924,696</b>	<b>939,884</b>	<b>913,000</b>	<b>886,862</b>
BVPS (Rs)	81	93	99	103	111
Net debt	279,137	247,370	319,907	307,009	278,025

Source : Company, HDFC Securities Institutional Research

**Table 9: Cash flow statement**

FYE March, Rs mn	FY09	FY10	FY11E	FY12E	FY13E
Net income + Depreciation	94,119	84,524	53,450	55,693	66,946
Non-cash adjustments	(8,788)	(16,219)	-	-	-
Changes in working capital	(20,255)	25,293	(4,774)	(19,737)	(15,214)
<b>Cash flow from operations</b>	<b>65,075</b>	<b>93,598</b>	<b>48,676</b>	<b>35,956</b>	<b>51,732</b>
Capital expenditure	(122,426)	(74,959)	(123,025)	(24,027)	(24,993)
Change in investments	15,567	54,884	41,599	-	-
Other investing cashflow	6,779	1,689	-	-	-
<b>Cash flow from investing</b>	<b>(100,079)</b>	<b>(18,387)</b>	<b>(81,427)</b>	<b>(24,027)</b>	<b>(24,993)</b>
Issue of equity	-	-	1,812	968	2,246
Issue/repay debt	75,084	(69,898)	33,472	(10,627)	(30,000)
Dividends paid	(1,792)	(1,911)	-	-	-
Other financing cashflow	(30,861)	(14,408)	-	-	-
<b>Cashflow from financing</b>	<b>7,427</b>	<b>(11,006)</b>	<b>2,533</b>	<b>2,271</b>	<b>(1,015)</b>
<b>Change in cash &amp; cash eq</b>	<b>16,829</b>	<b>8,187</b>	<b>10,720</b>	<b>12,991</b>	<b>11,975</b>
<b>Closing cash &amp; cash eq</b>	<b>42,431</b>	<b>(86,217)</b>	<b>35,284</b>	<b>(9,659)</b>	<b>(27,754)</b>

Source : Company, HDFC Securities Institutional Research

**Table 10: Ratio analysis**

FYE March	FY09	FY10	FY11E	FY12E	FY13E
<b>Profitability &amp; Return ratios</b>					
EBITDA margin (%)	40.1	35.3	32.5	33.7	34.2
EBIT margin (%)	24.3	18.4	12.7	11.5	13.8
Net profit margin (%)	20.0	21.2	6.6	3.2	6.6
ROE (%)	25.8	15.9	6.7	3.4	7.5
ROCE (%)	10.1	6.4	5.1	3.8	5.1
<b>Working capital &amp; Liquidity ratios</b>					
Receivables (days)	54	60	57	53	52
Inventory (days)	8	9	10	9	8
Payables (days)	79	52	49	47	36
Current ratio (x)	1.2	0.9	0.6	0.8	0.9
Quick ratio (x)	0.8	0.4	0.2	0.3	0.3
<b>Turnover &amp; Leverage ratios</b>					
Gross asset turnover (x)	0.5	0.4	0.3	0.3	0.3
Total asset turnover (x)	0.4	0.4	0.4	0.4	0.4
Interest coverage ratio (x)	6.7	(5.6)	1.9	1.6	2.6
Adjusted debt/equity (x)	1.7	1.3	1.6	1.4	1.2
Adjusted net debt/EBITDA (x)	3.1	3.2	4.9	4.2	3.3
<b>Valuation ratios</b>					
EV/Sales (x)	2.1	2.0	2.6	2.3	1.9
EV/EBITDA (x)	5.2	5.7	7.9	6.9	5.6
P/E (x)	4.8	7.3	15.7	29.4	12.7
P/BV (x)	1.2	1.0	1.0	0.9	0.9
P/Op CF (x)	3.1	2.1	4.1	5.6	3.9

Source : Company, HDFC Securities Institutional Research

**February 16, 2011**

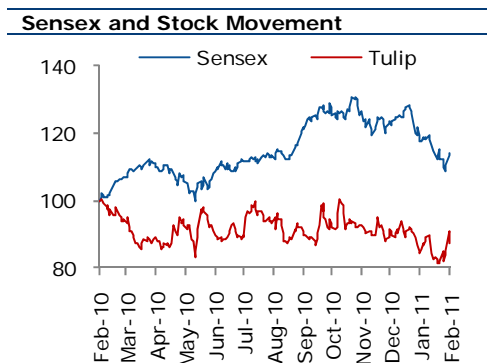
<b>Recommendation</b>	<b>BUY</b>
<b>CMP</b>	<b>169</b>
<b>Target</b>	<b>246</b>
<b>Stock Return</b>	<b>46%</b>

Nifty	5,481
Sensex	18,274

Key Stock Data	
Sector	Telecom
Reuters Code	TULP.BO
BLOOMBERG Code	TTSL IN
No. of Shares (mn)	145
Market Cap (Rs bn)	24
Market Cap (\$ mn)	537
6 mth avg traded value (Rs. mn)	100

Stock Performance (%)			
52 - Week high / low	Rs 201/153		
	3M	6M	12M
Absolute (%)	(5.4)	(8.4)	(12.9)
Relative (%)	2.6	(9.6)	(25.6)

Shareholding Pattern (%)	
Promoters	69.0
FIs & Local MFs	1.9
FIIIs	19.4
Public & Others	9.8

*Source: Company*


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Tulip Telecom Q3FY11 results were in line with our expectation, with strong YoY growth in revenue, EBITDA and adjusted PAT of 20%, 27% and 19% respectively. Tulip continues to witness strong demand for its connectivity services. Progress on data center business remains on track. We reiterate our Buy rating on Tulip with revenue and earnings drivers in place, attractive valuations, superior execution track record and strengthening middle and top management team as key investment arguments. Tulip is currently trading at 6.8x FY12E earnings. We expect revenue and earnings CAGR of 15% and 28% over FY11-13 ex data center.

#### Investment in fiber yielding results

The company's investment in fiber over past couple of years is yielding results with higher growth YoY. 40% of the orders and 70% of the new orders (excluding repeat orders) were on fiber business during the quarter. 30% of the current quarter revenue was on fiber. Tulip's investment in fiber is enabling it to tap the high bandwidth IP VPN and internet services and at the same time reducing the cost of connectivity and improving margins.

#### Growth drivers in place

Revenue growth drivers remain in place for Tulip with robust demand for high bandwidth connectivity services both from existing and new customers. Tulip expects a higher proportion of new orders to materialize from government which currently constitute a small proportion of its revenue at 5-8%. Further Tulip's agreement for joint marketing with Hutchison to increase the addressable market by \$250mn in IPLC segment. Tulips' management maintains its guidance of Rs40bn in revenue (doubling the top-line) excluding data center which could contribute additional Rs10bn by FY14. We remain conservative in our estimate which could provide additional upside to our TP.

#### Data center – long term value creator

Data center due to inherent nature of business of higher initial capex and fixed cost, would take 2-3 years for break-even. Near term earnings dilution in FY12 and FY13, we estimate at 4.2% and 7.8% and NPV of Rs37 (assuming 55% stake for Tulip with balance for strategic/financial partner) for data center business, however haven't incorporated the same as part of our TP. Additionally data center to have synergistic benefits in boosting the revenue's for core connectivity business.

