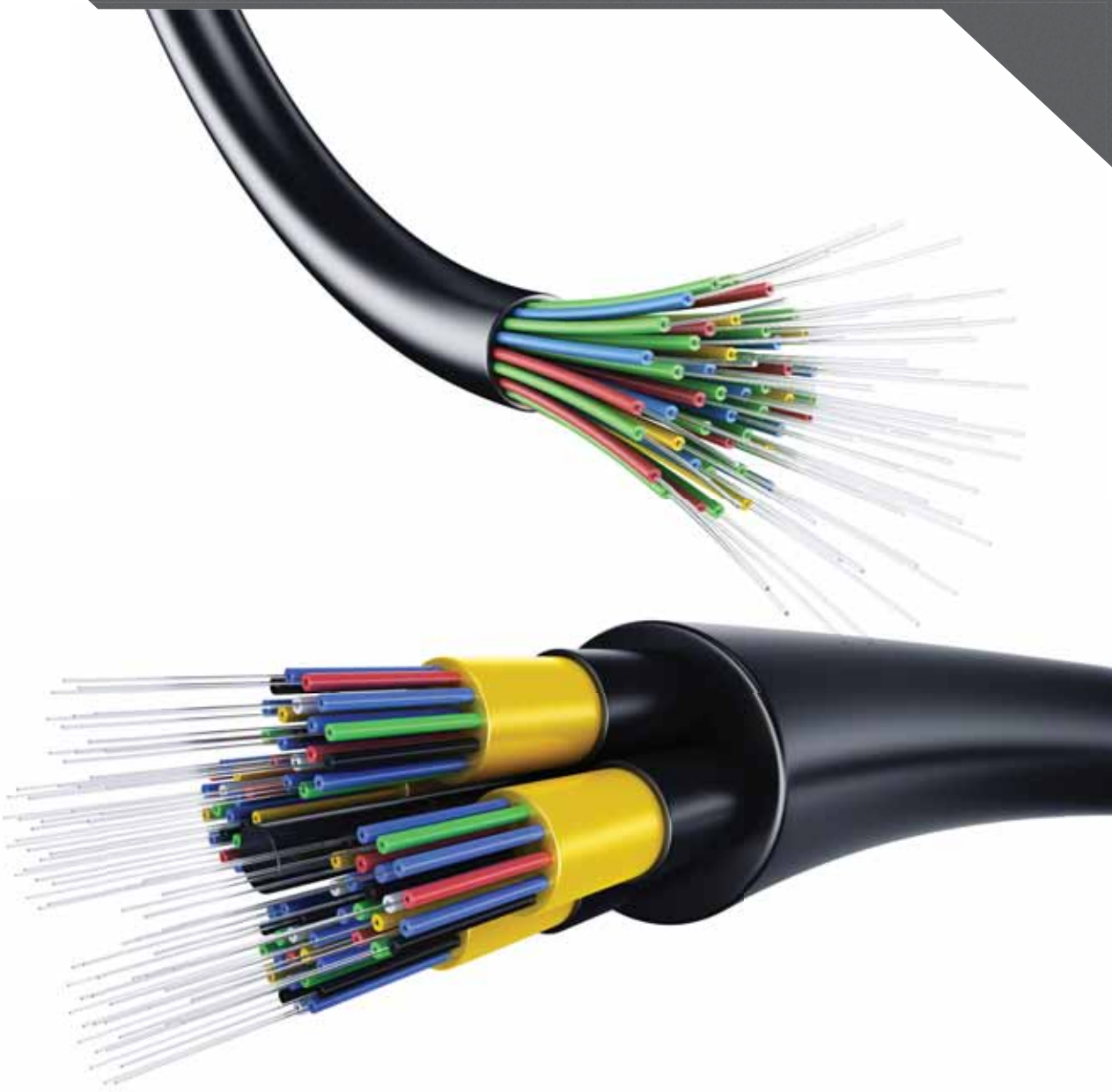
When it's about money..

IIFL

India Private Clients

Sterlite Technologies

Cabling India



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Sterlite technologies Ltd

Demerger of Power business to unlock value!

