

# Buy Balmer Lawrie & Co.

Industry: Diversified PSU

Initiating Coverage

## “Perfectly Poised”

**Balmer Lawrie (BL) is a Mini-Ratna I company with a rich history spread over one and a half centuries of existence. It has a significant presence in industrial packaging, logistics, travel & vacations, greases & lubricants, leather chemicals and refinery & oilfield services. BL is the market leader in steel barrels, greases and oilfield services in India. Its logistics division is the profit driver of BL with over 3 CFS in Nhava Sheva, Chennai & Kolkata and offers a wide range of logistics solutions for ocean, air & road freight. Its oils & lubricants business has a growing retail presence with its *Balmerol* brand. It is also one of the oldest IATA accredited travel agencies in India.**

### Logistics business to continue to drive growth and profitability with major expansion plans

With capex plans of ~ ₹ 4 bn over the next 2 years, BL is setting up 3 cold chain facilities in Hyderabad, Delhi NCR and Mumbai and a multimodal logistics park at Vishakapatnam Port. With various policy initiatives for boosting agriculture & the rural economy, considerable upside potential in cold storage usage and eventual passage of GST, we believe this to be a logical move which would help augment growth for BL. Also, the mobilization of ample cash reserves towards expansion is expected to further improve ROE and bolster margins.

### Increasing contributions from industrial packaging and lubricants businesses on the back of subdued commodity prices

The industrial packaging and greases & lubricants businesses have witnessed considerable expansion in margins in spite of a flat growth in sales due to benign steel and crude oil prices. BL is also looking to widen its retail presence in automobile lubricants with its *Balmerol* brand. We expect that the supply glut in commodities would continue over the medium term and help the India - Centric businesses of BL contribute even more to its bottom-line.

### Other niche businesses to steadily expand

Travel and vacations segment is expected to continue to do well with stable demand from government & PSUs for its ticketing business and a push to grow its value added package tours segment. Leather chemicals and refinery & oilfield services divisions continue to serve niche markets and offer potential upside triggers.

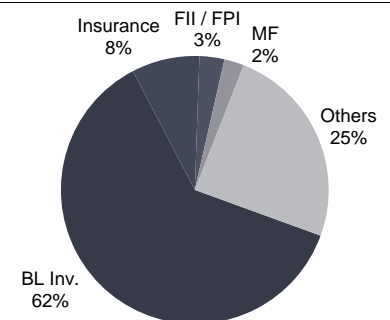
### Valuation and Outlook

BL, a FCF positive entity with superior capital efficiency & stable dividend yield is currently trading at 5.8X EV/EBITDA. While the ROE is expected to remain flat over the next 2 years as it goes through an investment phase, we are highly optimistic about its prospects from FY18E by virtue of its pre-eminent positions in key business verticals and its investments delivering results. Given its robust cash earnings, we recommend a **BUY** on BL with a **15 month target price of ₹ 860 (58% upside)** where the stock would be valued at 10X FY17E cash earnings.

#### Stock Data

Current Market Price (₹)	544
15 month Target Price (₹)	860
Potential upside (%)	58
Market Cap (₹ bn)	15.49
52-Week Range (₹)	682 / 491
Reuters	BLMR.BO
Bloomberg	BLCL IN
BSE / NSE Code	523319 / BALMLAWRIE

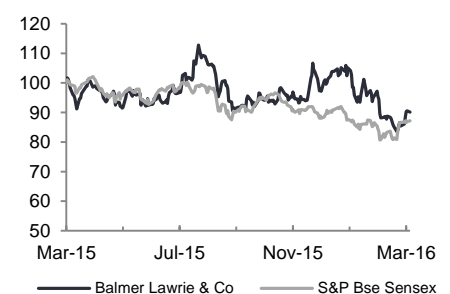
#### Shareholding Pattern



#### Fiscal YE

YE Mar	FY14	FY15	FY16E	FY17E
Revenues (₹ Mn)	31,248	32,583	32,156	32,255
EBITDA margins (%)	6.7%	6.8%	8.0%	8.1%
PAT margins (%)	4.9%	4.6%	5.3%	5.6%
EPS (₹)	54.6	53.4	61.2	64.8
Cash EPS (₹)	67.0	69.6	80.4	86.4
P/E (x)	10.0	10.2	8.9	8.4
P/B (x)	1.6	1.5	1.4	1.3
EV/EBITDA (x)	6.0	5.9	5.8	5.8
ROCE (%)	22.9%	21.3%	22.4%	22.0%
ROE (%)	15.9%	14.6%	15.4%	14.9%

