Dimensional Securities Pvt Ltd.

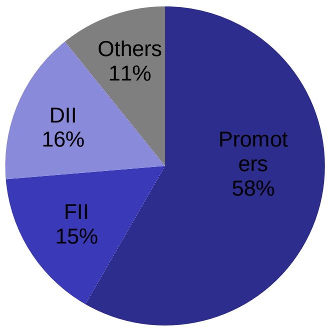
Date: 14th September, 2015
Recommendation: BUY
CMP: 689
Target Price: 746

Balkrishna Industries Limited
Initiating Coverage

MARKET DATA	
NSE TICKER	BALKRISIND
Networth (₹Cr)	2,888
P/BV Ratio (FY16E) (x)	2.3x
EPS (FY16E) (₹)	63.9
Market Price (₹)	689
P/E Ratio (FY16E) (x)	10.5
52 Week High (12/11/2014)	856
52 Week Low (17/12/2014)	536
Market Capitalisation (₹Cr)	6,717

AVERAGE MONTHLY VOLUME ('000)	
BSE	2.6
NSE	24.1

SHARE HOLDING PATTERN



Return	3M	6M	12M
BIL	-3%	10%	-14%
Sensex	-3%	-11%	-6%

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Balkrishna Industries (BIL) is a niche play in the Off Highway Tyres (OHT) business with ~85% of the revenue from exports. BIL volumes have been growing at a CAGR of ~5% for the past 3 years despite challenging demand scenario. The company has been able to continuously increase its market share supported by low cost advantage. We initiate coverage on the stock with a buy rating of ₹ 746 by March 2016.

Capacity addition at Bhuj plant to drive volume growth in the future

BIL has increased its capacity from 1.6lac tpa to 3lac tpa by setting up a plant at Bhuj in a phased manner which is now fully commissioned. The new plant is capable to produce large size OTR tyres which constitutes ~60% of total OHT market. Currently, the company derives 60% of its sales from Agriculture segment with ~50% sales from European market. With the new plant, it is focusing on the OTR segment, especially in US and India. We remain positive on BIL's long term prospects to gain market share in new markets.

Change in the product mix to improve margins going forward

Around 60% of the total capacity at Bhuj will focus towards manufacturing radial tyres, which enjoy ~5-7% premium compared to bias tyres, thereby strengthening its margins going forward. Also, Bhuj plant has a higher mix of OTR tyres compared to Agriculture tyre. The focus will be on OTR market which enjoys 5-7% pricing premium over agricultural tyres.

Low labour cost provides competitive advantage to BIL

BIL has a competitive advantage over international peers in terms of labour cost. (~5% of revenue compared to ~20-24% of the latter).

Significant entry barrier – Low Volume High SKUs

OHT segment predominantly known as "large varieties – low volume segment" and only constitutes 7-8% of the global tyre market. The segment remains a niche one due to this. Also, players need to constantly invest in R&D to develop new (SKUs).

Raw Material and forex risk

The company's major raw material rubber (~50% of the net sales) is an agricultural commodity and has witnessed significant price volatility in the past. Any adverse movement of the commodity may impact its margin. The current softening of rubber prices has improved the profitability of the tyre industry. Also, the company is exposed to Euro risk as ~50% sales are derived from the continent. For the current fiscal, it has forward contracts hedged at ₹ 85 per Euro for FY16E.

FINANCIAL OUTLOOK & VALUATION

We expect BIL's Net Sales and PAT to grow at a CAGR ~5.4% and ~11.4% respectively on account of falling RM prices. We expect ROE to fall due to lower leverage as repayment of loans has started. Using DCF method, we value BIL at ₹ 746 by March 2016. At our target price, the implied P/E is 11.7x and 11.9x on FY16 and FY17.

Financial summary:

Rs. Cr	Net Sales	Growth(%)	EBITDA*	EBITDA(%)	PAT	EPS	P/E	ROE	ROCE
FY14	3577	12.1%	894	25.0%	488	50.5	9.5x	29.6%	19.2%
FY15	3780	5.7%	1003	26 .5%	489	50.6	12.8x	23.4%	17.2%
FY16E	3835	1.4%	1141	29.7%	618	63.9	10.5x	23.9%	20.3%
FY17E	4203	9.6%	1139	27.1%	606	62.7	10.7x	19.1%	19.7%

* Foreign exchange fluctuation is the profit after hedging sales from Europe and is a part of EBITDA

BIL focuses on the niche OHT market

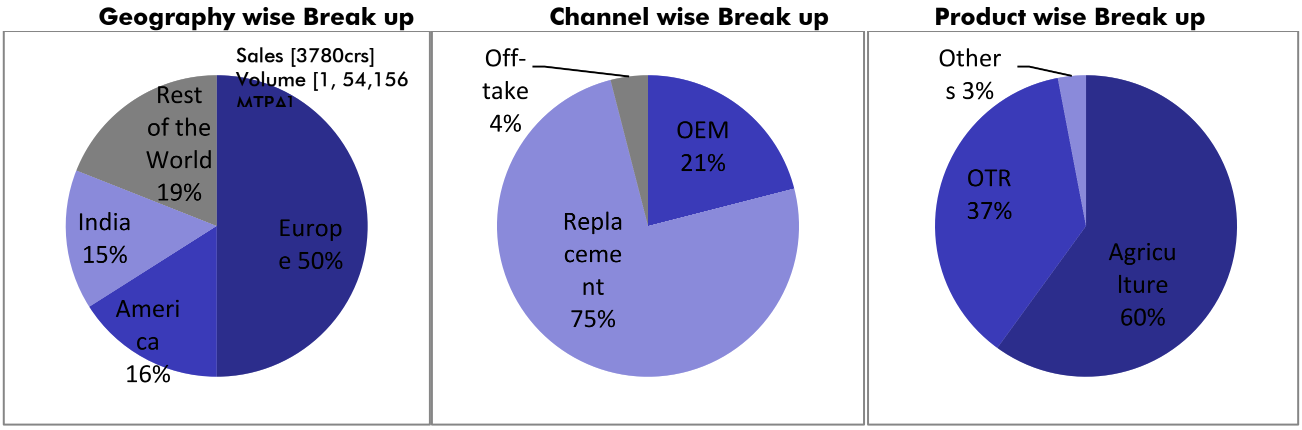
BIL manufactures Off-Highway Tyres (OHT) for agricultural, industrial, material handling, construction, earthmoving, forestry, lawn and garden equipment and all-terrain vehicles. It has 4 tyre manufacturing plants with the total production capacity of 3, 00,000 MTPA.

The global OHT segment accounts for 7-8% of world's total sales combining all tyres categories and currently estimated at USD ~15bn. BIL's focus on the OHT segment where OHT business forms only 10-15% of revenue for global players like Michelin & Bridgestone should augur well for the company. Due to lower market size, BIL faces less competition.

BIL revenues have increased at ~22% CAGR (₹ 3780 for FY15) where as its PAT margins have increased by ~19% CAGR (₹ 489 for FY15) in the last 5 years.

BIL sales are inclined towards the agriculture segment & replacement market. However, with the expansion of Bhuj plant, BIL has been trying to increase its exposure towards OTR & OEM sales which has increased from 34% to 37% & 12% to 21% from FY13 to FY15.