**Table 1: Financial summary**

Rs mn	FY08	FY09	FY10	FY11E	FY12E	FY13E
Revenues	12,190	16,144	19,664	23,688	27,411	31,157
Growth (%)	44.7	32.4	21.8	20.5	15.7	13.7
EBITDA	2,456	3,367	5,255	6,637	8,086	9,503
Growth (%)	84.9	37.1	56.1	26.3	21.8	17.5
EBITDA Margin (%)	20.2	20.9	26.7	28.0	29.5	30.2
Adj. Net Profit	2,498	2,743	3,171	3,987	5,078	2,498
EPS (Rs)	10.9	15.4	17.0	19.6	24.6	31.4
Growth (%)	62.8	41.6	10.0	15.6	25.7	27.4
P/E (x)	16.1	11.3	10.3	8.9	6.8	5.6
EV/EBITDA (x)	11.5	9.8	6.5	5.2	4.1	3.1
ROE (%)	51.6	44.3	34.1	29.9	29.5	26.7
ROCE (%)	21.5	16.6	14.9	16.3	18.1	19.9

Source : Company, HDFC Securities Institutional Research

Result in line with estimates

**Table 2: Actual vs. Estimated Performance**

Rs mn	Actual	Estimate	% Var
Revenue	6,022	6,145	(2.0)
EBITDA	1,716	1,751	(2.0)
EBITDA margin %	28.5	28.5	-1 bps
Adj. PAT	817	838	(2.4)
PAT margin %	13.6	13.6	-6 bps

Source : Company, HDFC Securities Institutional Research

**Table 3: Consolidated Financial Performance**

Rs mn	Q3FY11	Q2FY11	% chg QoQ	Q3FY10	% chg YoY
<b>Revenue</b>	<b>6,022</b>	<b>5,853</b>	<b>2.9</b>	<b>5,009</b>	<b>20.2</b>
COGS	3,888	3,834	1.4	3,307	17.6
% of revenue	64.6	65.5	-96 bps	66.0	-146 bps
Staff cost	235	219	7.6	205	14.9
% of revenue	3.9	3.7	17 bps	4.1	-18 bps
Other exps	184	167	9.9	147	24.7
% of revenue	3.1	2.9	20 bps	2.9	11 bps
Operating Cost	4,306	4,220	2.1	3,659	17.7
% of revenue	71.5	72.1	-59 bps	73.0	-154 bps
<b>EBITDA</b>	<b>1,716</b>	<b>1,633</b>	<b>5.1</b>	<b>1,350</b>	<b>27.1</b>
<b>% of revenue</b>	<b>28.5</b>	<b>27.9</b>	<b>59 bps</b>	<b>27.0</b>	<b>154 bps</b>
D&A	441	419	5.1	409	7.7
% of revenue	7.3	7.2	15 bps	8.2	-85 bps
<b>EBIT</b>	<b>1,275</b>	<b>1,213</b>	<b>5.1</b>	<b>941</b>	<b>35.5</b>
<b>% of revenue</b>	<b>21.2</b>	<b>20.7</b>	<b>44 bps</b>	<b>18.8</b>	<b>239 bps</b>
Fin chg/(inc)	212	190	11.7	186	13.8
% of revenue	3.5	3.2	28 bps	3.7	-20 bps
Other income	11	14	(17.6)	104	(89.0)
<b>PBT</b>	<b>1,075</b>	<b>1,038</b>	<b>3.6</b>	<b>858</b>	<b>25.2</b>
<b>% of revenue</b>	<b>17.8</b>	<b>17.7</b>	<b>11 bps</b>	<b>17.1</b>	<b>71 bps</b>
Tax	257	258	(0.2)	172	49.3
% of PBT	23.9	24.8	-90 bps	20.1	386 bps
% of revenue	4.3	4.4	-13 bps	3.4	83 bps
<b>Rep./Adj. PAT</b>	<b>817</b>	<b>780</b>	<b>4.8</b>	<b>686</b>	<b>19.1</b>
<b>% of revenue</b>	<b>13.6</b>	<b>13.3</b>	<b>25 bps</b>	<b>13.7</b>	<b>-12 bps</b>

Source : Company, HDFC Securities Institutional Research

Increase in effective tax rate post completion of five years of sec. 80IA benefits pulls down the YoY growth in PAT vis-à-vis revenue and EBITDA

**Table 4: Income statement**

FYE March, Rs mn	FY08	FY09	FY10	FY11E	FY12E	FY13E
Revenues	12,190	16,144	19,664	23,688	27,411	31,157
<i>Growth (%)</i>	44.7	32.4	21.8	20.5	15.7	13.7
EBITDA	2,456	3,367	5,255	6,637	8,086	9,503
<i>EBITDA margin %</i>	20.2	20.9	26.7	28.0	29.5	30.5
<i>Growth (%)</i>	84.9	37.1	56.1	26.3	21.8	17.5
Depn & Amortz	418	414	1,353	1,675	2,100	2,475
<i>% of revenue</i>	3.4	2.6	6.9	7.1	7.7	7.9
EBIT	2,038	2,953	3,902	4,961	5,986	7,028
<i>EBIT margin %</i>	16.7	18.3	19.8	20.9	21.8	22.6
<i>Growth (%)</i>	74.2	44.9	32.1	27.2	20.7	17.4
Finance chg/(inc)	258	462	716	861	760	334
<i>% of revenue</i>	2.1	2.9	3.6	3.6	2.8	1.1
Other income	230	344	468	128	89	77
EBT	2,010	2,835	3,654	4,229	5,314	6,771
Income taxes	138	330	899	1,057	1,329	1,693
<i>Effective tax rate (%)</i>	6.8	11.6	24.6	25.0	25.0	25.0
+ /(-) Prior period (exp) / inc.	(2)	(8)	(12)	-	-	-
Reported net income	1,871	2,498	2,743	3,171	3,986	5,078
<i>Net income (%)</i>	15.4	15.5	13.9	13.4	14.5	16.3
<i>Growth (%)</i>	87.6	33.5	9.8	15.6	25.7	27.4
O/s shares Basic (mn)	145	145	144	144	144	162
O/s shares Diluted (mn)	172	162	162	162	162	162
Adj. Basic EPS (Rs)	13	17	19	22	28	31
Adj. Diluted EPS (Rs)	11	15	17	20	25	31
<i>Growth (%)</i>	62.8	41.6	10.0	15.6	25.7	27.4
DPS (Rs)	0.4	0.8	1.6	3.0	5.0	8.0

Source : Company, HDFC Securities Institutional Research

**Table 5: Balance Sheet**

FYE March, Rs mn	FY08	FY09	FY10	FY11E	FY12E	FY13E
Cash	64	946	2,405	1,864	1,086	1,494
Other Current Assets	2,994	5,252	7,567	7,967	9,220	10,480
<i>Current Assets</i>	3,058	6,198	9,972	9,832	10,306	11,974
<i>Current Liabilities &amp; Provisions</i>	729	2,821	2,838	2,920	3,755	4,268
<i>Net Current Assets</i>	2,329	3,376	7,133	6,911	6,551	7,706
<i>Investments</i>	5,874	2,524	1,065	1,400	1,400	1,400
Net Fixed Assets	5,197	12,148	13,296	15,819	17,492	18,347
Goodwill	0	0	0	-	-	-
Other Non-Current Assets	1	4	4	4	4	4
<b>TOTAL ASSETS</b>	<b>13,401</b>	<b>18,053</b>	<b>21,499</b>	<b>24,134</b>	<b>25,447</b>	<b>27,457</b>
Loan funds	8,938	11,224	12,191	12,191	10,362	4,443
Other liabilities	9	9	29	-	-	-
Shareholder's Equity	4,454	6,819	9,279	11,943	15,085	23,014
<b>TOTAL LIABILITIES</b>	<b>13,401</b>	<b>18,053</b>	<b>21,499</b>	<b>24,134</b>	<b>25,447</b>	<b>27,457</b>
BVPS	31	47	64	83	104	142
Adj. Net debt	3,000	7,754	8,720	8,927	7,876	1,549
Adj. Net debt ex FCCB	(2,995)	1,671	4,355	4,561	3,511	(2,816)

Source : Company, HDFC Securities Institutional Research

Decline in EBITDA margin in FY09 due to rupee depreciation against USD thus impacting the connectivity installation margin's