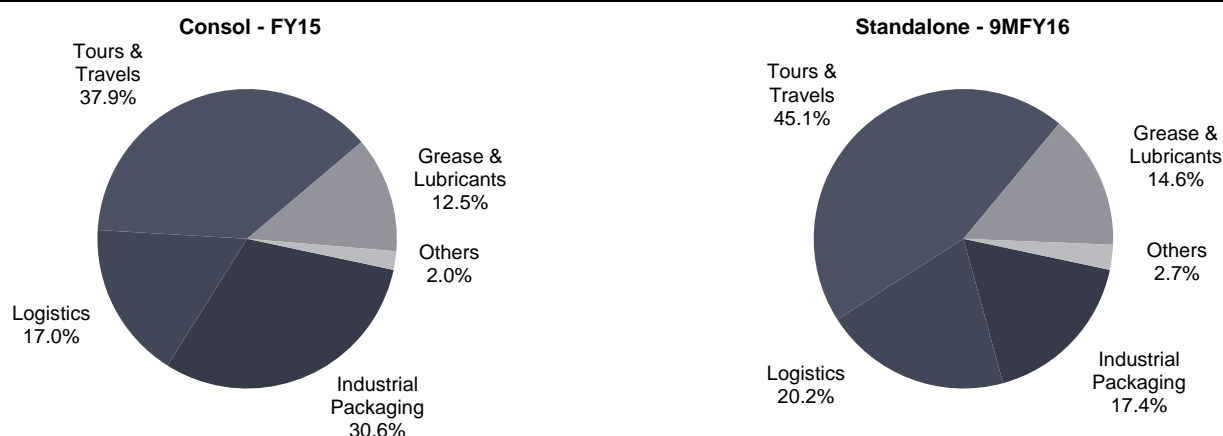
#### Relative Price Performance



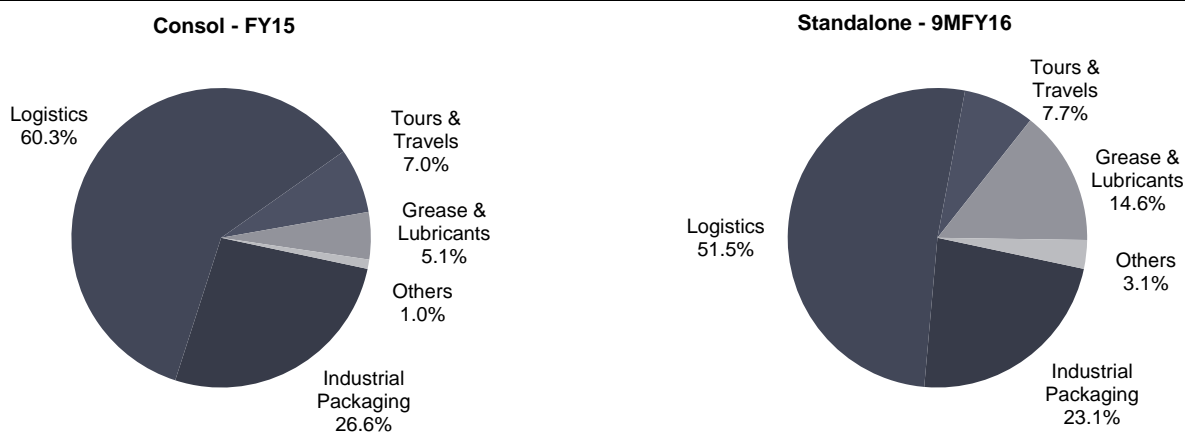
## Company Profile

BL is a diversified conglomerate with a rich history spread over one and a half centuries of its existence. This Mini-Ratna I company has a significant presence in industrial packaging, logistics, travel & vacations, greases & lubricants, leather chemicals and refinery & oilfield services. BL was the erstwhile subsidiary of IBP Company Ltd which was nationalized in the 1970s and subsequently merged with Indian Oil Corporation Ltd. The central government effectively holds ~ 36.9% of BL through Balmer Lawrie Investments. BL operates in a SBU structure with every SBU headed by an independent CEO. It is the largest manufacturer and the market leader in the 200 liter capacity steel drums market with ~ 35.0% market share and over 6 manufacturing facilities in India. It also holds leadership position in the Indian greases market and is looking to step up its retail presence in lubricant oils with its *Balmerol* brand. Its logistics division, the profit driver of the company, has 3 CFS in Nhava Sheva, Chennai & Kolkata and offers a wide range of logistic solutions for air, road & ocean freight. It is looking to ramp up this division with significant capex plans over the next 2 years. It is also one of the oldest IATA accredited travel agencies in the country and made a foray in package tours in FY14 through its acquisition of *Vacations Exotica*. It is a niche player in the manufacture of specialty chemicals for the leather industry with its *Balmol* brand and offers certain oil field & refinery services as well. GL has taken the JV route to explore & exploit several opportunities across different product & geographical segments.