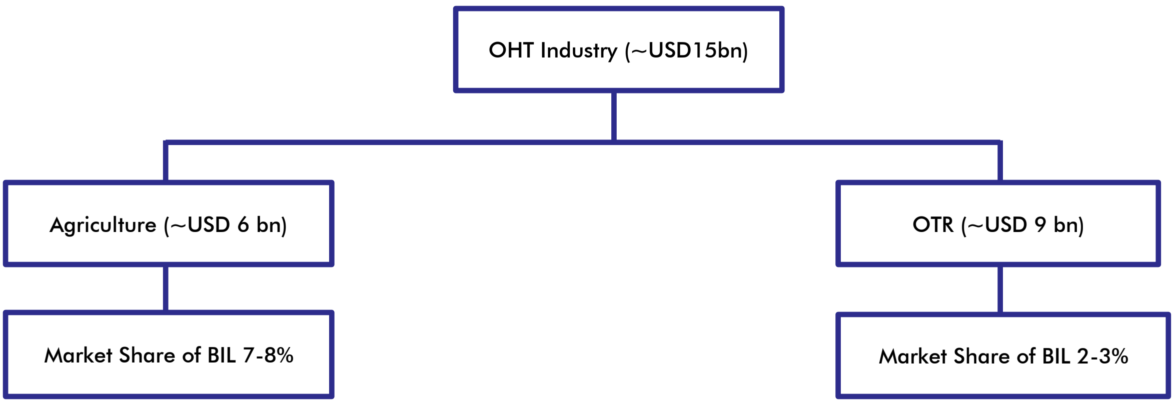
Chart – Sales Break up for FY15



Source: Company, DSPL

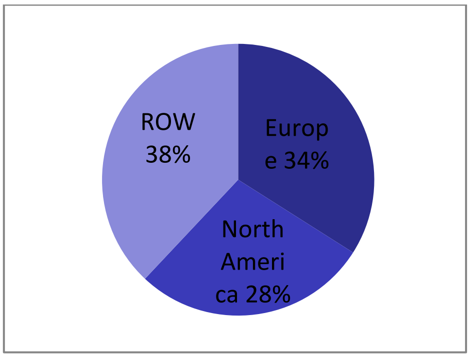
Snapshot of the OHT Industry

Global OHT market and BIL's market share



Source: Industry, DSPL

Chart – Geographic mix of Global OHT Market



Source: Industry, DSPL

The global OHT segment accounts for 7-8% of world's total sales combining all tyres categories and currently estimated at USD ~15bn. The developed economies (Europe and America) are the key markets for OHT and constitute over 60% of the global demand. This is primarily due to the fact that the level of mechanization in agriculture and earthmoving/mining is relatively higher in these countries.

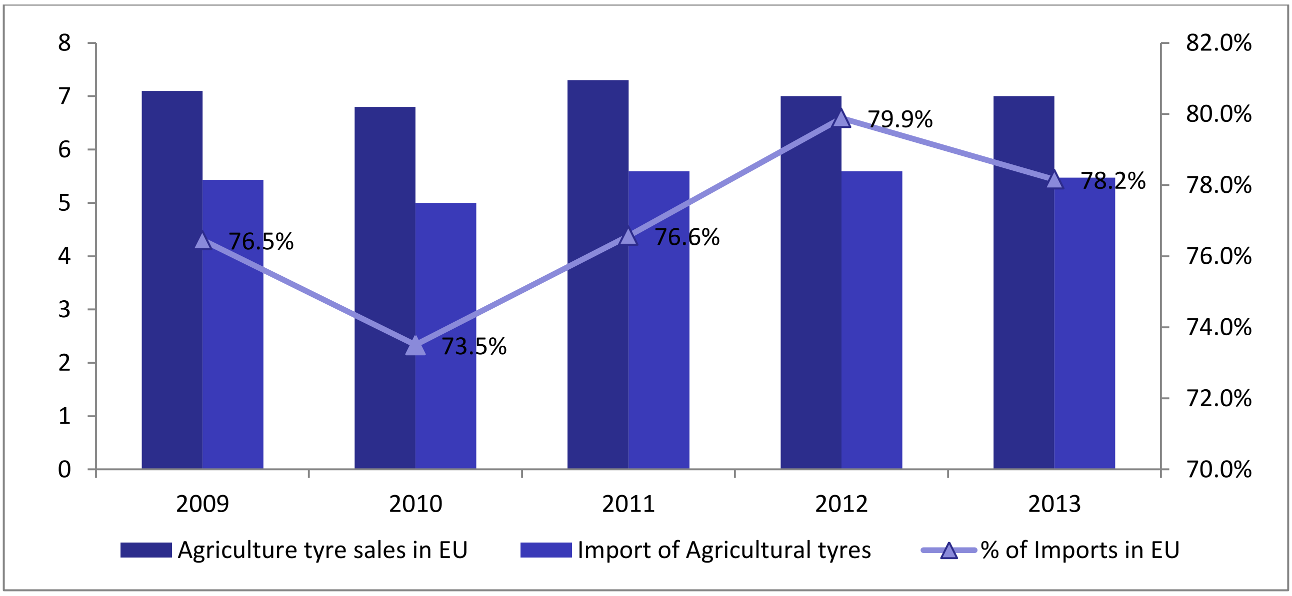
Demand remains challenging all over the globe due to fall in agricultural commodity prices and slowdown in construction and mining activity. Some improvement is seen in Europe but demand has weakened in America especially in the construction and mining sector.

The Chinese advantage comes from mass production of standardized products. The high variety, low volume nature of OHT has prevented Chinese companies from becoming dominant players in the business.

The US agriculture replacement tyre market forms ~1.4% ($538mn) and US OTR replacement tyre market forms ~1.6% ($560mn) of the overall US replacement tyre market ($37.4bn).

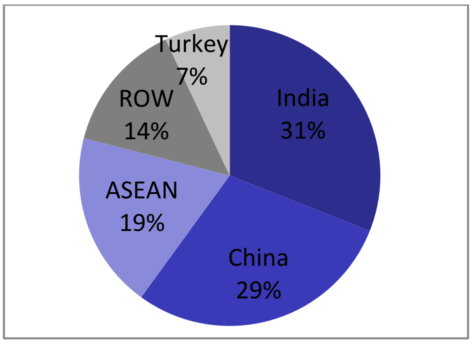
Over the years, European import of tyres for agriculture as a % of total agriculture tyre sales in Europe has been high (greater than 75%). It shows high level of penetration & competition in the European market. We expect low or stable growth in the European markets for BIL in the future. For the past 2 years agricultural tyre imports in Europe has reported 1% de-growth.

Chart – European imports of agriculture tyres as a % of total agriculture tyre sales in Europe (Euro in mn.)



Source: ETRMA

Major Import Destinations for Europe: 2013



Source: ETRMA

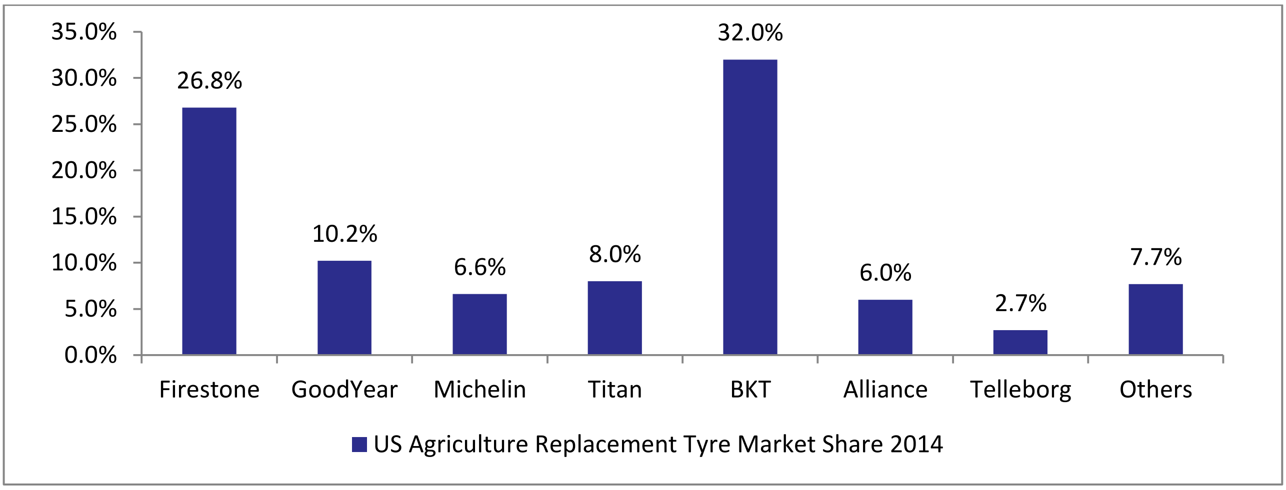
Capacity addition at Bhuj plant to drive volume growth in the future