Increase in tax rate in FY10 is due to expiry of Sec 80IA benefits of 100% tax exemption in profits for first five years of operations

Increase in BVPS in FY13 due to assumed conversion of FCCBs in Aug'12

Tulip has \$97mn FCCBs convertible into 17.5mn equity shares @Rs221/share

Change in investments in FY11 represents Rs1.4bn investments made in Qualcomm JV

**Table 6: Cash flow statement**

FYE March, Rs mn	FY08	FY09	FY10	FY11E	FY12E	FY13E
Net income + Depreciation	2,290	2,919	4,128	4,847	6,086	7,553
Non-cash adjustments	0	1,014	(970)	-	-	-
Changes in working capital	(908)	(173)	(2,312)	(348)	(418)	(747)
<b>Cash flow from operations</b>	<b>1,382</b>	<b>3,760</b>	<b>845</b>	<b>4,499</b>	<b>5,668</b>	<b>6,807</b>
Capital expenditure	(3,118)	(7,365)	(2,501)	(4,198)	(3,773)	(3,330)
Change in investments	(5,534)	3,350	1,459	(335)	-	-
Other investing cash flow	-	(0)	(12)	-	-	-
<b>Cash flow from investing</b>	<b>(8,652)</b>	<b>(4,016)</b>	<b>(1,054)</b>	<b>(4,533)</b>	<b>(3,773)</b>	<b>(3,330)</b>
Issue of equity	-	-	-	0	-	4,365
FCCB issue/exch fluc.	5,849	(925)	(745)	-	(1,829)	(5,919)
Issue/repay debt	1,527	2,199	2,684	-	-	-
Dividends paid	(68)	(136)	(271)	(507)	(845)	(1,514)
<b>Cash flow from financing</b>	<b>7,308</b>	<b>1,138</b>	<b>1,668</b>	<b>(507)</b>	<b>(2,673)</b>	<b>(3,068)</b>
<b>Change in cash &amp; cash eq</b>	<b>38</b>	<b>882</b>	<b>1,460</b>	<b>(541)</b>	<b>(779)</b>	<b>408</b>
Closing cash & cash eq	64	945	2,405	1,864	1,086	1,494

Source : Company, HDFC Securities Institutional Research

**Table 7: Ratio analysis**

FYE March	FY08	FY09	FY10	FY11E	FY12E	FY13E
<b>Profitability &amp; Return ratios</b>						
EBITDA margin (%)	20.2	20.9	26.7	28.0	29.5	30.5
EBIT margin (%)	16.7	18.3	19.8	20.9	21.8	22.6
Net profit margin (%)	15.4	15.5	13.9	13.4	14.5	16.3
ROE (%)	51.6	44.3	34.1	29.9	29.5	26.7
ROCE (%)	21.5	16.6	14.9	16.3	18.1	19.9
<b>Working capital &amp; Liquidity ratios</b>						
Receivables (days)	60	73	99	85	85	85
Inventory (days)	21	21	13	13	13	13
Other Curr Assets (days)	9	25	29	25	25	25
Payables (days)	22	64	53	45	50	50
Current ratio (x)	4.2	2.2	3.5	3.4	2.7	2.8
Quick ratio (x)	0.1	0.3	0.8	0.6	0.3	0.4
<b>Turnover &amp; Leverage ratios</b>						
Gross asset turnover (x)	2.1	1.7	1.4	1.2	1.2	1.2
Total asset turnover (x)	0.9	0.9	0.9	1.0	1.1	1.1
Interest coverage ratio (x)	7.9	6.4	5.5	5.8	7.9	21.0
Adjusted debt/equity (x)	0.7	1.1	0.9	0.7	0.5	0.1
Adjusted debt/EBITDA (x)	1.2	2.3	1.7	1.3	1.0	0.2
Adj. debt/equity (x) ex FCCB	(0.7)	0.2	0.5	0.4	0.2	(0.1)
Adj. debt/EBITDA (x) ex FCCB	(1.2)	0.5	0.8	0.7	0.4	(0.3)
<b>Valuation ratios</b>						
EV/Sales (x)	2.3	2.0	1.7	1.4	1.2	1.0
EV/EBITDA (x)	11.5	9.8	6.5	5.2	4.1	3.1
P/E (x)	16.1	11.3	10.3	8.9	7.1	5.6
P/BV (x)	5.7	3.7	2.7	2.1	1.7	1.2

Source : Company, HDFC Securities Institutional Research

Decline in ROE in FY13 is due to conversion of FCCBs into equity

## Institutional Research

Table 8: Quarterly financial trend

FYE March, Rs mn	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Revenues	3,846	4,418	4,677	4,429	4,910	5,009	5,307	5,252	5,853	6,022
YoY growth (%)	-	-	-	33.2	27.7	13.4	13.5	18.6	19.2	20.2
QoQ growth (%)	15.7	14.9	5.9	(5.3)	10.9	2.0	5.9	(1.0)	11.4	2.9
EBITDA	811	924	1,002	1,086	1,269	1,350	1,545	1,417	1,633	1,716
EBITDA margin (%)	21.1	20.9	21.4	24.5	25.8	27.0	29.1	27.0	27.9	28.5
YoY growth (%)	-	-	-	66.0	56.5	46.1	54.1	30.5	28.7	26.8
QoQ growth (%)	23.9	14.0	8.5	8.3	16.8	6.4	14.4	(8.3)	15.2	5.1
Adj. NP	502	496	1,067	591	518	686	795	642	780	817
Adj. NP margin (%)	13.0	11.2	22.8	13.3	10.5	13.7	15.0	12.2	13.3	13.6
YoY growth (%)	-	-	-	28.5	3.3	38.2	(25.5)	8.6	50.6	41.7
QoQ growth (%)	9.1	(1.0)	114.9	(44.6)	(12.4)	32.5	15.9	(19.3)	21.6	4.8

Source: Company, HDFC Securities Institutional Research

Table 9: Shareholding Pattern

FYE March, Rs mn	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Promoters	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0
FIIIs	24.5	24.9	24.0	24.2	22.8	24.7	24.7	25.0	21.0	19.4
Banks & Fis	2.2	2.1	2.1	2.7	2.0	1.6	1.6	1.3	2.0	1.9
Public	4.3	4.0	4.9	4.2	6.3	4.7	4.7	4.7	8.1	9.8

Source: Company, HDFC Securities Institutional Research

**February 16, 2011**

<b>Recommendation</b>	<b>HOLD</b>
<b>CMP</b>	<b>73</b>
<b>Target</b>	<b>84</b>
<b>Stock Return</b>	<b>15%</b>

Nifty	5,481
Sensex	18,274

**Key Stock Data**

Sector	Construction
Reuters Code	IVRC.BO
BLOOMBERG Code	IVRC IN
No. of Shares (mn)	267
Market Cap (Rs bn)	20
Market Cap (\$ mn)	428
6m Avg. traded val. (Rs mn)	322

**Stock Performance (%)**

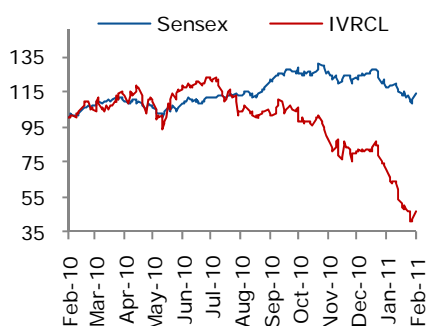
52 - Week high / low Rs 194/60

	3M	6M	12M
Absolute (%)	(45.1)	(54.7)	(53.4)
Relative (%)	(37.1)	(56.0)	(66.0)

**Shareholding Pattern (%)**

Promoters	9.52
FIs & Local MFs	5.26
FIIIs	57.22
Public & Others	28.00

Source : Company, BSE

**Sensex and Stock Movement**

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IVRCL Infra's 3QFY11 results signal a recovery in execution in comparison to 1HFY11 when heavy monsoons and issues with its own projects caused a slowdown. IVRCL Infra posted revenues of Rs14bn (20% YoY, 32% QoQ), EBITDA of Rs1.4bn (47% YoY, 24% QoQ) and PAT of Rs422mn (82% YoY, -3% QoQ). Interest costs which grew by 23% YoY continues to hurt profitability. Order book stands at Rs242bn with water projects making up 50% of the book. We maintain a hold rating on the stock with a target price of Rs84/share.