Initiating Coverage

BUY

Sector: Diversified
Sector View: Positive

CMP: Rs83 1-yr Target: Rs113 Upside: 36%

Sterlite Technologies Ltd (STL), founded by mining baron Mr Anil Agarwal more than two decades ago, is part of the Vedanta Group and figures among global leaders in optic fibre (OF), optic fibre cables (OFC), power conductors and cables. **We see two important triggers which makes us positive on the stock - 1) Huge demand opportunity for cables business, and 2) Demerger of its loss making power business.**

Within OFC, STL is one of the few fully integrated players globally and has been able to generate higher margins than peers. The demand for OFC is expected to rise, backed by Government's BharatNet program and roll out of 4G by telecom operators. To capitalize on this opportunity, STL is in advanced stages of doubling its OFC capacity from 8 mn fiber km (fkm) to 15 mn fkm and OF capacity from 20 mn fkm to 22 mn fkm. Driven by strong brand image and being one of the largest players in India, STL is able to enjoy better pricing power in telecom products. STL recently ventured into the telecom services business and is executing a network for spectrum (NFS) order for defence. It also acquired Elitecore Technologies to increase its presence in telecom services further. The power transmission business (run through its subsidiary Sterlite Grid), however, is generating lower profitability due to high leverage and has been a drag on overall performance. Taking cognizance of this fact, STL has decided to demerge its power business to a separate unlisted entity by FY16 end. The demerger would leave STL as a pure telecom player with high growth prospects, low leverage, and higher margins.

We believe the increasing demand for telecom products, rising penetration into the telecom services segment, and demerger of the low-margin power business would lead to PAT CAGR of ~22% during FY15-18E. As per the demerger process, the shareholders will receive Rs.22.5 per share for the power business. We have valued the telecom business separately and added the power business value of Rs.22.5 per share to arrive at the SOTP target. We initiate coverage on STL with BUY and a SOTP target of Rs.113, which implies a potential upside of 36%. We have valued STL's telecom business at EV/EBITDA of 8x its FY18E EBITDA and added Rs.22.5, which the shareholders would receive from the power business by end FY16.

Financial Highlights

Y/e 31 Mar (Rs cr)	FY15	FY16E	FY17E	FY18E
Revenues	1,619	2,120	2,745	2,924
yoy growth (%)	NA	31.0	29.5	6.5
Operating profit	345	433	504	533
OPM (%)	21.3	20.4	18.4	18.2
Reported PAT	118	160	199	216
yoy growth (%)	NA	35.5	23.9	8.6
EPS (Rs)	2.9	4.1	5.0	5.5
P/E (x)	28.6	20.4	16.5	15.2
EV/EBITDA (x)	9.5	9.4	8.1	7.4
Debt/Equity (x)	1.1	1.1	0.9	0.7
RoE (%)	19.7	23.9	24.1	21.2
RoCE (%)	19.5	22.4	23.2	22.3

Source: Company, India Infoline Research; FY15 includes only telecom financials for comparison purpose

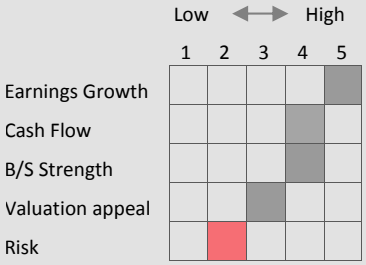
Analyst:
Alok Deora
research@indiainfoline.com

Stock Data

Sensex:	25,285
52 Week h/l (Rs):	110 / 48
Market cap (Rscr) :	3,271
6m Avg t/o (Rscr):	10.3
Bloomberg code:	SOTL IN
BSE code:	532374
NSE code:	STRTECH
FV (Rs):	2
Div yield (%):	0.7

Prices as on March 21, 2016

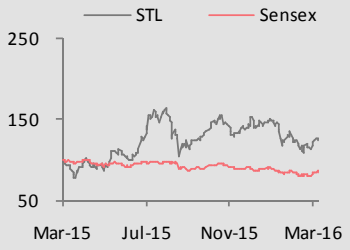
Company Rating Grid



Shareholding Pattern

	Jun-15	Sep-15	Dec-15
Promoters	54.8	54.8	54.8
FII+DII	13.2	15.1	15.8
Others	32.0	30.1	29.4

Share Price Trend



March 22, 2016

Company Report

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Demerger of power business to unlock value for shareholders

The power business has been a drag on the company's performance during the past few years, as weak topline growth and high leverage has impacted the profitability. With a view to unlock value, STL has decided to transfer the entire power to a separate unlisted company by the end of FY16. The telecom business continues to do well with existing capacities running at maximum utilization, premium pricing, and low leverage. The demerger would allow STL to capitalize on the opportunities in telecom space.