### Contribution of different SBUs of BL to the top-line

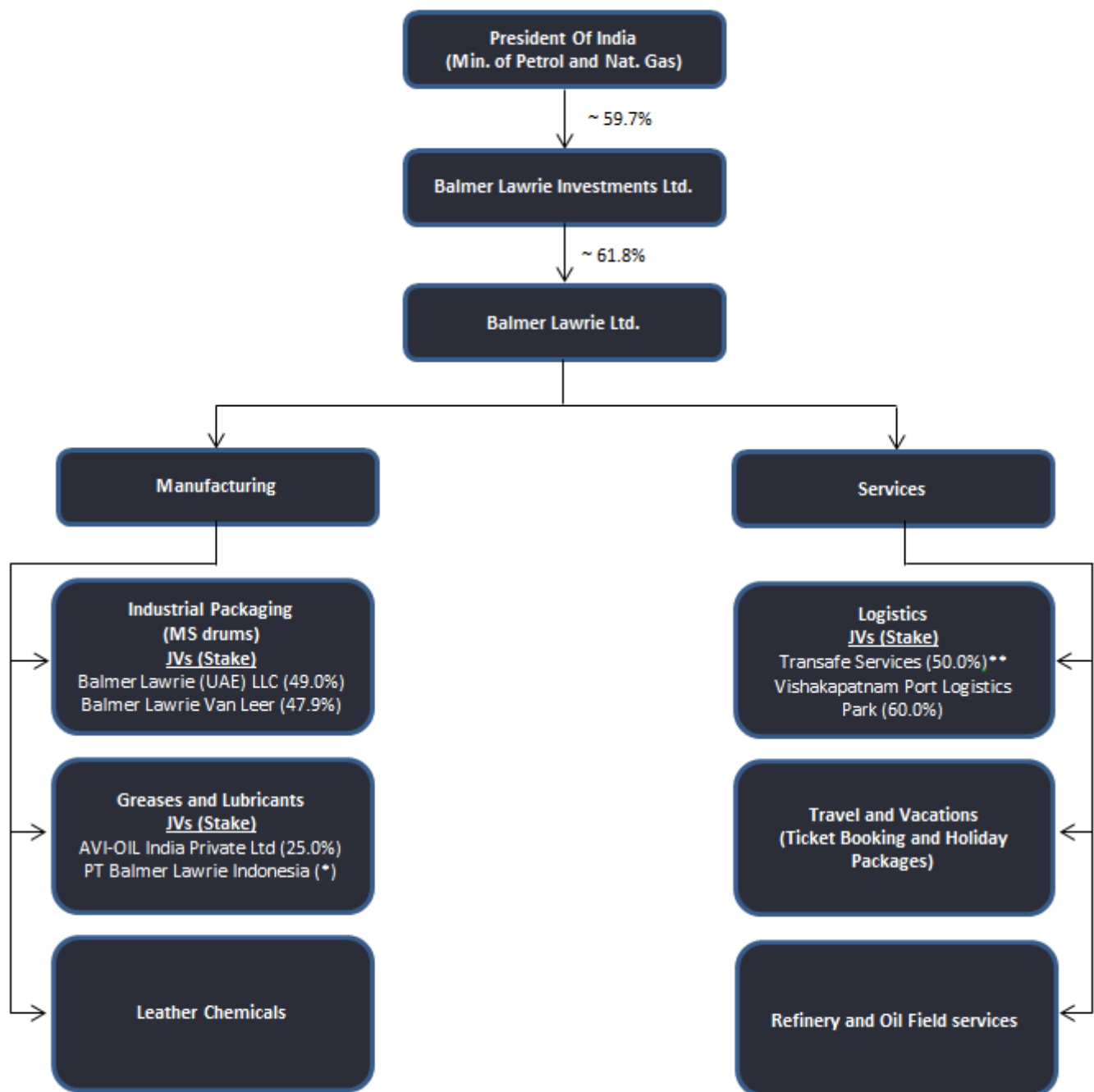


### Contribution of different SBUs of BL to the bottom-line



Source: Company, LKP Research

## Business Structure of BL



\* 50% share held through Balmer Lawrie (UK) Ltd - 100% subsidiary

\*\* Balance 50% of Transafe Services is held by Balmer Lawrie Van Leer

Source: Company, LKP Research

## Investment Argument

*Setting up 3 cold chain facilities and multimodal logistics park to bode well for BL's logistics business*

### Stalwart Logistics SBU to continue to be a significant thrust area with major expansion plans

With experience in logistics for more than a century, the Logistics SBU of BL is the money spinner of the company contributing ~ 60% of profits as per FY15 consolidated financials. The logistics infrastructure and logistic services divisions were merged in Aug '15 under one SBU to derive synergetic benefits and consolidate its ocean freight segment as a one stop logistics solution. It operates 3 container freight stations at Nhava Sheva (Mumbai), Kolkata and Chennai which accounts for ~ 59% of container traffic handled by Indian ports. It also has warehousing and distribution facilities in Kolkata and Coimbatore.

#### Logistics infrastructure facilities of BL



Source: Company

BL is undertaking significant expansion in its logistics infrastructure segment with capex plans of ~ ₹ 4 bn over the next 2 years. It has initiated moves to select a location for its 4th CFS which would add ~ 36,000 tonnes annual capacity, the plan for which would be ready by H1FY17E. It has also started work on setting up 3 temperature controlled warehouses at Hyderabad, Delhi NCR & Mumbai with its Hyderabad facility to be fully operational by H1FY17E. It wants to gradually build a pan-India presence in cold chain facilities to cater to domestic & export markets and is looking to explore possibilities to set up such a facility in the eastern region as well. This would help BL gain a firm foothold in the ~ \$ 13 bn Indian cold chain industry which is highly fragmented with over 3,500 competitors.

BL has also entered into a MoU with Vishakapatnam Port for putting up a multimodal logistics hub. 53 acres of land has been reserved by the port for the newly formed Vishakapatnam Port Logistics Park Ltd. where BL would own a 60% stake. This logistics hub would handle domestic, import & export cargo and will have a railhead, truck terminal, warehouse facilities, cold storage, container repair facilities etc. This project is expected to be completed by H1FY18E.

BL also offers a wide variety of logistics services such as international freight forwarding, air & vessel chartering, customs house agency at all major ports & airports, projects logistics management etc. It is one of the top ocean cargo operators in India with a worldwide network and offices strategically located at international airports & seaports in the country. It has associations with several IATA accredited agencies in over 40 countries around the world.

Transafe Services Ltd., a JV between BL and Balmer Lawrie Van Leer, leases domestic dry van containers for road & rail transportation logistics and cargo movement within India. It also manufactures dry van & specialized containers in its two plants at Coimbatore & Kharagpur. However, this JV is currently going through a rehabilitation process with The Board for Industrial and Financial Reconstruction and posted a loss of ~ ₹ 67.9 mn in FY15.

### A century long expertise in logistics services



Source: Company

The government has shown clear intent with policy reforms aimed towards doubling farmers' income by 2022 and is promoting the use of cold chain facilities for enhancing product shelf life through custom duty reductions on project imports for cold storage by 5% in the Budget. With 100% FDI allowed in marketing of food products produced & manufactured in India, the government is giving a fillip to the food storage & food processing industries with global players such as Walmart & IKEA eyeing the market potential in India. Considering BL's century old expertise in logistics, potential for demand driven growth from policy initiatives & eventual passage of GST and the considerable upside in cold storage usage, we consider the expansion plans undertaken by BL to be a logical move. We believe that this ongoing expansion also offers a great upside as ROE would improve with its cash reserves & free cash flows sufficient for building these additional capacities.

*Market leader in steel drums, subdued steel prices and profitable JVs to continue its steady contributions*

### Market leadership in steel drums, JVs to steadily contribute to top-line and margins

BL is an established player in the Indian industrial packaging industry with ~ 35% share in the 200 liter capacity steel drum segment. It holds the leadership position in this segment, market size of which is estimated to be ~ 12 mn units. It has a pan-India presence with over 6 drum manufacturing facilities in Taloja (Maharashtra), Asaoti (Haryana), Chennai, Kolkata, Chittoor (AP) & Silvassa. It operates in the semi bulk packaging segment with its products used for packaging of oil & greases, additives, chemicals & agro chemicals, food & fruit products, bitumen & bitumen emulsions.

### A market leader in steel drums



Source: Company

BL extended its offerings by making a foray into drum closures & plastic containers with ~ 47.9% stake in Balmer Lawrie Van Leer (BLVL). This is an equal JV with Greif International Holding B.V. (erstwhile Royal Packaging Industries Van Leer B.V.) which is the world leader in industrial packaging products & services with ~ 200 operating locations in over 50 countries. BLVL manufactures *Tri-Sure@* closures which are one of the most secure closure systems for industrial drum packaging applications. These closures are manufactured at their Turbhe (Maharashtra) plant which has a capacity of over ~ 30 mn sets to meet domestic as well as overseas

demand especially from South East Asia & the Middle East. BLVL manufactures plastic containers of various specifications at their 3 plants in Turbhe, Chennai & Dehradun. BLVL is also a 50% stakeholder in Transafe Services where BL itself holding the remaining 50% stake.

Balmer Lawrie (UAE) LLC is another JV where it has ~ 49% share. It manufactures and supplies steel drums, tin & plastic containers of different capacities in the Arabian Gulf where it caters to lubricants, chemicals, paints, edible oils & ghee industries. BL recognizes that there is lucrative business potential, finalizing plans for developing infrastructure and creating capacities for sustainable growth for the foreseeable future.