BIL has increased its capacity from 1.6lac tpa to 3lac tpa by setting up a plant at Bhuj in a phased manner which is now fully commissioned. The company is focusing on the OTR & US market where it has low penetration compared to European market. Given the weak demand outlook for both the mining & agriculture, we expect utilisation levels to gradually improve for the new plant. We expect FY16E volumes to remain flat (up 1% YoY) while we expect FY17E volumes to grow 8% YoY. The company has identified 2 key growth areas viz., US market (OEM and mining) and Indian OHT market.

(a) US OEM Market

BIL is the largest player in the US agriculture tyre replacement market, which is almost the same size as the US agriculture tyre OEM market. However, it has negligible presence (~1%) in the US OEM agriculture market where as it has ~32% markets share in the US agriculture replacement market. With the Bhuj manufacturing unit commissioned, the company is all set to tap the US agriculture tyre OEM market. BIL's overall OEM presence has increased from 12% to 21% from FY13 to FY15.

Chart – Market leader in the US agriculture replacement tyre for the year 2014



Source: Modern Tire Dealer

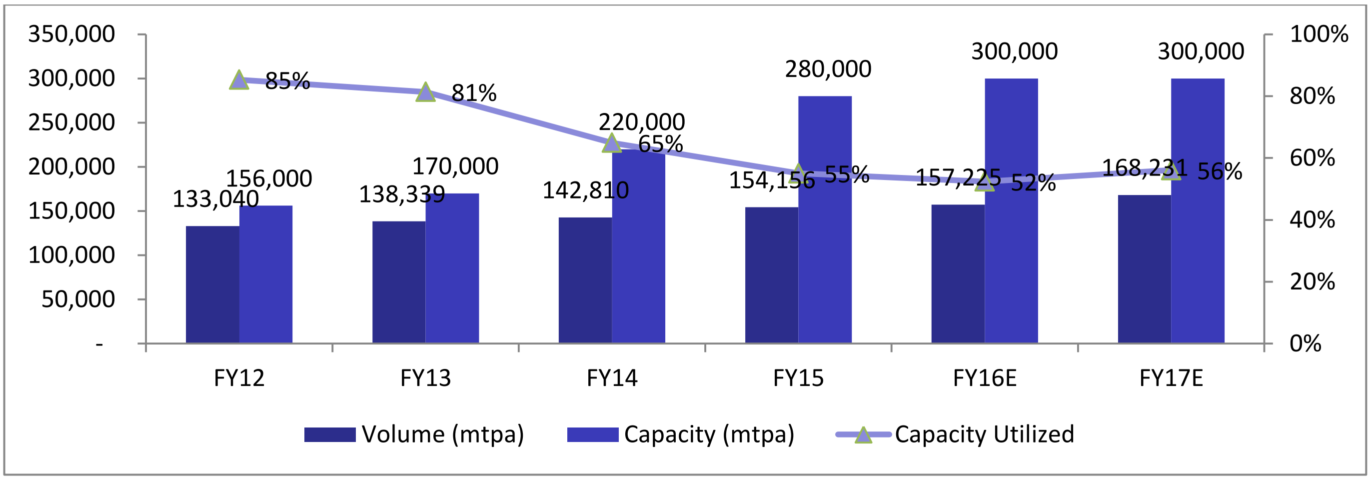
(b) US Mining Market

The new facility at Bhuj is focusing on the ultra large tyres in the mining segment and currently the tyres are under trial by the OEMs. These ultra large tyres contribute a significant portion (~60%) of the market size in value terms in the mining tyre industry. It has high realizations & a lower replacement cycle of ~9months to 1 year. We expect the test results to be positive and BIL to receive new orders for the same.

(c) Indian Markets

Indian OHT markets have grown by ~15% & ~8% in FY14 & FY15 respectively. BIL's market share in India in value terms is ~4-5%. Expansion would allow BIL to increase its presence in the Indian market as it is the only focused player in the OHT segment. Management expects India's share in geographical mix to increase from ~15% to ~20% over the next 4 years with a strong mining uptick in India with the upcoming coal sector reforms. BIL's share of India sales has grown from ~8% to ~15% in the past 2 years.

Chart – Capacity addition at Bhuj decreasing capacity utilization in (%) terms



Source: Company, DSPL

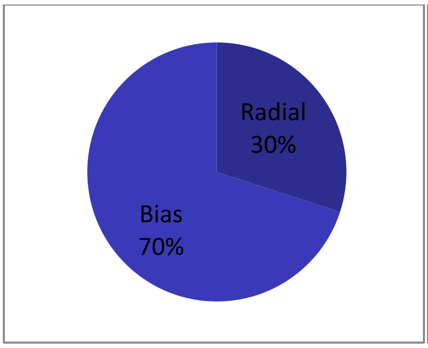
Change in product mix to improve margins going forward

Of the total capacity at Bhuj plant, 60% will cater to manufacturing radial tyres, which enjoys ~5-7% premium when compared to bias tyres, thereby boosting margins going forward. The current radial/bias mix of BIL is 30%/70% respectively. By FY19, after full ramp up at Bhuj plant the radial/bias mix is expected to be 40%/60%.

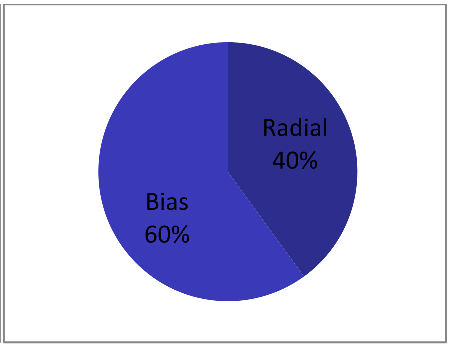
The Bhuj plant is also expected to expand capacity in the non-agricultural off-the-road (OTR) tyre segment, that is, industrial, construction and mining tyre space, which constitutes 2/3rd of the global OHT market. Restricted by capacity constraints, BIL holds less than 2% of market share in this segment and derived around 37% of its revenue in FY15. The new Bhuj plant will be focusing more towards manufacturing large-diameter tyres catering to OTR segment which has smaller replacement cycles (around 9m-1yr). Margins in the OTR segments are ~5-7% higher than agricultural segments. Management highlighted that margins at its Bhuj plant will be better by 2-3% than its existing plant at full capacity utilization due savings in power and freight costs.