Capacity expansion to drive next leg of growth for STL

The expansion of optic cable capacity from 8 mn fiber km (fkm) to 15 mn fkm is in an advanced stage. The company is also enhancing the capacity of optic fiber (OF) through the debottlenecking exercise. Post the debottlenecking, the capacity of OF would increase from 20 mn fkm to 22 mn fkm. We believe the incremental capacity would be a key driver of revenue growth and profitability, as demand continues to be strong.

BharatNet and Network for Spectrum programs to provide strong opportunities to OFC industry

The BharatNet programme, aimed at connecting 2.5 Lakh Gram Panchayats through the use of high-speed broadband connectivity by using optic fibers would fuel an increase in the demand for OFCs. Players such as STL stand to benefit significantly from the same. Further, programs such as Network for Spectrum (NFS) rolled out to provide network to the defence sector, have triggered a sharp increase in OFC demand. We envisage more such programs to come up in the future, leading to higher demand for optic cables.

Investment in 4G network and strengthening of existing networks to create strong demand for OFC

STL figures among the providers of fiber cables to Reliance Jio and Airtel during the 4G rollout. It has participated in the laying of fiber networks that can be used by service providers for last mile connectivity. Some companies, for example, Bharti have announced significant capex toward 4G rollout and strengthening of the existing networks, which is likely to create more demand for OFCs.

Margin performance to remain strong for demerged entity

Margin performance of the consolidated entity was subdued during the past few years, owing to feeble performance of the power business. The telecom business, however, enjoyed stronger margins. STL has strong pricing power in the telecom segment, as it is one of the largest players in the industry. Post the demerger, the leverage of ongoing telecom business would reduce considerably to settle at ~1.0x levels (5.0x earlier). This would significantly improve margin performance. With anticipated capacity expansions in the product business, increasing penetration in the services segment, contribution from the recently acquired Elitecore business is likely to help STL in generating strong margins.

Acquisition of telecom solutions company Elitecore to drive inorganic growth

STL recently acquired Ahmedabad-based Elitecore Technologies Ltd, a pure play business support and operations support systems player in order to foray into the telecom software services space. Elitecore generated revenue of ~Rs.150 cr in FY15with EBITDA margins of ~11%. The acquisition helped STL mark its foray into the telecom software services space and thus establish a presence across the telecom supply chain. Post the acquisition, the diverse product mix is likely to help STL leverage its expertise across segments.

Sharp decline in leverage post demerger to enhance return ratios

The company was not able to generate substantial profits in the past because of high leverage in the power business. Consequently, return ratios have weakened in the past few years. Following a sharp reduction in leverage post the demerger coupled with expected improvement in operating performance of telecom business, we expect the return ratios to improve considerably, and thus create huge value for shareholders.

Outlook and Valuation

We value STL using sum-of-the-parts (SOTP) methodology. SEL's ongoing telecom business, post the demerger, has been valued using FY2018E EV/EBITDA multiple. We have then added the value as per the demerger scheme for the power business.

Value of telecom business

We have valued the telecom business with EV/EBITDA multiple of 8.0x its FY2018E EBITDA, which results in an equity value of Rs.91 per share. Strong growth prospects backed by capacity additions in the telecom product business, rising penetration of the telecom services business, and contribution from the recently acquired Elitecore business are the key factors we have considered to arrive at the valuation.

Value of power business

The shareholders would be receiving Rs.22.5 as part of the demerger process by the end of FY16. Therefore, we have added Rs.22.5 in our target price today to arrive at the target of the consolidated entity.