The demand for the division's product offering is closely correlated with underlying growth of customer industries, mainly chemicals. Additionally, its manufacturing facility in Navi Mumbai commissioned in Jul '14 is located close to one of the largest consumption centers for steel drums in the western region. It is constantly exploring new markets where it does not have a significant presence.

This division has expanded its margins despite a slight fall in revenues as it is a key beneficiary of subdued commodity prices, mainly steel which constitutes ~ 67% of steel barrel revenues. With an oversupply of steel continuing in the economy, we expect that the industrial packaging division, along with its JVs, would leverage its market leadership position and continue contributing steadily to its top-line and bottom-line.

*Market leadership in grease, focus on strengthening retail presence for lubricants, benign crude oil prices to benefit BL*

### **Greases and lubricants business riding the crude oil wave, looking to step up retail presence**

BL is the manufacturer of a wide range of industrial, automotive & specialty grease & lubricant products under its *Balmerol* brand. It is the largest grease producer in India and amongst the top 10 in Asia with 3 manufacturing plants in Chennai, Kolkata and Silvassa. It also focuses on research and development with an applications research laboratory in Kolkata. This R & D centre places its efforts in developing high value products & specialty lubricants for niche markets, thus providing innovative solutions to core sectors like steel, defence, railways, mines, & sponge iron.

#### **Brand *Balmerol***



Source: Company

AVI-OIL India Pvt Ltd is a JV between BL, Indian Oil Corporation Ltd. and NYCO France established in 1993 where BL is a 25% partner. It is involved in indigenous production & supply of aviation lubricants to defence services & other aircraft operators in India and manufactures aeroengine oils, hydraulic fluids, greases, protectives & other specialty products for the aviation sector. IOCL provides marketing infrastructure with BL setting up manufacturing facilities and NYCO providing the technical know-how on a continuous basis. It expanded to industrial applications with a product range of different synthetic industrial lubricants, ester basestocks, high performance and biodegradable oils & greases. All of this is being

manufactured at its plant located 45 km from New Delhi in Piyala village, Faridabad.

PT Balmer Lawrie Indonesia is another JV with PT. Imani Wicaksana where BL has invested through its wholly owned subsidiary Balmer Lawrie (UK) Ltd. It is involved in the production of various greases & lubricants and markets its products under the *Balmerol* brand in Indonesia. Its products are used by a wide spectrum of customers including metals, railways, mining, oil & gas, power, cement, jute & textiles industries. This JV incurred losses in FY15 due to lower than anticipated volume of sales.

BL is looking to step up & aggressively market its *Balmerol* brand and continue expanding its growing distribution network of over 20 strategically located stock points, 250 distributors & 4,500 dealers in the country. With a detailed strategy worked out, the company is looking to double its market share over the next 5 years. This is further cushioned by benign crude oil prices which has improved this division's performance, expanding its contribution ~ 5.6 times despite a flat 4% increase in revenues as per standalone 9MFY16 numbers.

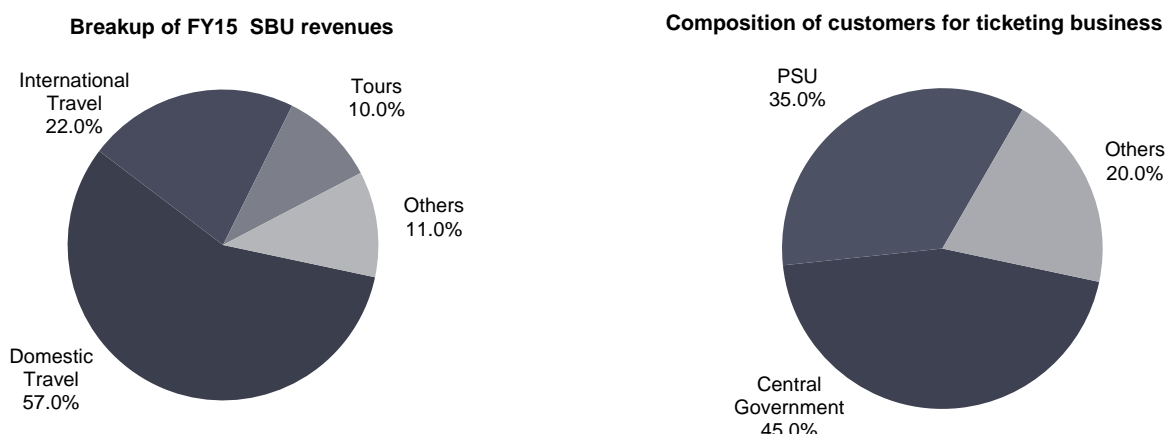
The Indian lubricant market is the 6<sup>th</sup> largest in the world & 2<sup>nd</sup> largest in Asia, slowly replacing China as the center of the world's oil demand with the fastest growing economy and a growing middle class. Developing infrastructure, especially roads & railways and stimulating demand in the rural markets have emerged as focal points in the Budget for FY17 with the government taking progressive steps to encourage *Make In India*. We believe that a pickup of momentum in the CV replacement cycle, a combination of policy initiatives & good monsoons driving rural demand and fruition of government's efforts to revive the manufacturing cycle would drive volumes for this SBU. This combined with subdued prices for crude oil & its derivatives would further bolster margins as evident by the performance of its grease & lubricants business in 9MFY16. Also, with over 2/3rd of the ~ 1.60 mn MT market comprising of automotive grades, this focus over expanding its retail reach is expected to auger well for BL, offering a potential upside for its lubricants business.

*Preferred travel agency to PSUs and government, looking to grow on value added package tours segment with Vacations Exotica*

### **Travels business to continue to be stable, package tours offer an upside trigger**

BL operates its tours and travels business from more than 88 locations across 19 cities in the country with more than half a million strong clientele. It is one of the oldest IATA accredited travel agencies in the country with ~ 80% of division revenues coming from ticketing services. It made a foray in package tours through its acquisition of *Vacations Exotica* for ~ ₹ 200 mn in FY14 which offers various personal, group & luxury packages to clients in India & NRIs in US & the Middle East. It also has an online presence through portals [www.balmerlawrietravel.com](http://www.balmerlawrietravel.com) & [www.vacationsexotica.com](http://www.vacationsexotica.com) providing a wide range of tours & travels services.