Chart – Share of Radial tyres to go up by FY19E

FY15



FY19E



Source: Company, DSPL

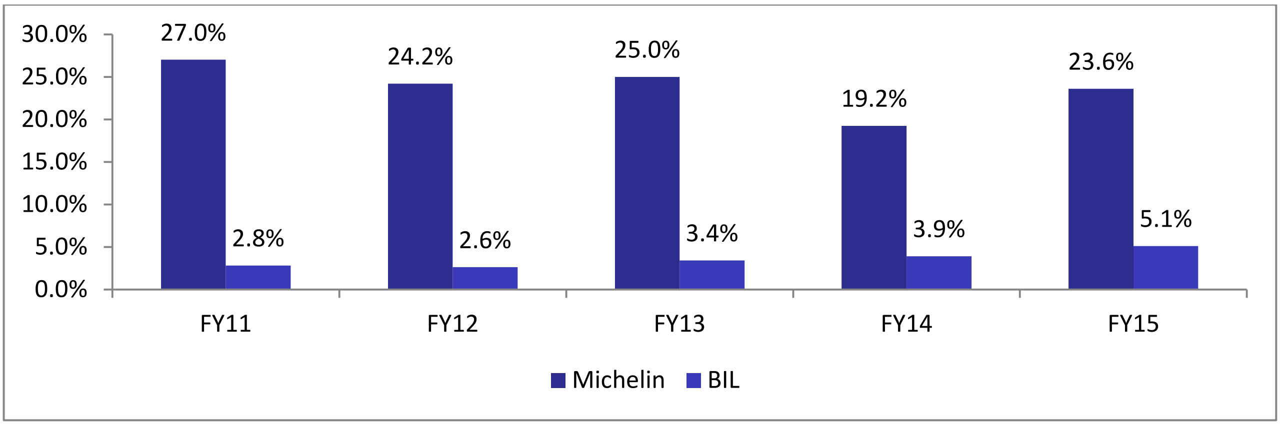
Low labour cost provides competitive advantage to BIL

Having a manufacturing base in India; gives BIL a competitive advantage of cheap labour cost over its competitors who has manufacturing facilities in developed nations. India is highly competitive in the global economy because of skilled engineering and availability of cheap labour. Since this is a high SKU business, the labour intensity is much higher compared to other business. BIL has an ideal labour mix of skilled and unskilled labour which plays as a strength in OHT production.

Other global players like Titan International, Michelin and Bridgestone with manufacturing facilities at developed nations have their labour cost ~20-25% of their sales.

BIL's labour cost as a percentage of sales was ~3% in 2012 where it was working at ~85% capacity. The Bhuj plant came into operations during 2015, post which the labour cost as a % of sales have increased to ~5% which is ~55% of the capacity. We expect operating leverage to factor in the medium term reducing the labour cost as a % of sales which would drive the margins going forward.

Chart – Employee cost as a % of net sales



Source: Company, DSPL
Note – For Michelin it's Calendar year

Significant entry barrier – Low Volume High SKUs

BIL is a niche play globally and the largest in India in the OHT segment generating 85% of revenue via exports. High degree of customization makes the industry low volume and large variety business by nature. A wide range of product portfolio is mandatory for an OHT manufacturer. BIL has a large product portfolio that will be difficult for the new players to replicate hence creating an entry barrier. BIL has over 2,200 SKUs built over a span of 15 years and develops 100-120 SKUs every year. The smallest SKU ranges from 5" go karting tyres (1.7kg) to the largest 51" mining tyres (1,700kg).

To remain competitive in the OHT business, company needs to continuously invest in R&D for development of huge product portfolio (SKUs). BIL has incurred cost of ~4% of sales on R&D for FY15.

BIL to gain on falling rubber & crude oil prices

The falling demand from China, the world's largest consumer of rubber, combined with the plunging crude oil prices, are the major reasons for a free-fall in rubber prices. From July 2014 to July 2015, international rubber prices have fallen 19% from USD 92 per pound to USD 74 per pound. Drop in crude oil prices has also lowered synthetic rubber prices. This, in turn, has encouraged tyre makers to increase synthetic rubber content, which will also affect the demand for natural rubber. The margins for all the tyre companies have been increasing as they have not passed on the benefit to the consumers. We expect commodity prices to stabilize post FY15 and BIL to benefit in the near term, improving gross margins than the long term average.

Chart – International Rubber Prices (USD/Pound)

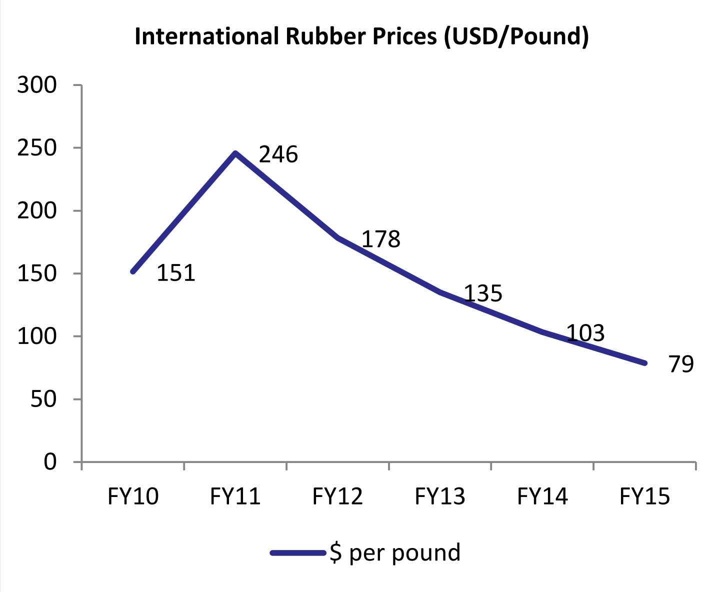
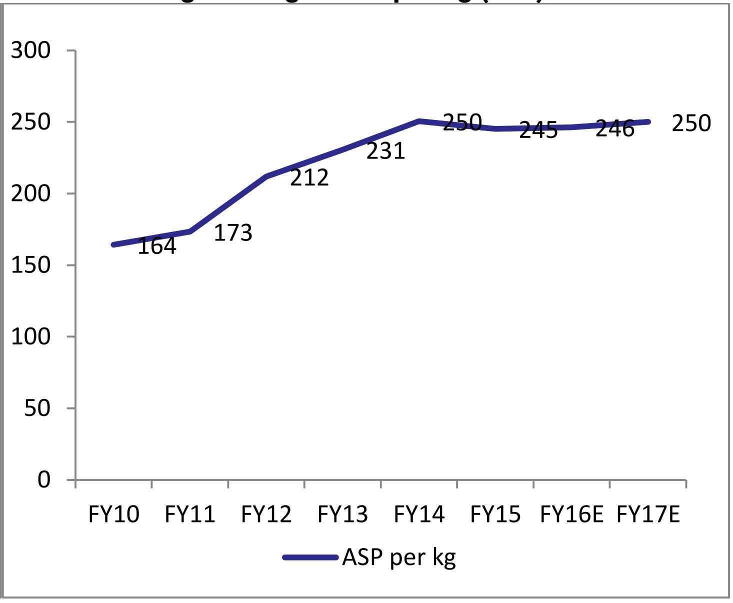


Chart – Average Selling Price ₹ per kg (ASP)