On combining the value of telecom business and power business, we arrive at a value of Rs.113/share, reflecting 36% upside in the stock price from

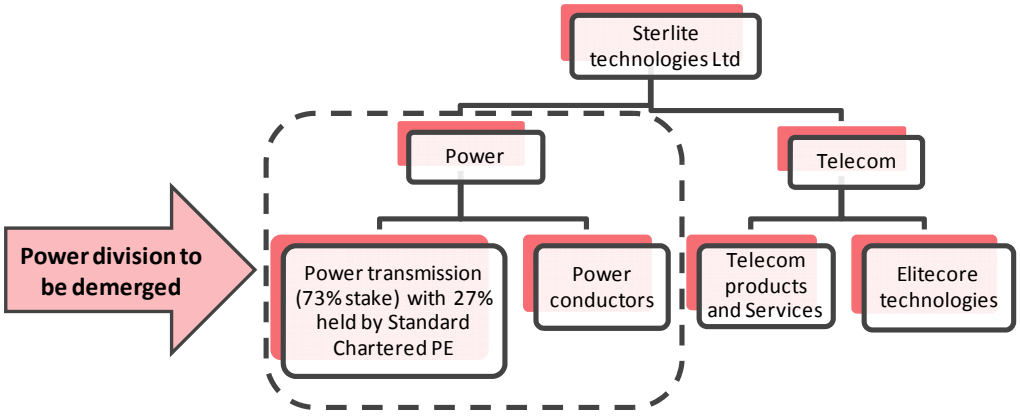
SOTP Assessment

Particulars	Segment	Basis	FY18E EBITDA	Target Multiple	Target Equity Value	Value per share
Telecom products	Telecom	EV/EBITDA	Rs.533 cr	8x	Rs.3,577 cr	**Rs.91**
Power Conductor and Power transmission	Power	As per scheme of arrangement				**Rs.22.5**
					SOTP Target	**Rs.113**
					CMP	**Rs.83**
					Upside/(Downside)	**36%**

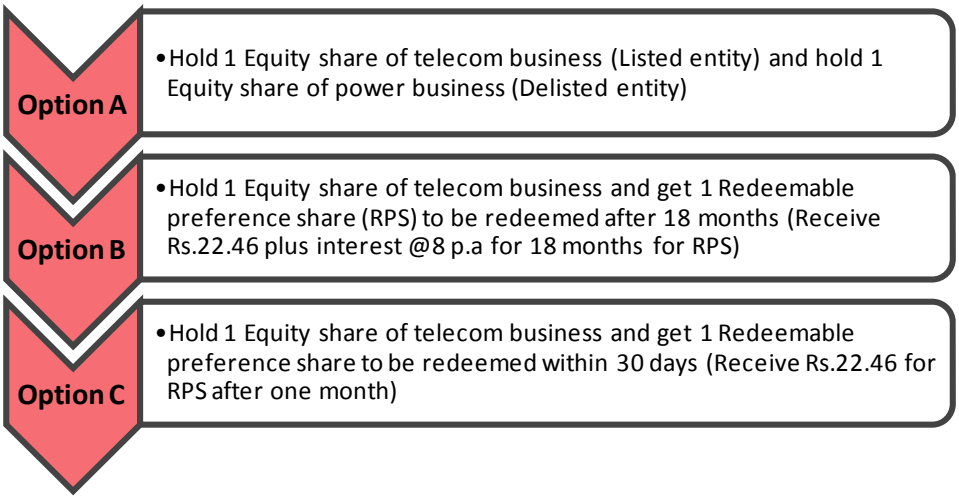
Scheme of Demerger

Sterlite Technologies is one of the leading manufacturers of optic fiber cables, optical fibers, and power transmission conductors. It is India's only fully integrated optical fiber producer. The company also exports optical fibers to China, Europe, and South East Asia. The company recently acquired Elitecore Technologies, a telecom software company. It also has international JVs in Brazil and China.

The management has plans to restructure and streamline the business, wherein the power segment will be demerged from the company to an unlisted entity under the company's scheme of demerger.