**Results signal recovery in execution**

IVRCL Infra 3QFY11 results with revenues at Rs14bn (20% YoY, 32% QoQ), EBITDA at Rs1.4bn (47% YoY, 24% QoQ) and PAT at Rs422mn (82% YoY, -3% QoQ), were much better than those posted in the last two quarters when heavy monsoons and other projects delays its projects caused a slowdown in execution. Interest costs increased by 23% dampening profits. The management continues to maintain its revenue guidance for the year at Rs62.5bn which would mean it will have to post revenue of Rs25bn in 4QFY11. The fourth quarter has traditionally been strong for infrastructure companies; in 4QFY10 IVRCL Infra posted revenues of Rs19bn with PAT at Rs779mn.

**Order book position robust providing decent visibility in revenues**

The order book at the end of 3QFY11 stands at Rs242bn. Water projects continue to form 50% of the order book, 20% from industrial structures, 15% from roads, 10% from power and 5% from Oil and Gas projects. About Rs30bn of its order book comes from Andhra Pradesh and Rs60bn from its BOT projects. The company has L1 status on Rs250bn worth of orders. The company hence has a decent visibility of 4.4x trailing revenues

**BOT assets in its asset arm should see movement in execution next quarter**

IVRCL Assets and holding is yet to achieve financial closure for the Sion-Panvel projects, and expects to close it in 10 days while it has not yet signed the concession agreement for the Goa-Maharashtra highway project. About Rs270mn has yet to be invested in BOT projects in FY11 and Rs3.5bn have to be invested in FY12. The operational road projects put together collect Rs2.5-2.7mn of toll per day. Concerns remain on the ability to raise funds required for equity infusion in its projects which could also hurt the parent company's order book.

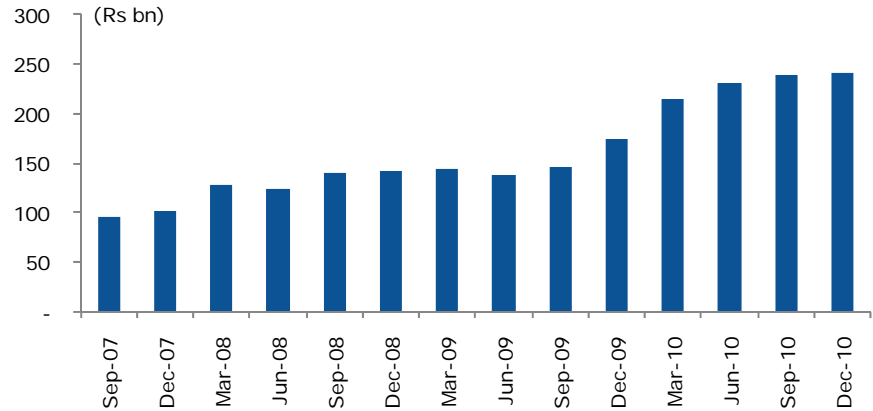
**Valuations and profitability**

The company's core construction business is currently trading at an implied valuation of 4.9x FY12E EPS of Rs7.9. We value the core construction business using DCF at Rs50/share. We value its holding its subsidiaries at market value with at 20% holding company discount with a valuation of Rs24/share for IVRCL Assets and Holding and Rs10/share for Hindustan Dorr Oliver. This works up to a target price of Rs84/share which is and upside of 15% from the current market price.

Summary	FY09	FY10	FY11E	FY12E	FY13E
Net Sales(Rs mn)	49,804	54,923	60,449	71,472	86,780
Growth(%)	36%	10%	10%	18%	21%
EBITDA(Rs mn)	4,218	5,313	5,440	6,433	7,810
EBITDA Margin(%)	8%	10%	9%	9%	9%
Adj. Net Profit(Rs mn)	2,260	702	1,906	2,122	2,628
EPS(Rs)	16.9	5.3	7.1	7.9	9.8
Growth(%)	4%	-69%	36%	11%	24%
P/E	4.6	14.8	5.4	4.9	3.9
EV/EBITDA	5.9	4.7	4.6	3.9	3.2
P/B	0.6	0.6	0.5	0.5	0.4
ROE(%)	13%	4%	10%	10%	11%

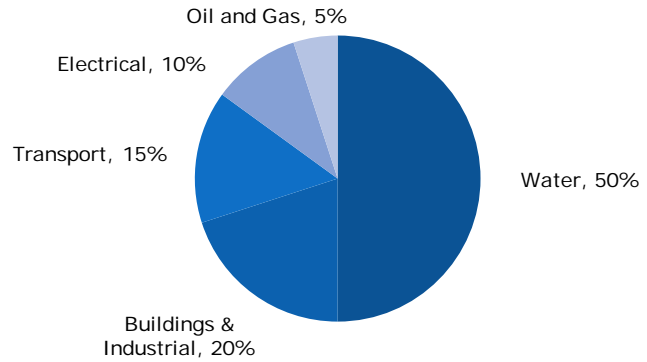
Source : Company, HDFC Securities Institutional Research

**Chart 1: Order book**



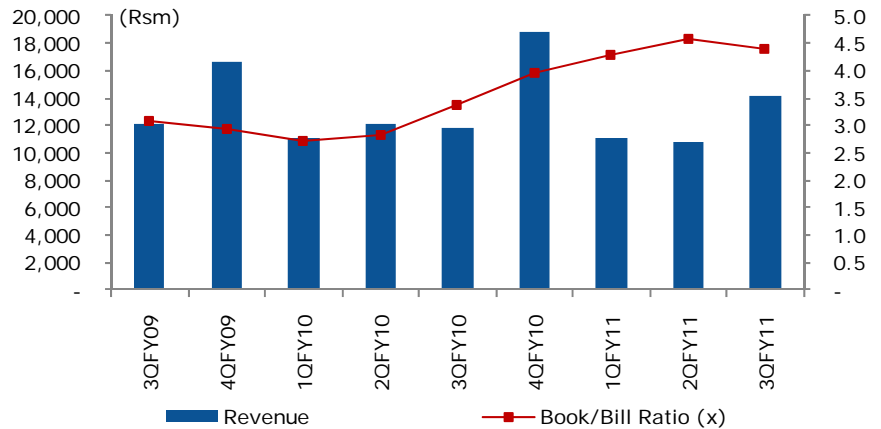
Source : Company, HDFC Securities Institutional Research

**Chart 2: Order book break-up (Rs242bn)**



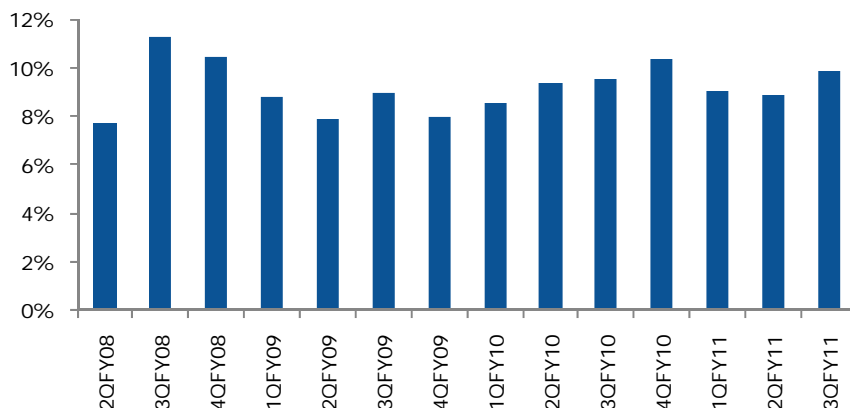
Source : Company, HDFC Securities Institutional Research