Source: Company, DSPL

Chart – Gross Margin on a uptrend

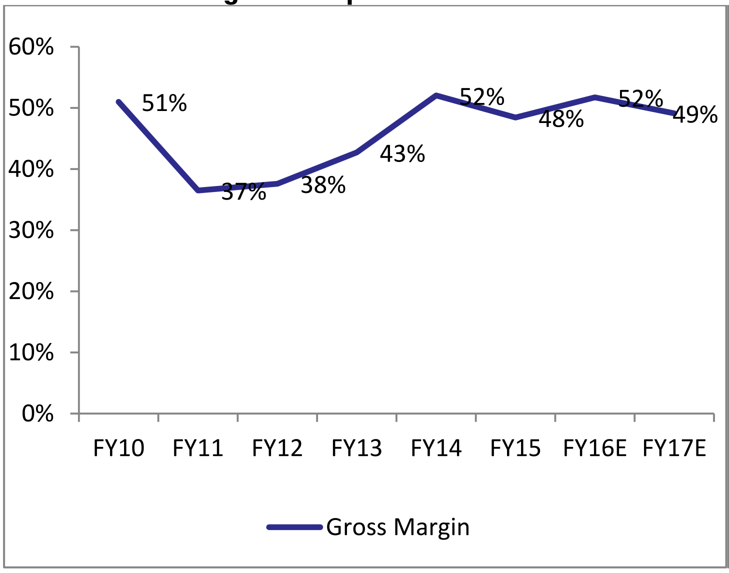
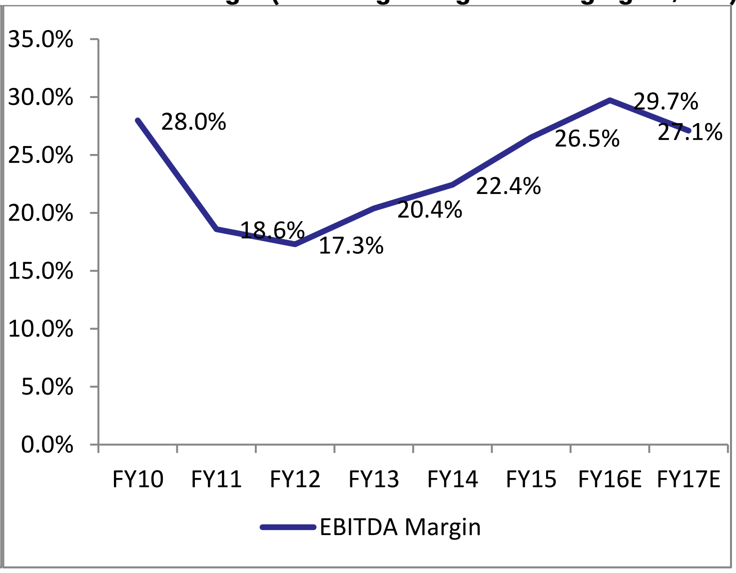


Chart – EBITDA Margin (including foreign exchange gain/loss)



Source: Company, DSPL

**Note – Foreign exchange fluctuation is the profit after hedging sales from Europe and is a part of EBITDA*

Margins vulnerable to forex exposure

BIL derives 85% of its revenue through exports (~50% in EUR and ~35% in USD), exposing it to the risk of currency fluctuation. As it imports all of its raw material (rubber) in USD entire USD revenues are naturally hedged. For the balance exposure in Euros, the company enters into a 12 month forward contracts. Currently, BIL is hedged for FY16 at EUR INR 85.

BIL is yet to hedge its FY17 euro position. Thus, its margins are highly vulnerable to foreign currency changes. Its focus on expanding in Indian markets would reduce foreign currency risk to some extent.

BIL had raised a loan of $275mn for expanding its capacity. As rupee depreciates, company's outgo in rupee terms will increase. However, since it is largely into exports, it will benefit from rupee depreciation

Euro Sensitivity Analysis assuming the company has not hedged for FY17E with the base rate as ₹ 80 per Euro

If Euro Depreciates by -/+ 5% to Rupee			
	by -5%	No change	by +5%
FY17E PAT	553crs	506crs	459crs
% change	9.3%	0%	-9.3%

Source: Company, DSPL

Competition Threat

The company operates in a niche segment with majority of the market being dominated by global giants like Bridgestone, Titan International and Michelin etc. Currently, due to high level of customisation and low volume growth, BIL faces much less competition from domestic players.

Alliance Tyre Group, competitor of BIL (with net sales of 3450crs for CY14) has already set up a plant in Tirunelveli near the port in Tamil Nadu. It is setting up a second plant in Gujarat near Dahej port. Being near a port reduces the logistic cost by 3-4%.

Significant increase in Management remuneration as a % of total employee cost

Management remuneration has increased by ~109% CAGR from FY12 to FY15. As a % of total employee cost, it has increased from ~9% in FY12 to ~31% in FY15.

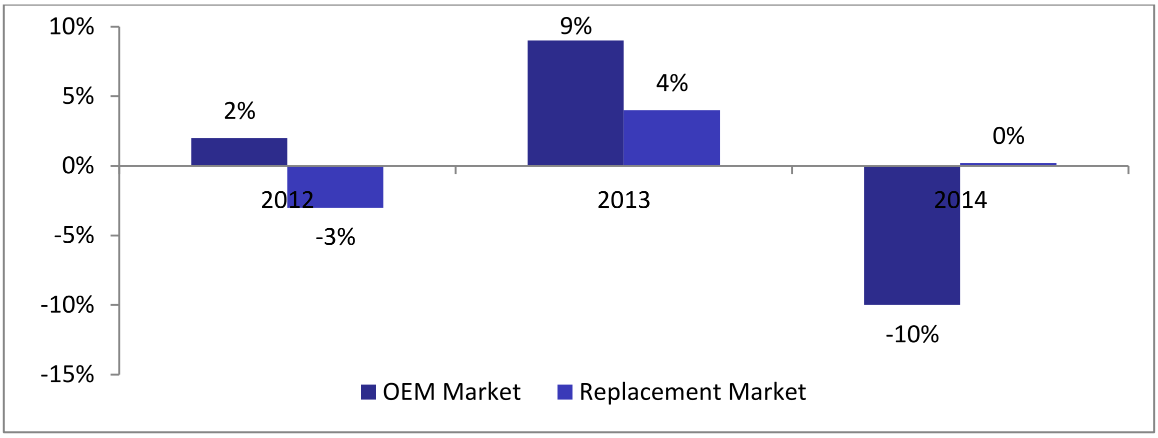
Amt in Crs.	**FY12**	**FY13**	**FY14**	**FY15**
Arvind Poddar	5.2	11.3	16.2	27.2
Rajiv Poddar	1.2	6.3	10.1	19.7
Vijaylaxmi Poddar	0	5	8.4	12.7
Total	6.4	22.6	34.7	59.6
Total Employee cost	72	108	139	194
Management remuneration as a % of total employee cost	9%	21%	25%	31%

Source: Company, Ace Equity

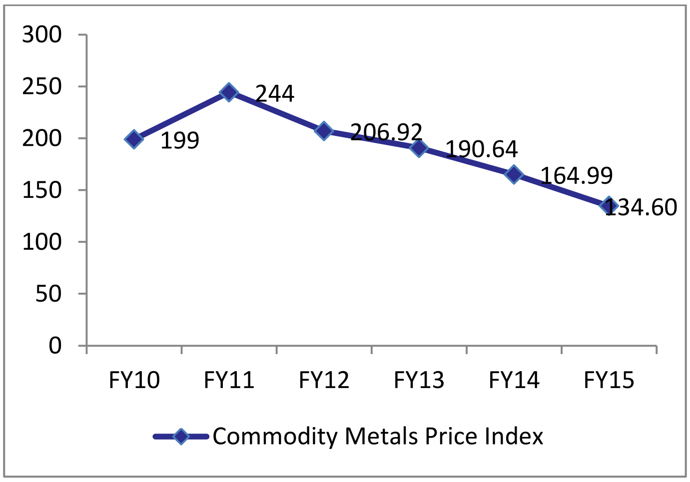
Challenges in the Mining & Agriculture sector

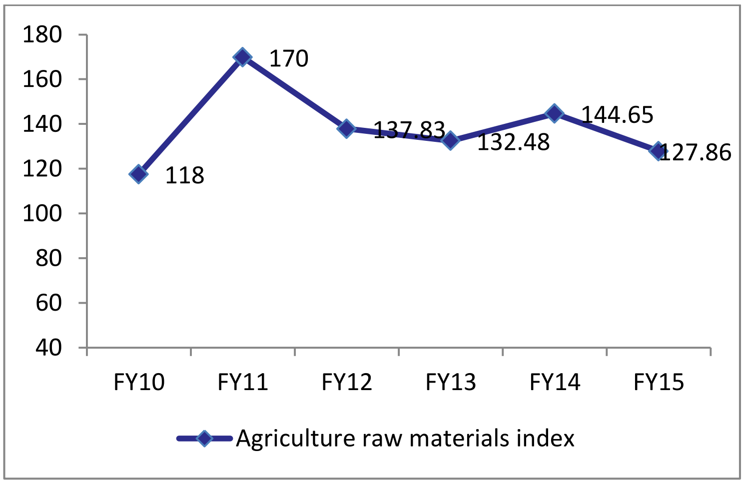
Global demand for Off-Highway Tyres (OHT) is weak due to fall in agricultural commodity prices and slowdown in the construction and mining segments. Some signs of improvement are visible in Europe but demand has weakened in the America. In the US, mainly the OEM sales in agriculture and ultra large tyres sales in mining were affected. In CY14, both US agriculture replacement tyres and OEM agriculture tyres showed weakness.