### **Revenue breakup of Tours and Travels business**



Source: Company, LKP Research

BL has a fairly stable ticketing business with ~ 80% demand coming from Central Government and PSUs. Additionally, the *Vacations Exotica* acquisition enabled BL to expand its value proposition and offer comprehensive services in the tours & MICE segment with an experienced 100+ work force, a network of ~ 120 distribution partners & a wide range of holiday packages.

We expect the tours & travels business to grow on account of increasing acceptability of air travel for business & leisure coupled with lower flight costs and its push to develop value added package tours segment. This SBU comprised only ~7.0% and ~7.7% share in its bottom line in FY15 & 9MFY16 respectively.

*Specialty chemicals and refinery & oilfield services serve niche & nascent markets, offer potential upside*

### **Leather chemicals, refinery and oilfield services segments continue to serve niche markets.**

BL entered the leather chemicals industry in the 1980s initiating production in Chennai, scaling up a technology developed jointly with Central Leather Research Institute. It markets specialty chemicals to leather tanneries across the country under the *Balmol* brand. While BL has its manufacturing plant and a product development centre in Chennai, its technical service centres are spread all over India in cities such as Kolkata, Kanpur, Ranipet, Ambur etc. The SBU has also made headway into the Chinese market apart from having significant presence in Bangladesh & Korean markets.

#### ***Balmol – A brand of specialty leather chemicals***



*Source: Company*

The refinery and oil field services division is focused on providing environment friendly services centered around prevention & recovery of hydrocarbon wastes. Its tank bottom & lagoon sludge recovery system helps to retrieve hydrocarbon waste, ~90% of which is recoverable in refineries. It provides tank & lagoon cleaning services to clients like IOCL, BPCL, HPCL, CPCL, MRPL, ONGC & Cairn Energy. It also offers a comprehensive range of repair services to oil & gas and chemical companies. BL is the market leader in the nascent oilfield services market with a sizeable share in oil sludge processing. The prospects for this business are bright considering the tightening of pollution norms in oil & other related industries.

These 2 divisions have a negligible contribution with their aggregate share in revenues & profitability less than 5%.



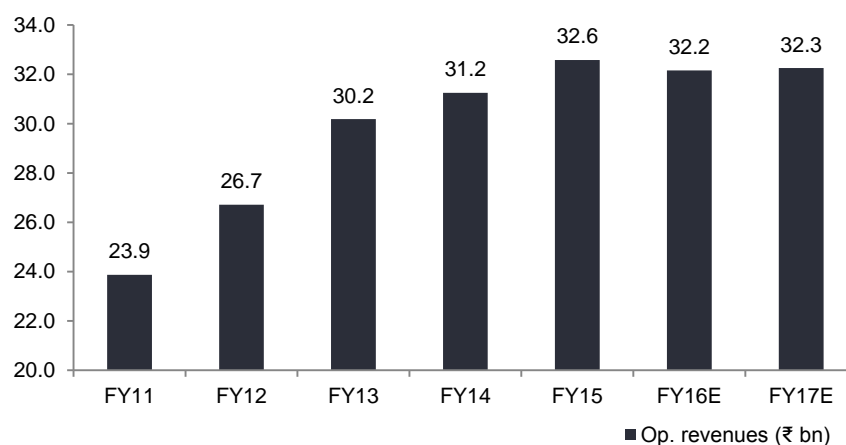
## Financial position

Competitive pressure to keep prices muted, economy turnaround to benefit its logistics and oil & lubricants businesses

### Revenues

Operational revenues of BL have grown at a modest CAGR of ~ 6.4% from ~ ₹ 23.9 bn in FY11 to ~ ₹ 32.6 bn in FY15 as their B2B businesses such as industrial packaging & logistics have faced muted growth over the last 3 years.

#### Annual trend in consolidated operating revenues

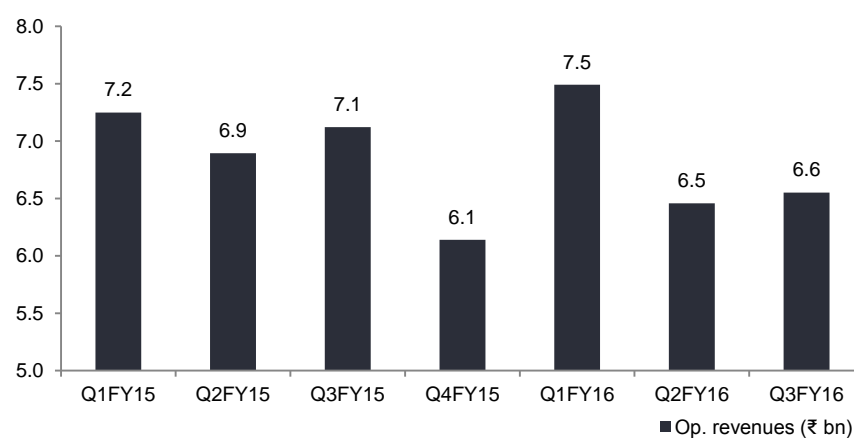


Source: Company, LKP Research

BL is facing headwinds with increasing competitive & pricing pressure, especially in industrial packaging & logistics. Government's directives to PSU oil companies to source drums from the MSME sector and ongoing sluggishness in economic activity in Indian & global economies have led to a flattish growth up to 9MFY16. BL has hence shifted its focus on expansion to cold chain facilities and strengthening its retail presence in lubricants. This is expected to help build some momentum and accelerate growth, with the planned expansion to show results from FY18E onwards.

Revenues may fall by 35 – 40% once the new Indian Accounting Standards become applicable as BL would have to account for only commission income & not sales in its ticketing business. This would have no effect on its bottom-line, as it's merely a change in accounting treatment.