**Chart 3: Book/Bill Ratio**



Source : Company, HDFC Securities Institutional Research

Chart 4: EBITDA Margins



Source : Company, HDFC Securities Institutional Research

Table 1: Income Statement

(Rs.Mn)	FY09	FY10	FY11E	FY12E	FY13E
<b>Net Income From Operations</b>	<b>49,804.4</b>	<b>54,922.8</b>	<b>60,448.7</b>	<b>71,472.2</b>	<b>86,780.2</b>
<i>% Growth</i>	36%	10%	10%	18%	21%
<b>Total Expense</b>	<b>45,586.6</b>	<b>49,610.1</b>	<b>55,008.4</b>	<b>65,039.7</b>	<b>78,970.0</b>
<b>EBITDA</b>	<b>4,217.8</b>	<b>5,312.7</b>	<b>5,440.4</b>	<b>6,432.5</b>	<b>7,810.2</b>
<i>% Margins</i>	8%	10%	9%	9%	9%
Other Income	299.1	155.1	130.0	150.0	170.0
Depreciation	473.1	542.8	634.2	749.5	864.8
<b>EBIT</b>	<b>4,043.9</b>	<b>4,924.9</b>	<b>4,936.1</b>	<b>5,833.0</b>	<b>7,115.4</b>
Interest	1,306.1	1,636.6	2,052.5	2,623.1	3,139.4
<b>PBT</b>	<b>2,737.8</b>	<b>3,288.4</b>	<b>2,883.7</b>	<b>3,209.9</b>	<b>3,976.0</b>
Total Tax	478.1	1,177.2	977.6	1,088.1	1,347.9
<b>PAT</b>	<b>2,259.7</b>	<b>2,111.2</b>	<b>1,906.1</b>	<b>2,121.7</b>	<b>2,628.1</b>
<i>% Margins</i>	4.5%	3.8%	3.2%	3.0%	3.0%
Extraordinary Items	-	1,409.0	-	-	-
<b>Adjusted PAT</b>	<b>2,259.7</b>	<b>702.1</b>	<b>1,906.1</b>	<b>2,121.7</b>	<b>2,628.1</b>
<i>% Margins</i>	4.5%	1.3%	3.2%	3.0%	3.0%

Source : Company, HDFC Securities Institutional Research

**Table 2: Balance Sheet**

(Rs. Mn)	FY09	FY10	FY11E	FY12E	FY13E
Share Capital	267.0	534.0	534.0	534.0	534.0
Reserves and Surplus	17,838.8	17,998.6	19,704.0	21,602.3	23,953.7
<b>Total Shareholder Fund</b>	<b>18,105.8</b>	<b>18,532.6</b>	<b>20,238.0</b>	<b>22,136.3</b>	<b>24,487.7</b>
Secured Loans	10,184.8	12,688.1	18,188.1	23,188.1	27,688.1
Unsecured Loans	3,795.4	3,445.2	3,445.2	3,445.2	3,445.2
<b>Total Loans</b>	<b>13,980.3</b>	<b>16,133.2</b>	<b>21,633.2</b>	<b>26,633.2</b>	<b>31,133.2</b>
<b>Deferred tax liability</b>	<b>117.4</b>	<b>124.8</b>	<b>124.8</b>	<b>124.8</b>	<b>124.8</b>
<b>Total Liabilities</b>	<b>32,203.4</b>	<b>34,790.6</b>	<b>41,996.0</b>	<b>48,894.3</b>	<b>55,745.7</b>
Gross Block	6,623.5	7,501.8	9,001.8	10,501.8	12,001.8
Depreciation	1,416.5	1,837.8	2,472.1	3,221.6	4,086.4
<b>Net Block</b>	<b>5,207.0</b>	<b>5,663.9</b>	<b>6,529.7</b>	<b>7,280.2</b>	<b>7,915.4</b>
CWIP	195.5	353.2	700.0	700.0	700.0
<b>Net Fixed Assets</b>	<b>5,402.5</b>	<b>6,017.2</b>	<b>7,229.7</b>	<b>7,980.2</b>	<b>8,615.4</b>
Investments	3,892.0	6,138.0	6,138.0	6,138.0	6,138.0
<b>Current Assets</b>					
Inventories	2,093.5	2,446.8	2,535.6	2,998.0	3,640.1
Sundry Debtors	11,430.3	19,445.2	16,813.5	19,879.6	22,930.6
Cash and Bank balances	1,008.7	1,643.6	2,207.3	3,139.4	3,786.5
Other Current Assets	14,284.1	16,863.5	15,972.8	18,885.6	21,723.7
Loans and Advances	9,318.7	6,605.8	11,769.5	13,319.4	16,172.1
<b>Current Liabilities and Provisions</b>					
Current Liabilities	14,786.8	23,924.2	20,176.2	22,861.6	26,551.2
Provision	439.6	445.3	494.2	584.3	709.4
<b>Net Current Assets</b>	<b>22,908.9</b>	<b>22,635.5</b>	<b>28,628.3</b>	<b>34,776.2</b>	<b>40,992.4</b>
<b>Total Assets</b>	<b>32,203.4</b>	<b>34,790.6</b>	<b>41,996.0</b>	<b>48,894.3</b>	<b>55,745.7</b>

Source : Company, HDFC Securities Institutional Research

**Table 3: Cash Flow Statement**

(Rs.Mn)	FY09	FY10	FY11E	FY12E	FY13E
<b>CASH FLOW FROM OPERATIONS</b>					
<b>PAT</b>	<b>2,259.7</b>	<b>702.1</b>	<b>1,906.1</b>	<b>2,121.7</b>	<b>2,628.1</b>
Adjustments					
Depreciation	473.1	542.8	634.2	749.5	864.8
Interest	1,306.1	1,636.6	2,052.5	2,623.1	3,139.4
Deferred Tax	14.3	7.4	-	-	-
Change in Working Capital	(3,972.5)	908.4	(5,429.1)	(5,215.7)	(5,569.1)
<b>Cash from Operations</b>	<b>80.7</b>	<b>3,797.3</b>	<b>(836.3)</b>	<b>278.6</b>	<b>1,063.2</b>
<b>CASH FLOW FROM INVESTMENTS</b>					
Capital Expenditure	(2,142.7)	(1,157.5)	(1,846.8)	(1,500.0)	(1,500.0)
Investments	(483.0)	(2,245.9)	-	-	-
<b>Cash from Investments</b>	<b>(2,625.7)</b>	<b>(3,403.4)</b>	<b>(1,846.8)</b>	<b>(1,500.0)</b>	<b>(1,500.0)</b>
<b>CASH FLOW FROM FINANCING</b>					
Equity	5.0	(25.4)	-	-	-
Debt	3,301.8	2,153.0	5,500.0	5,000.0	4,500.0
Interest	(1,306.1)	(1,636.6)	(2,052.5)	(2,623.1)	(3,139.4)
Dividends	(218.7)	(249.9)	(200.7)	(223.4)	(276.7)
<b>Cash from Financing</b>	<b>1,782.0</b>	<b>241.1</b>	<b>3,246.8</b>	<b>2,153.5</b>	<b>1,083.9</b>
<b>Net Change in Cash</b>	<b>(763.0)</b>	<b>634.9</b>	<b>563.7</b>	<b>932.1</b>	<b>647.1</b>