Chart - Growth in both the US agriculture replacement tyres & OEM tyres



Source: Modern Tire Dealer

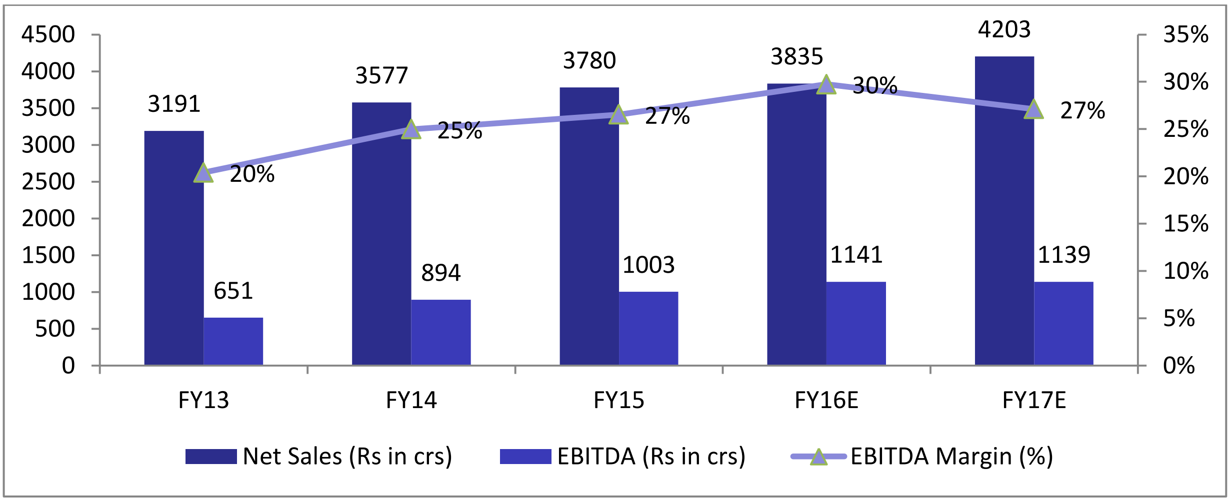




Source: Industry, DSPL
**Note – Base year 2005 = 100*

Financials

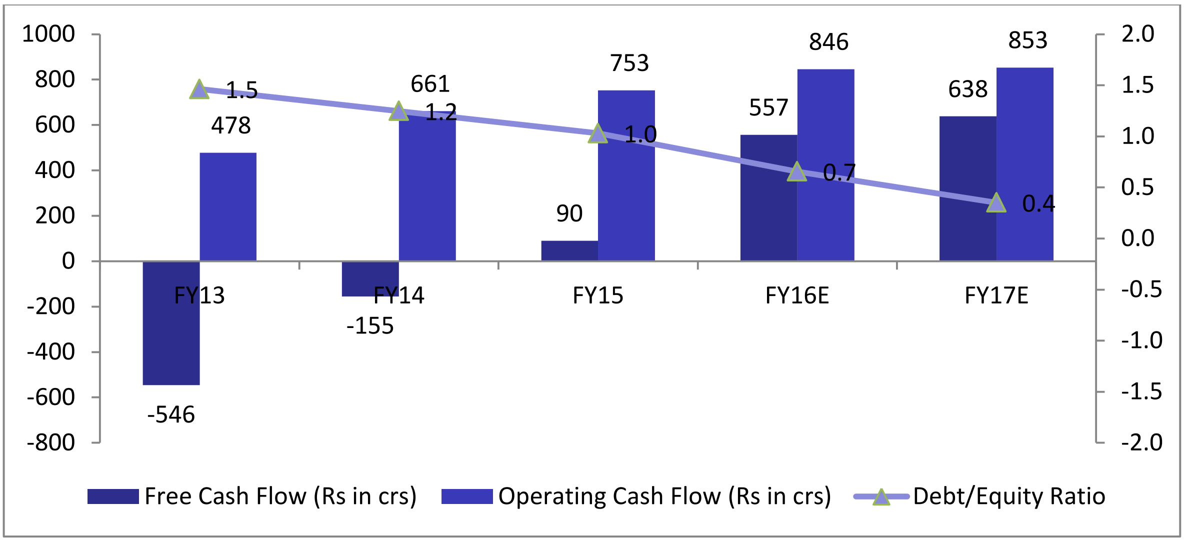
We expect BIL to have a flattish volume growth (~1%) for FY16E and ~8% for FY17E. We expect EBITDA margins would be sensitive to the fluctuations in the raw material prices. Being an export oriented business, BIL will benefit from the depreciation in the rupee. Overall, we expect revenue to grow by a CAGR of ~5.4% by FY17E due to challenges expected in the OHT market.



Source: Company, DSPL

Free cash flow to be robust

Of the total capex of Rs2800crs for Bhuj, BIL has spent Rs2650crs. until March 2015. Capex is likely to be Rs200crs for FY16E and Rs100crs. for FY17E.With robust free cash flow generation expected over the next two years, we expect BIL would repay the debt which results in debt/equity ratio to decline from 1.0 to 0.4 from FY15 to FY17E. BIL has already started repaying its debt with the USD58mn repaid in June 2015.