#### Quarterly standalone operating revenues slowing on competitive pressures



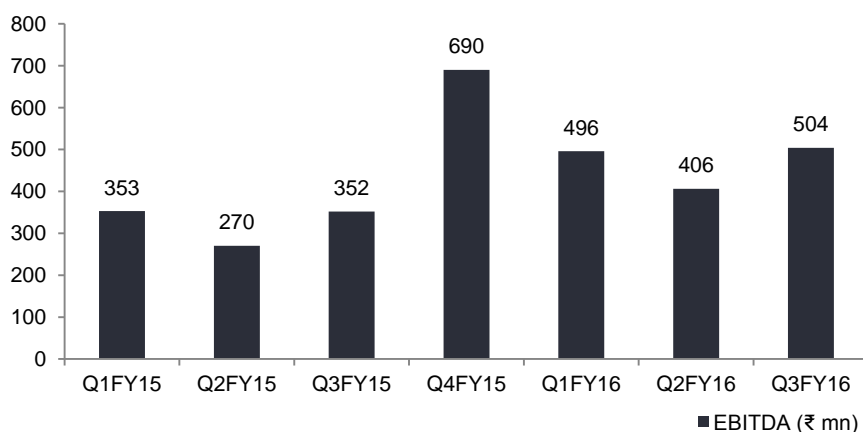
Source: Company, LKP Research

*EBITDA and EBITDA margins cushioned by benign commodity prices, especially steel and crude oil*

## EBITDA & EBITDA Margins

Despite a flattish trend in revenues, 9MFY16 has witnessed an expansion in both EBITDA & margins as BL is a primary beneficiary of the recent slump in commodity prices. The supply glut in commodities, especially steel & crude oil has helped contain cost of manufacturing steel & plastic drums & closures, grease & lubricants. Offshoots in its other businesses such as rationalizing air travel, and reduced cost of operations for logistics would also be beneficial for BL. With the global economy still dealing with an overcapacity scenario, we expect these input costs to be contained at least over the medium term, thereby cushioning margins.

### EBITDA expanding on the back of benign commodity prices



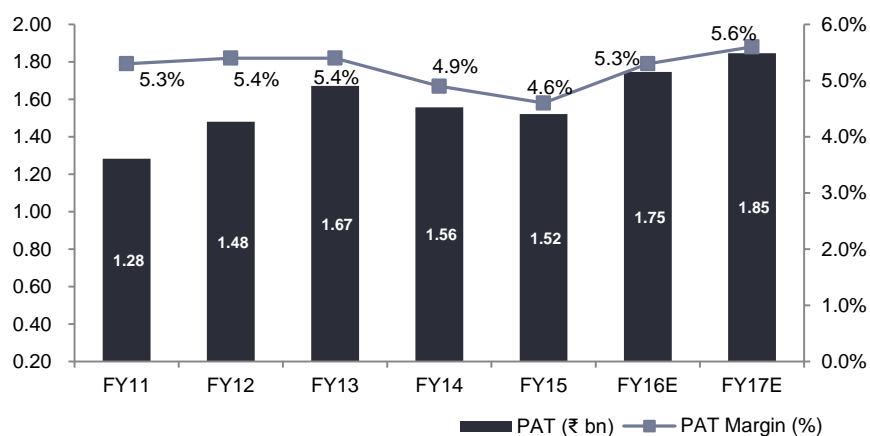
Source: Company, LKP Research

## PAT & PAT Margins

*PAT and PAT margins to benefit from operating leverage and lower interest burden, depreciation set to rise*

PAT & PAT margins have risen for standalone business of BL from ~ ₹ 784.7 mn & ~ 3.6% in 9MFY15 to ~ ₹ 966.1mn & ~ 4.6% in 9MFY16 respectively. This is the direct effect of benign commodity prices with its capex cycle expected to partially offset the benefits of low commodity prices through increased depreciation. With a falling interest burden on repayment of debt by its associates & subsidiaries and fruition of its expansion efforts, BL is poised for another growth phase. We expect PAT and PAT margins to steadily improve to ~ ₹ 1.7 bn & ~ 5.3% in FY16E and ~ ₹ 1.8 bn & ~ 5.6% in FY17E respectively.

### Annual trend in PAT and PAT Margins



Source: Company, LKP Research

## Risks & Concerns

- Profitability of BL is significantly exposed to volatility in commodity prices, especially crude oil & steel, which impact the industrial packaging and oil & lubricants divisions.
- With the government's directives to PSU Oil companies for sourcing drums from the MSME sector, there has been an absence of orders from the public sector. This along with the presence of excess manufacturing capacity in the industry is leading to depressed pricing power & subdued margins.
- There is competitive pressure for *Balmerol* with established brands such as *Castrol*, *Veedol* & *Gulf* enjoying a lion's share in the retail lubricants business.
- Competition for its CFS continues to be acute with over 31 & 28 registered CFS in JNPT and Chennai respectively.
- The travel business continue to face low entry barriers, threat from government & PSUs withdrawing their support for BL as one of their preferred travel agencies and increasing efforts from airlines for direct sale of tickets. The company is looking to mitigating this by consolidating its offerings in its online portals and focusing on value added segments of leisure travel.

## Outlook and Valuation

BL is a FCF positive entity with superior capital efficiency & stable dividend yield which is currently trading at 5.8X EV/EBITDA. While the ROE is expected to remain flat over the next 2 years as the company is going through an investment phase, we are highly optimistic about its prospects from FY18E by virtue of its pre-eminent positions in key business verticals and its investments start delivering results. Given its robust cash earnings, we recommend a **BUY** on BL with a **15 month target price of ₹ 860** (58% upside) where the stock would be valued at 10X FY17E cash earnings.

## Balmer Lawrie Investments

Balmer Lawrie Investments (BLInv) is essentially a SPV incorporated in Sep '01 post the IBP disinvestment by the central government. This SPV does not carry out any business other than holding ~59.7% shares of BL, which was the erstwhile subsidiary of IBP before being acquired by IOC in FY07. BLInv holds ~ 61.8% of BL, making the effective stake of the central government in BL at ~ 36.9%.

### Income Statement

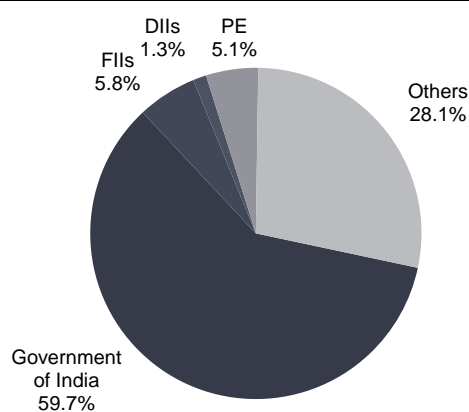
Particulars (₹ mn)	FY14	FY15	9M FY16
Interest Income	56	64	50
Dividend Income	310	317	317
Misc. Income	-	1	-
<b>Total Income</b>	<b>366</b>	<b>382</b>	<b>367</b>
Employee Benefits	1	1	1
Service charges	2	2	3
Others	1	2	1
<b>Total Expense</b>	<b>5</b>	<b>5</b>	<b>5</b>
<b>Profit Before Tax</b>	<b>361</b>	<b>377</b>	<b>362</b>
Tax	17	20	15
<b>Profit After Tax</b>	<b>344</b>	<b>357</b>	<b>347</b>
<b>EPS</b>	<b>15.5</b>	<b>16.1</b>	<b>15.6</b>