Source : Company, HDFC Securities Institutional Research

**Table 4: Ratios**

	FY09	FY10	FY11E	FY12E	FY13E
<b>Working Capital (Days)</b>					
Inventory	15	15	15	15	15
Debtors	66	103	100	100	95
Loans, Adv & Other CA	154	156	165	162	157
Creditors	87	129	120	115	110
<b>Operating Cycle</b>	<b>148</b>	<b>145</b>	<b>160</b>	<b>162</b>	<b>157</b>
<b>Leverage Ratios</b>					
Debt/Equity	0.7	0.8	1.0	1.1	1.2
Net Debt/Equity	0.6	0.7	0.9	1.0	1.1
Debt/EBITDA	3.3	3.0	4.0	4.1	4.0
Interest Coverage Ratio	3.1	3.0	2.4	2.2	2.3
<b>Profitability Ratios (%)</b>					
EBIDTA Margins	8%	10%	9%	9%	9%
Net Profit Margins	5%	1%	3%	3%	3%
RoE	13%	4%	10%	10%	11%
RoCE	14%	15%	13%	13%	14%

Source : Company, HDFC Securities Institutional Research

**February 16, 2011**

<b>Recommendation</b>	<b>BUY</b>
<b>CMP</b>	<b>475</b>
<b>Target</b>	<b>808</b>
<b>Stock Return</b>	<b>70%</b>

Nifty	5,481
Sensex	18,274

**Key Stock Data**

Sector	Packaging
Reuters Code	BIL.BO
BLOOMBERG Code	BILC IN
No. of Shares (mn)	23.6
Market Cap (Rs bn)	11.2
Market Cap (\$ mn)	246
Avg. 6m Vol. (Rs mn)	82

**Stock Performance (%)**

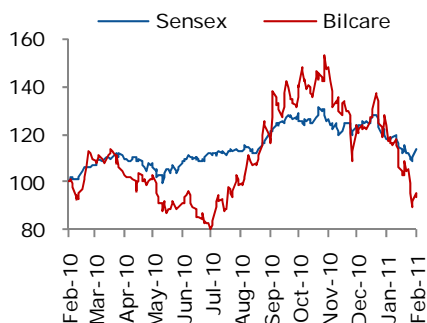
52 - Week high / low Rs 787/403

	3M	6M	12M
Absolute (%)	-36.4	-4.8	-6.0
Relative (%)	-26.4	-5.3	-19.9

**Shareholding Pattern (%)**

Promoters	34.1
FIs & Local MFs	3.8
FIIIs	9.9
Public & Others	52.2

Source: Company

**Sensex and Stock Movement**

**Ranjit Kapadia**
**Ranjit.kapadia@hdfcsec.com**
**91-22-6171 7334**

Bilcare results for Q3FY11 were affected by high employee cost and operating expenses due to Ineos acquisition. Consolidated revenues grew by 149%YoY from Rs2.81bn to Rs7.01bn due to the acquisition of Ineos film division. Excluding Ineos, the revenue growth was 16%YoY. India sales grew by 17%YoY whereas global revenues (excluding Ineos) grew by 14%YoY. The company's EBIDTA margin declined by 1130bps from 24.7% to 13.4% due to the overall increase in expenses. Personnel expenses increased by 630bps from 9.4% to 15.7% of total revenues due to additional salaries and bonus of Ineos employees. Bilcare's interest cost increased by 77% from Rs115m to Rs203m due to the rise in working capital and additional borrowing for Ineos acquisition. Depreciation was up by 58% from Rs143m to Rs226m due to additional depreciation of Ineos assets. Net profit grew by 13% from Rs314m to Rs353m. We maintain BUY rating for the scrip with target price of Rs808 over the next 12 months.

**Revenues to rise by 107% in FY11 and 41% in FY12**

We expect Bilcare to report 107% growth in net sales for FY11 and 41% for FY12 due to good growth of existing business and Ineos acquisition. We expect 40% increase in net profit for FY11 and 48% rise in net profit for FY12. We expect EBIDTA margin to decline from 23.1% in FY10 to 17.1% in FY11 and further decline to 15.9% in FY12 due to higher personnel cost of Ineos employees. We expect the company's RoCE to improve from 10.1% in FY10 to 13.2% in FY12. Its RoE is also likely to improve from 13.4% to 18.0% during the similar period.

**Ineos acquisition-brings big pharma customers**

The acquisition of Ineos brings over 1,900 customers across various sectors ranging from pharma, FMCG, credit cards, gift articles etc. With this acquisition, Bilcare has achieved global leadership in pharmaceutical packaging. Moreover, the company is likely to immensely benefit from the synergies of the two companies as there is no overlap of products.

**BUY with target price of Rs808**

We expect Bilcare to report EPS of Rs68.4 for FY11 and Rs101.0 for FY12 (on fully diluted equity of Rs238m) due to the strong top line growth and lower tax rate. At the CMP of Rs475, the stock trades at 6.9x FY11E EPS of Rs68.4 and 4.7x FY12E EPS of Rs101.0. Bilcare has become the global leader with Ineos acquisition and is likely to benefit immensely from the same. We maintain BUY rating for the scrip with the target price of Rs808 (8x FY12 earnings) with an upside of 70% over the next 12 months.

**Table 1: Financials**

Particulars (Rs mn)	FY07	FY08	FY09	FY10	FY11E	FY12E
Revenues	4,079	6,507	8,560	10,475	21,670	30,500
Growth (%)	54%	60%	32%	22%	107%	41%
EBIDTA	991	1,435	1,865	2,416	3,701	4,857
EBIDTA margin (%)	24.3%	22.1%	21.8%	23.1%	17.1%	15.9%
Net profit	599	816	830	1,169	1,631	2,406
Net profit Growth (%)	54.2	36.1	1.8	40.9	39.5	47.6
EPS (Rs.)	25.1	34.2	34.8	49.1	68.4	101.0
P/E	18.9	13.9	13.6	9.7	6.9	4.7
D/E	1.2	1.8	1.9	0.7	0.8	0.8
RoCE (%)	9.7	8.3	7.9	10.1	11.4	13.2
RoE (%)	19.2	20.8	16.7	13.4	14.8	18.0

Source: Company, HDFC Securities Institutional Research

**Table 2: Valuations**

Particulars	FY07	FY08	FY09	FY10	FY11E	FY12E
P/E	18.9	13.9	13.6	9.7	6.9	4.7
Dividend yield %	0.9	0.9	0.5	0.5	0.6	0.7
P/BV	2.2	2.0	1.6	1.2	1.0	0.8
EV/EBIDTA	9.4	9.3	8.9	6.3	5.0	4.3
EV/Sales	2.3	2.0	1.9	1.5	0.9	0.7
Market cap/sales	1.7	1.2	1.0	1.0	0.5	0.4

Source: Company, HDFC Securities Institutional Research

### Change in estimates

Based on the Q3FY11 results with the integration of Ineos financials for the full quarter, we have revised our FY11 and FY12 EPS estimates downwards by 8% each as follows:

**Table 3: Change in estimates**

Particulars (Rs mn)	FY11-old	FY12-old	FY11-revised	FY12-revised
Total revenues	21,372	30,004	21,670	30,500
EBIDTA	3,831	5,061	3,701	4,857
EBIDTA margin %	17.9	16.9	17.1	15.9
Net profit	1,771	2,620	1,631	2,406
EPS Rs.	74.3	110.0	68.4	101.0

Source: HDFC Securities Institutional Research

### Sales composition and margins

The sales composition and EBIDTA margin for the quarter are shown in the following table:

**Table 4: Sales composition**

Particulars (Rs mn)	Q3FY11	Q3FY10	% change	9MFY11	9MFY10	% change
India	1,691	1,444	17.1	4839	4127	17.3
Overseas	5,315	1,369	288.3	10046	3755	167.6
Ineos	3,750	-	NA	5190	0	NA
overseas(exc. Ineos)	1,565	1,369	14.3	4856	3754.6	29.3
Total Revenues	7,006	2,813	149.0	14885	7881	88.9
<b>EBIDTA</b>						
India	520	424	22.6	1452	1188	22.3
Overseas	416	270	54.1	1253	688	82.2
<b>Overall</b>	<b>936</b>	<b>694</b>	<b>34.9</b>	<b>2705</b>	<b>1875</b>	<b>44.3</b>
<b>EBIDTA margin %</b>						
India	30.7	29.4		30.0	28.8	
Overseas	7.8	19.7		12.5	18.3	
<b>Overall</b>	<b>13.4</b>	<b>24.7</b>		<b>18.2</b>	<b>23.8</b>	

Source: Company

As seen from the above table, the acquired film business of Ineos has reported sales of Rs3.75bn during the quarter. The EBIDTA margin of India business grew by 130bps from 29.4% to 30.7%. The EBIDTA margin of overseas business has declined as Ineos has lower margins, due to its high employee and operational costs.