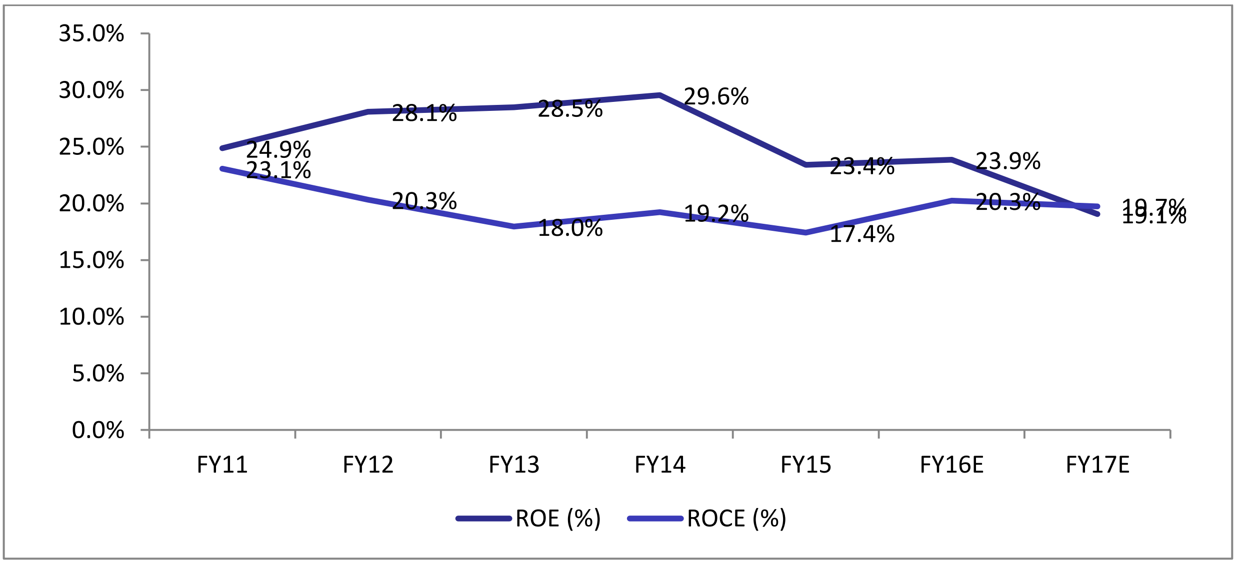


Source: Company, DSPL

ROCE to improve and ROE to fall post FY15

We expect BIL ROCE to improve post FY15 from 17.4% to 19.7% in FY17E primarily due to the repayment of debt ($ 275mn) in 3 equal annual instalments and no capex requirement in near term. ROE is expected to reduce from 23.4% in FY15 to 19.1% in FY17E due to higher base effect. However we believe that ROCE and ROE should start moving northwards starting FY17E as new plant starts operating at full capacity utilisation.

Chart – ROCE & ROE



Source: Company, DSPL

Company Overview

BIL Industries (BIL) is the flagship company of the Siyaram Poddar group (Siyaram Silk being the other company in this group) and was incorporated in 1961. It manufactures Off-Highway Tyres (OHT) for agricultural, industrial, material handling, construction, earthmoving, forestry, lawn and garden equipment and all-terrain vehicles (ATV).

The company exports more than 85% of its total tyre production with the help of a strong distribution network of over 200 distributors to more than 130 countries. With 4 tyre manufacturing plants, the production capacity of BIL stands at 3, 00,000 MTPA.

BIL mainly caters to three segments - Agriculture (60%), OTR (37%) and others (3%). BIL derives 75% of the revenues from replacement market, 21% from the OEM market and 4% through the off-take route. BIL's business is spread across Europe (50%), North America (16%), India (15%) and Rest of World (19%).

Chart – Region wise break up (FY15)

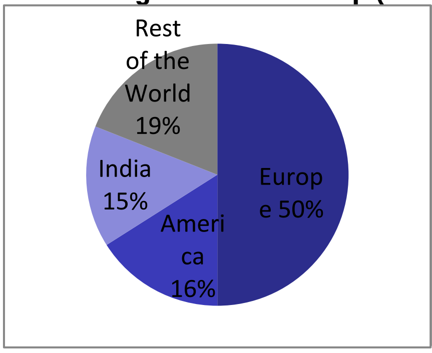
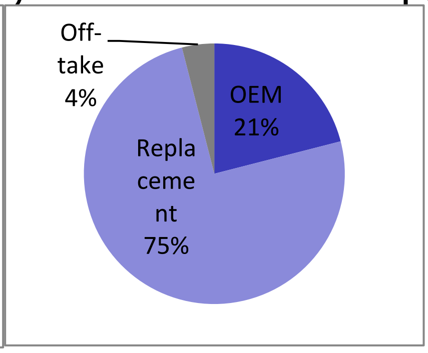


Chart – Channel wise break up (FY15)



Source: Company, DSPL

Chart – Product wise break up (FY14)

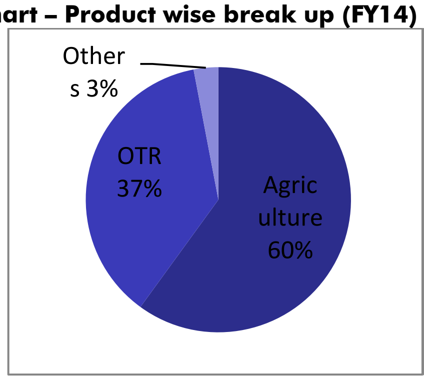
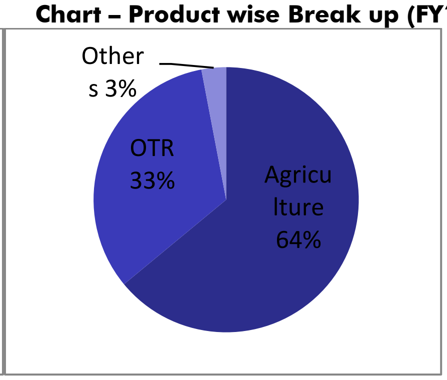


Chart – Product wise Break up (FY15)



Source: Company, DSPL

Plant wise capacity

BIL currently has 5 state-of-the-art manufacturing plants located in Bhiwadi, Chopanki, Waluj (Aurangabad), Dombivali & Bhuj employing more than 6000 people.

Location	Particulars
Bhiwadi	Focuses on the production of radial tires for agriculture, and conventional tires for applications in agriculture, earthmoving and the industrial sector.
Chopanki	Completely specialized in all steel radial OTR and Industrial tires
Waluj	Mainly produces tires for material loading and handling vehicles, and conventional tires for the industrial sector.
Dombivali	Mould manufacturing unit which caters to designing and development of all moulds requirements.
Bhuj	Off-Highway tires for all market segments such as agricultural, construction and industrial vehicles as well as earthmoving, port and mining, ATV, and gardening applications are going to roll off the Bhuj production lines.

Product Profile

BIL Tyres is the main brand name while it sells tractor radial tyres under brand Agrimax (agriculture) and steel radial OTR tyres under the brand Earthmax (OTR segment).

Agriculture (60% of Sales)	OTR (37% of Sales)	Others (3%)
Tyres for tractors, trailers, Harvester, farm equipment's, forestry	Industrial, Construction, Earthmoving	Tyres for sports, Go-Kart, Golf Kart, Garden tyres
Specifically designed for farm requirements	Compact Loader/Dumper, Container Handler, Cranes, Underground mining vehicle, Dozer.	

Low cost distribution channel

Tyre companies generally carry inventories for maintaining a smooth supply towards OEM, requiring working capital investments for warehousing. BIL on the other hand, manufactures tyres against confirm orders from distributors, avoiding these capital investments. Huge warehousing capacity also generates higher cost of carrying inventories.

According to the management, BIL tyres are priced at ~20-25% lower to global giants to their distributors, who in turn keep 5-10% margin and pass on the balance cost benefit to end users. This reduces fixed cost, selling and distribution costs and inventory carrying cost for BIL when compared with global peers. BIL has a strong network of over 200 distributors across 130 countries mainly catering to the replacement market.

The overall low cost model enables BIL to sell its products ~15-20% cheaper when compared to its counterparts and still earn healthier margins. The company posted operating margin of ~27% in FY15 (including foreign exchange fluctuation). We believe these competitive advantages are likely to help the company gain a foothold in the global OHT segment and gradually gain market share.

Outlook & Valuation

BIL is a niche global player in the OHT segment. It has been consistently increasing its market share from 3.5% in FY12 to over 6% in FY15 in a challenging environment. The industry has shown de-growth in the past 3 years while BIL has been growing at ~5-6% CAGR from FY12 to FY15. The company has invested INR28bn in the Bhuj plant and expanded its achievable capacity by 90%.

As global recovery remains uncertain and pricing trend remains weak, BIL's additional capacity can be seen as a deterrent towards earnings in the next two years. Using DCF method, we value BIL at ₹ 746 by March 2016 assuming a terminal growth rate of 3% and a WACC of 10.87%. At our target price, the implied P/E is 11.7x and 11.9x on FY16 and FY17.