Source: Company, LKP Research

### Balance Sheet

Particulars (₹ mn)	FY14	FY15	H1 FY16
Share Capital	222	222	222
Reserves and Surplus	528	608	945
<b>Shareholders' Funds</b>	<b>750</b>	<b>830</b>	<b>1167</b>
Other Current Liabilities	14	15	15
Prov. for Prop. Div.	267	278	3
<b>Current Liabilities</b>	<b>281</b>	<b>293</b>	<b>18</b>
<b>Total Liabilities</b>	<b>1031</b>	<b>1123</b>	<b>1185</b>
Investments in BL	327	327	327
C & CE	674	765	500
Other Current Assets	30	31	358
<b>Total Assets</b>	<b>1031</b>	<b>1123</b>	<b>1185</b>

### BLInv shareholding



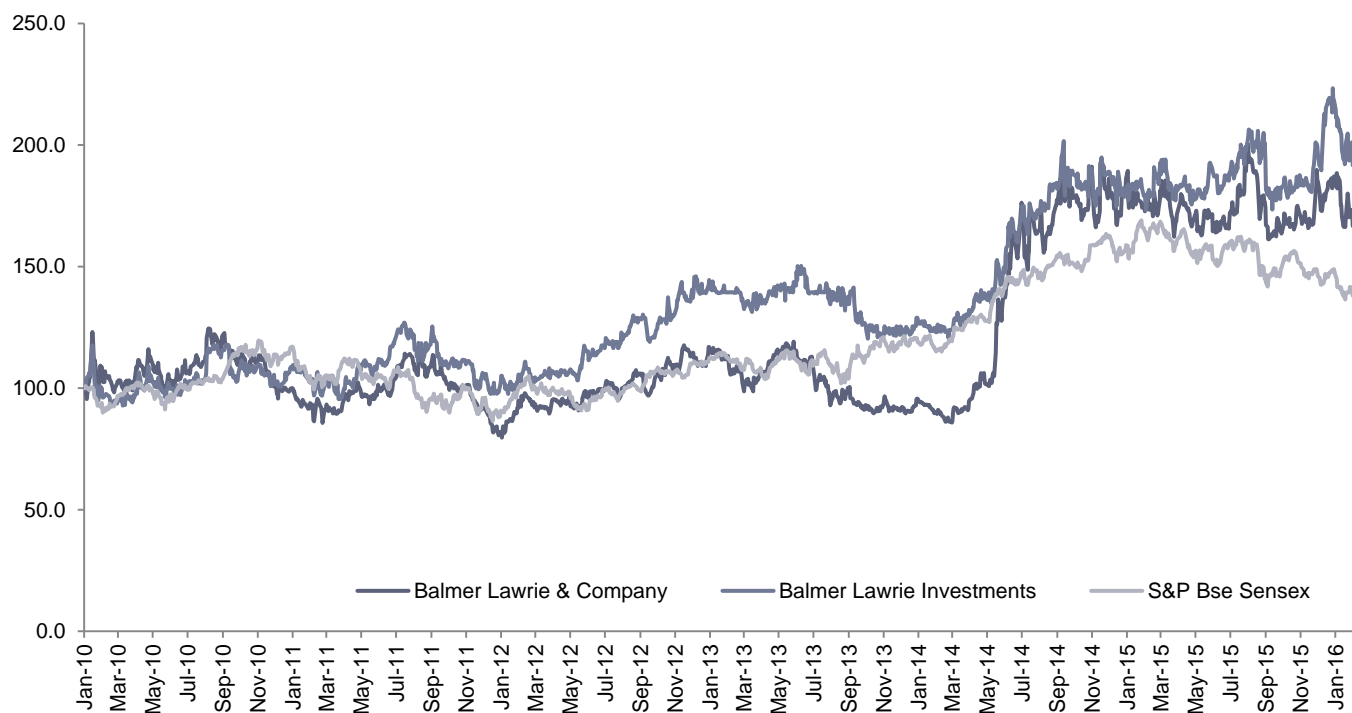
Source: Company, LKP Research

### Intrinsic value of BLInv

Target Price of BL (₹)	860.0
Number of shares held by BLInv (mn)	17.6
<b>Equity Value of BL (₹ mn)</b>	<b>15,147.4</b>
Holding Company Discount (%)	40%
<b>Net Value (₹ mn)</b>	<b>9,088.4</b>
C & CE as on Q2FY16 (₹ mn)	499.5
Net current assets (₹ mn)	340.7
<b>Enterprise Value of BLInv (₹ mn)</b>	<b>9,928.6</b>
Number of Shares (mn)	22.2
<b>Value per share (₹)</b>	<b>447.3</b>

BLInv's main source of income is the dividend it receives from BL where a consistent and stable dividend policy is being followed. Strong fundamentals of BL combined with a stable ~ 4.9% dividend yield maintained by BLInv makes it an attractive investment. We value BLInv at ₹ 447.3 considering a holding company discount of 40.0%.

## Relative Price movement of BL and BLInv



Source: LKP Research

**Financials****Income statement**

YE Mar (₹ Mn)	FY14	FY15	FY16E	FY17E
<b>Revenues from operations</b>	<b>31,248</b>	<b>32,583</b>	<b>32,156</b>	<b>32,255</b>
Mat. and Serv. consumed	23,956	24,983	24,087	23,947
Power and Fuel	486	360	354	371
Packing and Freight	459	325	341	366
Employee Benefits	2,244	2,292	2,361	2,431
Others	1,995	2,397	2,441	2,539
<b>Operating Expenses</b>	<b>29,141</b>	<b>30,358</b>	<b>29,582</b>	<b>29,654</b>
<b>EBITDA</b>	<b>2,107</b>	<b>2,225</b>	<b>2,574</b>	<b>2,602</b>
EBITDA Margin (%)	6.7%	6.8%	8.0%	8.1%
Depreciation	353	462	547	616
Other Income	707	646	675	839
<b>EBIT</b>	<b>2,461</b>	<b>2,408</b>	<b>2,703</b>	<b>2,824</b>
EBIT Margin (%)	7.7%	7.2%	8.2%	8.5%
Finance cost	241	227	191	180
<b>PBT</b>	<b>2,221</b>	<b>2,181</b>	<b>2,512</b>	<b>2,645</b>
PBT Margin (%)	7.0%	6.6%	7.7%	8.0%
Tax	664	660	766	799
<b>PAT</b>	<b>1,557</b>	<b>1,521</b>	<b>1,746</b>	<b>1,846</b>
PAT Margin (%)	4.9%	4.6%	5.3%	5.6%