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The sales growth in India was 17%YoY whereas global business grew by 14%YoY.

The company's tax rate has gone up from 27.9% to 30.4% of PBT due to higher provision for deferred tax.

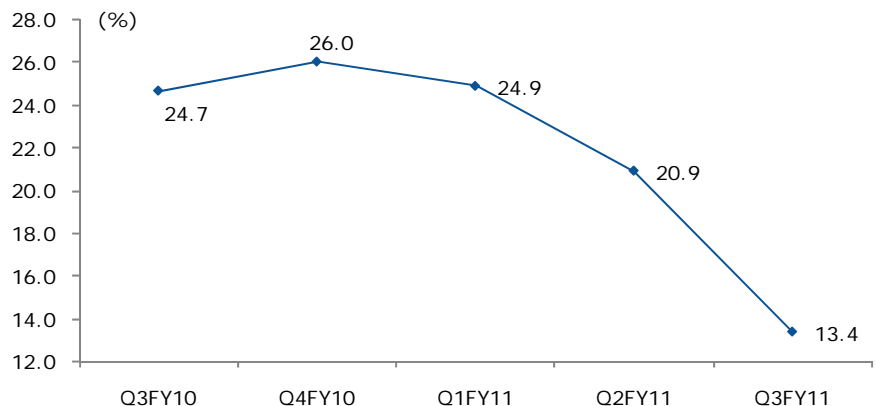
**Result Highlights**

- During the quarter, total revenues grew by 149%YoY from Rs2.81bn to Rs7.01bn due to the acquisition of Ineos film business. Ineos business contributed for the entire quarter. Excluding Ineos, the growth was 16%YoY. The sales growth in India was 17%YoY whereas global business grew by 14%YoY.
- EBITDA margin declined by 1130bps from 24.7% to 13.4% mainly due to the increase in overall expenses from Ineos acquisition. Ineos has manufacturing facilities across Germany, Italy, US and India and hence has higher employee costs. Moreover, the global facilities were closed for two weeks in December due to year end and hence there were no despatches.
- Material cost enhanced by 190bps from 54.8% to 56.7% of net sales due to the change in product mix. Personnel expenses grew by 630bps from 9.4% to 15.7% of net sales due to higher salaries of Ineos employees and annual bonus. Other expenses were up by 300bps from 11.2% to 14.2% of net sales due to higher operational expenses of Ineos facilities.
- Bilcare's depreciation was up by 58% from Rs143m to Rs226m due to the expansion of manufacturing facilities and additional depreciation of Ineos assets. Interest cost was up by 77% from Rs115m to Rs203m due to increase in working capital and additional borrowing for Ineos acquisition.
- The company's tax rate has gone up from 27.9% to 30.4% of PBT due to higher provision for deferred tax.
- Bilcare's net profit improved by 13%YoY from Rs314m to Rs353m. It's net margin declined by 620bps from 11.2% to 5.0%.
- EPS for the quarter grew by 13% from Rs13.3 to Rs15.0.
- Ineos business is EPS accretive for Bilcare.

**EBIDTA margin declined by 1130bpsYoY to 13.4%**

Bilcare's EBITDA grew by 35%YoY from Rs694 to Rs936m. EBITDA margin declined by 1130bps from 24.7% to 13.4% mainly due to the overall increase in expenses due to Ineos acquisition. The Company's EBIDTA margin for the last 5 quarters is indicated in the following graph:

**Chart 1: EBIDTA margin**



Source: HDFC Securities Institutional Research

The margin dropped to 13.4% in Q3FY11 indicating a decline of 750bps QoQ.

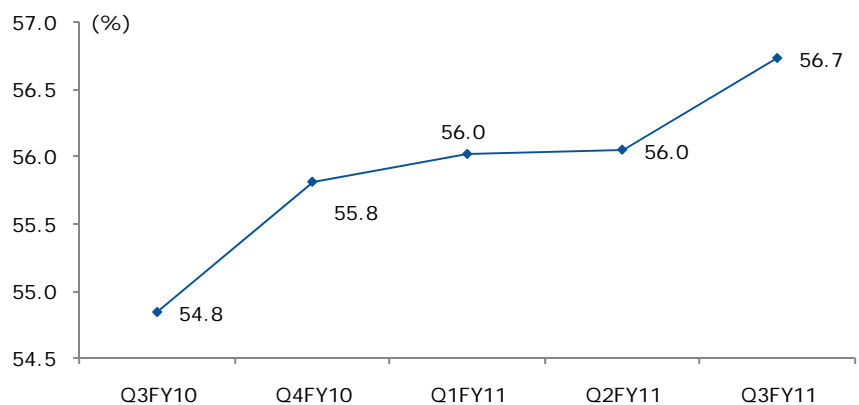
The material cost increased to 56.7% in Q3FY11 indicating 60bps rise on QoQ basis.

As seen from the above graph, the company's EBIDTA margin improved from 24.7% in Q3FY10 to 26.0% in Q4FY10. The margin declined to 24.9% in Q1FY11 and declined further to 20.9% in Q2FY11. The margin dropped to 13.4% in Q3FY11 indicating a decline of 750bps QoQ.

**Bilcare's material cost for last 5 quarters has been shown in the following chart:**

The company's material cost increased from 54.8% in Q3FY10 to 55.8% in Q4FY10 and further increased to 56.0% in Q1FY11. Material cost was maintained at the same level in Q2FY11. The material cost increased to 56.7% in Q3FY11 indicating 60bps rise on QoQ basis.

**Chart 2: Material cost**



Source : HDFC Securities Institutional Research

## Outlook

### On strong growth path

The company's PPI business has reported 17% growth in India in line with the industry growth of 17% during the quarter.

Bilcare is on the strong growth path. The company's PPI business has reported 17% growth in India in line with the industry growth of 17% during the quarter. The global business (excluding Ineos) grew by 14% during the quarter. With the expiry of patents of many blockbuster drugs, the use of generics is likely to increase. Bilcare is likely to benefit from the higher use of generics. Its GCS business is likely to witness good growth, as most of the MNC pharma companies are likely to enhance their budget for the clinical trials.

### Ineos Acquisition

The acquisition was done at Rs6.07bn (Euro100m) at 0.42x sales.

Bilcare, the leading player in PPI and GCS has acquired Ineos Group's Global Films business. The acquisition has been done through Bilcare AG, the step down subsidiary of Bilcare. The acquired business has sales of Rs14.58bn (Euro 240m), higher than Bilcare's consolidated FY10 revenues of Rs10.5bn. The acquisition was done at Rs6.07bn (Euro100m) at 0.42x sales. Ineos films is one of the leading global manufacturer of high quality rigid PVC films with a customer base of over 2,000 located across various industries. Ineos films division employs 1,300 people with sites in US, Germany, Italy and India.

The US generic market is likely to witness higher growth with the expiry of patented products of \$80bn (Rs3, 600bn) over the next five years.

Bilcare's NST has been embedded in products of reputed pharma and agrochemical companies.