Valuation Ratios (₹Crs)

	Sales	Growth (%)	EPS	Growth (%)	PE	EV/EBITDA	ROE	ROCE
FY14	3576.7	12.1%	50.5	37.2%	13.3	7.7	29.6%	18.9%
FY15	3779.9	5.7%	50.6	0.2%	13.2	8.1	23.4%	17.2%
FY16E	3834.7	1.4%	63.9	26.3%	10.5	7.4	23.9%	20.3%
FY17E	4203.1	9.6%	62.7	-1.9%	10.7	6.8	19.1%	19.7%

Source: Company, DSPL

Peer Comparison with Indian Companies (₹ crs.)

	Company Name	Year End	Net Sales	EBITDA Margin	PAT Margin	ROE	ROCE	Asset Turnover	EV/ EBITDA	P/E
1	Apollo Tyres Ltd.	201503	12,785	14.4	7.1	20.4	24.7	1.4	4.6	8.8
2	Balkrishna Industries Ltd.	201503	3,817	26	12.2	22.7	17	0.7	8.1	13.2
3	Ceat Ltd.	201503	5,802	11.2	4.9	23.3	26.5	1.7	5.5	10.3
4	JK Tyre & Industries Ltd.	201503	7,384	11.8	4	26.1	18.2	1.2	5.5	7.3
5	MRF Ltd.	201409	13,329	13.6	6.1	22.2	27.1	1.6	7.5	15.2

Source: Company, DSPL
**Note – Foreign exchange fluctuation is the profit after hedging sales from Europe and is a part of EBITDA*

Peer Comparison with Global Companies

	Company Name	Year End	Currency	Net Sales*	EBITDA Margin*	PAT Margin	Asset Turnover	ROCE	ROE
1	Bridgestone (in bn)	201412	Yen	3088.6	14%	8.20%	0.97	12.1%	15.10%
2	Michelin (in mn)	201412	Euro	2973.0	19%	5.3%	2.05	11.10%	10.80%

Source: Company, DSPL
** Net Sales & EBITDA Margin of Bridgestone is for the Tyre Business*
** Net Sales & EBITDA Margin of Michelin is for the speciality business*

Ratios CAGR for BIL for last 3 & 5 Years

Ratio (%)	Last 3 Year	Last 5 Year	Last Year
Revenue (CAGR)	10.3%	22.2%	5.7%
EBITDA* (CAGR)	27%	21%	25%
PBT (CAGR)	22.3%	18.5%	1.4%
PAT (CAGR)	22.1%	18.8%	0.1%
EPS (CAGR)	22.1%	18.8%	0.2%
RoE (AVERAGE)	27.17	26.90	26.51
RoCE (AVERAGE)	18.44	19.74	18.66
EBITDA (%) (AVERAGE)	0.22	0.20	0.22
P/E (AVERAGE)	9.89	9.19	11.13
P/B (AVERAGE)	2.37	2.20	2.61
Debt / Equity (AVERAGE)	1.15	1.13	0.98
Interest Coverage Ratio (AVERAGE)	22.98	19.71	23.63

Source: Company, DSPL
**Note – Foreign exchange fluctuation is the profit after hedging sales from Europe and is a part of EBITDA*

Profit & Loss

(₹ Crs.)	FY14	FY15	FY16E	FY17E
Net sales	**3,577**	**3,780**	**3,835**	**4,203**
YoY (%)		**5.7%**	**1.4%**	**9.6%**
Total expenses				
Raw Material Cost	1,722	1,969	1,867	2157
Employee costs	139	194	197	206
Other Manufacturing Cost	731	883	840	883
Foreign Exchange Gain(Loss)	-91	269	210	182
EBITDA	**894**	**1,003**	**1,141**	**1,139**
YoY (%)		**12.2%**	**13.7%**	**-0.1%**
EBIDTA (%)	**25.0%**	**26.5%**	**29.7%**	**27.1%**
Depreciation	165	240	243	267
EBIT	**729**	**763**	**898**	**872**
Interest	25	47	35	33
Other income	14	11	57	63
PBT	**718**	**728**	**920**	**902**
Less: Taxation	229	239	302	296
Effective tax rate (%)	32.0%	32.8%	32.8%	32.8%
Recurring PAT	**488**	**489**	**618**	**606**
YoY (%)		**0.1%**	**26.4%**	**-1.9%**
PAT (%)	**13.7%**	**12.9%**	**16.1%**	**14.4%**
Reported PAT	**488**	**489**	**618**	**606**

Balance Sheet

(₹ Crs.)	FY14	FY15	FY16E	FY17E
Equity capital	19	19	19	19
Reserves	1,865	2,272	2,869	3450
Net worth	**1,885**	**2,292**	**2,888**	**3469**
Total borrowings	2,350	2,358	1,893	1219
Minority Interest	0	0	0	0
Non-Current Liabilities	171	190	214	244
Current Liabilities	468	475	482	528
Total liabilities	**4,874**	**5,315**	**5,476**	**5,460**
Net block	2,806	3,049	3,006	2,838
Investments	427	58	58	58
Long term loans & advances	210	168	194	213
Current assets				
Inventories	529	392	426	467
Debtors	618	602	661	759
Cash	10	431	513	484
Current Investments	0	386	386	386
Other Current assets	274	228	231	254
Total assets	**4,874**	**5,315**	**5,476**	**5,460**

Key Ratios

	FY14	FY15	FY16E	FY17E
Recurring EPS (Rs)	50.5	50.6	63.9	62.7
Reported EPS (Rs)	50.5	50.6	63.9	62.7
Book value (Rs)	195.0	237.1	298.8	358.9
Dividend per share (Rs)	2.0	1.4	1.9	2.2
Net Debt Equity Ratio	1.2	0.7	0.3	0.1
Payable Days	38	36	36	36
Debtor Days	62	57	62	65
Inventory Days	53	37	40	40
ROCE (%)	19.2%	17.4%	20.3%	19.7%
Recurring ROE (%)	29.6%	23.4%	23.9%	19.1%
ROA (%)	11.0%	9.6%	11.5%	11.1%
Div Yield (%)	4.0%	4.0%	2.8%	3.1%
Valuation Ratios				
PE (x)	9.5	12.8	10.5	10.7
Price/book value (x)	2.5	2.7	2.3	1.9
Market cap/sales (x)	1.3	1.7	1.7	1.6
EV/sales (x)	1.9	2.2	2.2	1.8
EV/EBITDA (x)	7.7	8.1	7.4	6.8
Earnings growth				
EBITDA (%)	35%	-18%	27%	3%
EPS (%)	37%	0%	26%	-2%
PAT (%)	37%	0%	26%	-2%

Source: Company, DSPL

Cash Flow

(₹ Crs.)	FY14	FY15	FY16E	FY17E
Net profit	488	489	618	606
Depn and w/o	165	240	243	267
Others	72	108	32	44
Change in working cap	(68)	(179)	(89)	(115)
Op. Cash flow	**657**	**657**	**804**	**802**
Capex (Gross*)				
Capex (Net)	(748)	(483)	(200)	(100)
Investments	(394)	368	0	0
Inv. Cash flow	**(1,141)**	**(115)**	**(200)**	**-100**
Dividend	(23)	(18)	(22)	(25)
Fresh Equity	0	0	0	0
Minority interest	0	0	0	0
Debt	276	8	(465)	(674)
Others	(25)	(47)	(35)	(33)
Fin. Cash flow	**228**	**(57)**	**(522)**	**-731**
Net change in cash	(256.5)	484.9	81.7	(29)
Opening cash	266.3	9.8	431.1	513
Closing cash	**9.8**	**431.1**	**512.8**	**483.9**

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