**Key Ratios**

YE Mar	FY14	FY15	FY16E	FY17E
<b>Per Share Data (₹)</b>				
EPS	54.6	53.4	61.2	64.8
CEPS	67.0	69.6	80.4	86.4
BVPS	344.3	366.1	398.6	434.7
DPS	18.0	18.0	18.0	18.0
<b>Growth Ratios(%)</b>				
Op. Revenues	3.5%	4.3%	-1.3%	0.3%
EBITDA	-10.1%	5.6%	15.7%	1.1%
PAT	-6.9%	-2.3%	14.7%	5.7%
<b>Valuation Ratios (X)</b>				
P/E	10.0	10.2	8.9	8.4
P/CEPS	8.1	7.8	6.8	6.3
P/B	1.6	1.5	1.4	1.3
EV/Sales	0.4	0.4	0.4	0.4
EV/EBITDA	6.0	5.9	5.8	5.8
FCF/EBITDA	0.2	0.6	0.5	0.3
Net Debt/ Equity	(0.3)	(0.3)	(0.3)	(0.3)
<b>Profitability Ratios (%)</b>				
ROCE	22.9%	21.3%	22.4%	22.0%
ROE	15.9%	14.6%	15.4%	14.9%
Dividend payout	33.0%	33.7%	29.4%	27.8%
Dividend Yield	3.3%	3.3%	3.3%	3.3%

Source: Company, LKP Research

**Balance sheet**

YE Mar (₹ Mn)	FY14	FY15	FY16E	FY17E
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	285	285	285	285
Reserves and Surplus	9,528	10,148	11,076	12,105
<b>Total Net Worth</b>	<b>9,813</b>	<b>10,433</b>	<b>11,361</b>	<b>12,390</b>
Total Debt	945	894	688	470
<b>Total Liabilities</b>	<b>10,758</b>	<b>11,327</b>	<b>12,050</b>	<b>12,860</b>
<b>APPLICATION OF FUNDS</b>				
Fixed Assets	5,412	5,887	6,393	7,541
Investments	1	1	1	1
Others	179	168	170	163
<b>Current Assets</b>				
Cash and Bank	3,721	3,878	3,961	3,639
Inventories	3,086	3,165	3,216	3,173
Sundry Debtors	5,258	4,690	4,845	4,949
Loans & Advances	783	955	952	976
Others	289	277	275	289
<b>Current Liabilities and Provisions</b>				
Current Liabilities	6,303	5,932	5,968	6,077
Provisions	1,218	1,208	1,216	1,219
<b>Net Current Assets</b>	<b>5,615</b>	<b>5,826</b>	<b>6,065</b>	<b>5,729</b>
Deferred Tax Assets	6	(1)	(1)	(1)
Other Long Term Liabilities	(456)	(555)	(579)	(573)
<b>Total Assets</b>	<b>10,758</b>	<b>11,327</b>	<b>12,050</b>	<b>12,860</b>

**Cash Flow**

YE Mar (₹ Mn)	FY14	FY15	FY16E	FY17E
<b>PBT</b>	<b>2,221</b>	<b>2,181</b>	<b>2,512</b>	<b>2,645</b>
Depreciation	353	462	547	616
Finance cost	241	227	191	180
Change in Working Capital	(563)	(54)	(156)	14
Tax Paid	(664)	(660)	(766)	(799)
Other Operating Activities	(10)	117	22	1
<b>CF from Operations (a)</b>	<b>1,577</b>	<b>2,274</b>	<b>2,349</b>	<b>2,656</b>
Capital Expenditure	(1,129)	(957)	(1,072)	(1,783)
Change in Investments	-	-	-	-
<b>CF from Investing (b)</b>	<b>(1,129)</b>	<b>(957)</b>	<b>(1,072)</b>	<b>(1,783)</b>
<b>Free Cash Flow (a+b)</b>	<b>448</b>	<b>1,316</b>	<b>1,277</b>	<b>873</b>
Inc./ (Dec.) in borrowings	(198)	(51)	(206)	(218)
Minority Interest	(35)	-	-	-
Dividend and CDT paid	(374)	(882)	(797)	(797)
Finance cost	(241)	(227)	(191)	(180)
<b>CF from Financing (c)</b>	<b>(847)</b>	<b>(1,159)</b>	<b>(1,194)</b>	<b>(1,195)</b>
Net Change in C & CE (a+b+c)	(399)	157	83	(322)
<b>Closing C &amp; CE</b>	<b>3,721</b>	<b>3,878</b>	<b>3,961</b>	<b>3,639</b>

**DISCLAIMERS AND DISCLOSURES**

LKP Sec. Ltd. (CIN-U67120MH1994PLC080039, www.lkpsec.com) and its affiliates are a full-fledged, brokerage and financing group. LKP was established in 1992 and is one of India's leading brokerage and distribution house. LKP is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), MCX Stock Exchange Limited (MCX-SX). LKP along with its subsidiaries offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Institutional and retail), merchant banking, commodity broking, depository participant, insurance broking and services rendered in connection with distribution of primary market issues and financial products like mutual funds etc.

LKP hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. However, SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on LKP for certain operational deviations in ordinary/routine course of business. LKP has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

LKP offers research services to clients. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by LKP and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

Research Analyst or his/her relative's financial interest in the subject company. (NO)

LKP or its associates may have financial interest in the subject company.

LKP or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (LKP) has not been engaged in market making activity for the subject company.

LKP or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: (NO)

LKP or its associates may have received any compensation including for investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report.

Subject Company may have been client of LKP or its associates during twelve months preceding the date of distribution of the research report and LKP may have co-managed public offering of securities for the subject company in the past twelve months.

Research Analyst has served as officer, director or employee of the subject company: (NO)

LKP and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject LKP or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person.

Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom.

All trademarks, service marks and logos used in this report are trademarks or registered trademarks of LKP or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

All material presented in this report, unless specifically indicated otherwise, is under copyright to LKP. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of LKP