Singapore Heritage Board (Museum)

Sanden Corporation, Singapore for car air-conditioners

Ineos has over 30 year's relationship with big pharma, which Bilcare will capitalize on.

#### **Well established in the US market**

Bilcare has a strong presence in the US market as its 50% JV in International Labs is the supplier to Wal-Mart. The US generic market is likely to witness higher growth with the expiry of patented products of \$80bn (Rs3, 600bn) over the next five years and with the inclusion of 45m US population in the healthcare schemes.

#### **NST successfully applied across industries**

For enhancing the presence in anti-counterfeit solutions, Bilcare acquired Singular ID-a Singapore based technology innovator company for \$13m (Rs585m) in Dec'07. The company's Nonclonable Securities Technology (NST) is successfully applied as anti counterfeit measure across all manufacturing industries. The technology finds applications in pharma, FMCG, agrochemicals, credit cards, white goods, automobiles, financial & document securitization, currency notes, fashion garments and art segments. NST helps the customers to verify the authenticity of the products with the help of point-of-sale authentication devices. It also allows tracking the goods throughout the supply chain.

Currently, Bilcare's NST has been embedded in products of reputed pharma and agrochemical companies namely: Ranbaxy Labs, Panacea Biotec, Merck, Mankind, Jubilant Organosys and Indofil Chemicals.

#### **Application of NST to non-pharma applications**

Bilcare has successfully applied the NST to the following non-pharma applications:

- Indofil Chemicals-a reputed agrochemical manufacturer as anti-counterfeit measure
- An automobile ancillary manufacturer of Europe
- Document publishing company in the US as security measure
- Delhi Police for identity cards
- Singapore Heritage Board (Museum)
- Sanden Corporation, Singapore for car air-conditioners
- FMCG company in Europe
- Wine manufacturer of the US
- Telecommunication Consultants of India (TCIL)-a Government of India Enterprises has signed MoU with Bilcare for diverse needs of security of Government's technology projects within and outside India.

#### **Ineos Acquisition brings new customers**

Bilcare has currently 400 pharma customers located in India and globally. The Ineos acquisition will bring additional 1,900 global customers with their long-standing relationship. Ineos has over 30 year's relationship with big pharma, which Bilcare will capitalize on. Ineos plays a major role in pharma packaging, films for printing & decoration, shrink film for sleeves, capsules, credit cards and identity cards. Ineos global films have production capacity of 140,000 tpa of films spread across various countries. Ineos Films is the only integrated rigid film producer in Europe and offers most cost effective solutions.

Ineos business is EPS accretive and is likely to generate EPS of Rs6.7 in FY11 (for 7 months) and Rs22.6 for FY12.

We have not considered NST revenues in our projections for FY11 and FY12. Any upside from this business will be in addition to our estimates.

Global market leadership in pharma packaging with the acquisition of Ineos in Q2FY11.

Expiry of \$80bn (Rs3, 600bn) patented products over next 5 years leading to \$8bn (Rs360bn) generic opportunity for Indian pharma companies.

Integration of NST with credit card business to provide additional security.

We expect the company's RoCE to improve from 10.1% in FY10 to 13.2% in FY12.

We maintain BUY rating for the scrip with the target price of Rs808 (8x FY12 earnings) with an upside of 70% over the next 12 months.

## Financials

### Ineos revenues

We expect Ineos business to generate revenues of Rs8.75bn in FY11 (7 months) and Rs15.3bn in FY12. Though, the business has low EBIDTA margin, the business is likely to add 1.5x revenues to Bilcare's existing business of Rs10.5bn. Ineos business is EPS accretive and is likely to generate EPS of Rs6.7 in FY11 (for 7 months) and Rs22.6 for FY12.

### NST likely to boost profitability

Any positive development on the NST front is likely to improve the sales and profitability of the company, as NST enjoys very high margins.

We have not considered NST revenues in our projections for FY11 and FY12. Any upside from this business will be in addition to our estimates.

## Growth drivers

- Strong growth in the domestic pharma market as the market has grown by over 16% during CY10.
- Global market leadership in pharma packaging with the acquisition of Ineos in Q2FY11.
- Providing packaging solutions to its customers rather than a packaging material supplier.
- Over 75% of revenues to come from outside India due to Ineos acquisition.
- Cross selling of products of Bilcare and Ineos thereby improving margins of Ineos.
- Additional 1,900 customers of Ineos added during Q2FY11.
- Expiry of \$80bn (Rs3, 600bn) patented products over next 5 years leading to \$8bn (Rs360bn) generic opportunity for Indian pharma companies.
- Additional 45m US population to receive medical benefits, which are not currently covered under healthcare schemes.
- Integration of NST with credit card business to provide additional security.
- Multi location manufacturing facilities in India, Singapore, US and Europe for better service to the customers.
- New client additions in GCS business due to Ineos acquisition.

## Valuation

We expect Bilcare to report 107% growth in net sales for FY11 and 41% for FY12 due to good growth of existing business and Ineos acquisition. We expect 40% increase in net profit for FY11 and 48% rise in net profit for FY12. We expect EBIDTA margin to decline from 23.1% in FY10 to 17.1% in FY11 and further decline to 15.9% in FY12 due to higher personnel cost of Ineos employees. We expect the company's RoCE to improve from 10.1% in FY10 to 13.2% in FY12. Its RoE is also likely to improve from 13.4% to 18.0% during the similar period.

We expect Bilcare to report EPS of Rs68.4 for FY11 and Rs101.0 for FY12 (on fully diluted equity of Rs238m) due to the strong top line growth and lower tax rate. At the CMP of Rs475, the stock trades at 6.9x FY11E EPS of Rs68.4 and 4.7x FY12E EPS of Rs101.0. Bilcare has become the global leader with Ineos acquisition and is likely to benefit immensely from the same. We maintain BUY rating for the scrip with the target price of Rs808 (8x FY12 earnings) with an upside of 70% over the next 12 months.

## Institutional Research

Table 5: Q3FY11 results-consolidated

PARTICULARS	Q3FY11	Q3FY10	YoY	Q2FY11	QOQ	9MFY11	9MFY10	YoY
	DEC.10	DEC.09	Gr%	SEPT.09	Gr%	DEC.10	DEC.09	Gr%
Net sales	7,006	2,813	149.0	4,805	45.8	14,885	7881	88.9
<b>Expenditure</b>								
Raw materials	3,975	1,543	157.6	2,693	47.6	8,390	4353	92.7
as % of net sales	56.7	54.8		56.0		56.4	55.2	
Personnel expenses	1,103	263	319.0	567	94.7	1,962	732	168.1
as % of net sales	15.7	9.4		11.8		13.2	9.3	
Other expenses	993	314	216.4	541	83.5	1,828	922	98.4
as-% of net sales	14.2	11.2		11.3		12.3	11.7	
Total Expenditure	6,070	2,120	186.4	3,801	59.7	12,180	6,006	102.8
<b>EBIDTA</b>	936	694	35.0	1,004	-6.8	2,705	1,875	44.3
EBIDTA Margin (%)	13.4	24.7		20.9		18.2	23.8	
Other income	0	0	NA	-	NA	0	0	NA
<b>PBDIT</b>	936	694	35.0	1,004	-6.8	2,705	1,875	44.3
Depreciation	226	143	57.5	193	16.8	578	406	42.3
Interest	203	115	76.9	209	-2.9	582	317	83.8
PBT	507	435	16.5	602	-15.7	1,545	1,152	34.1
Prov. For tax	154	122	26.6	136	12.9	420	332	26.6
% of PBT	30.4	27.9		22.7		27.2	28.8	
PAT	353	314	12.6	465	-24.1	1,125	821	37.1
Equity capital	236	236	-	236	0.0	236	236	0.0
EPS Rs.(Rs.10 Paid up)	15.0	13.3	12.6	19.8	-24.1	47.8	34.8	37.1

Source: Company, HDFC Securities Institutional Research

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