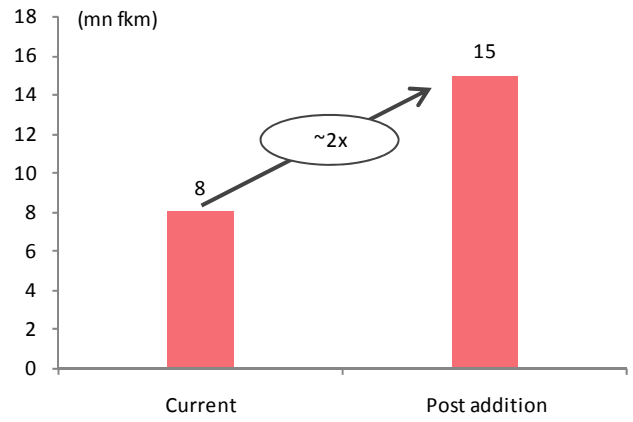
Under the scheme of arrangement, the shareholders would have the following options, depending on their investment profiles. While they would continue to hold one share of the telecom entity (listed entity post demerger), they could choose from the different combinations offered by STL.



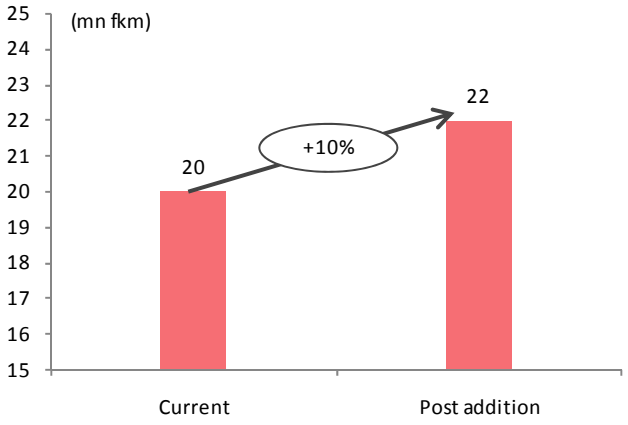
Doubling of capacity in OFC business to drive growth for STL

Sterlite operated at close to its full capacity, backed by strong demand for its products. Considering the huge demand, STL recently added capacities in the OFC space to capitalize on the opportunity. It increased the capacity of optical fiber cables from 8 mn fkm to 15 mn fkm through a capex of Rs.150 cr.

Doubling of OFC capacity to drive topline



Debottlenecking to enhance OF capacity



Source: Company, India Infoline Research

STL has also initiated a debottlenecking exercise for its optical fiber capacity, which increased its capacity from 20 mn fkm to 22 mn fkm.

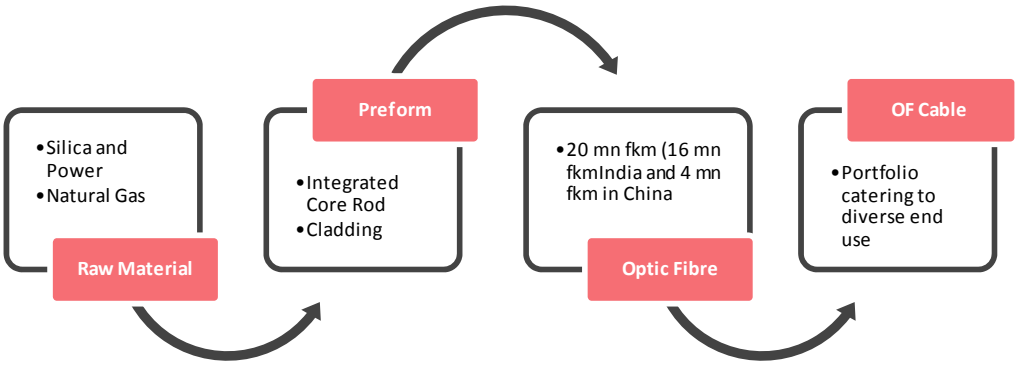
It has focussed strategically on increasing capacity in the OFC space to leverage the high demand for finished products and extract more benefits from the relatively lower pay back period compared with the OF business.

Given that the capacity expansion programme of STL has been largely completed, it envisages a significant ramp up in production from FY17 onwards, which would kickstart the next leg of growth for the company. The company expects capacity utilization to increase quickly, as the demand for products continues to be robust.

STL expects peak utilzation for its incremental capacity by FY18. Post this expansion, STL is not looking at further capacity enhancement in the near to medium term.

End-to-end integration to enable strong margins

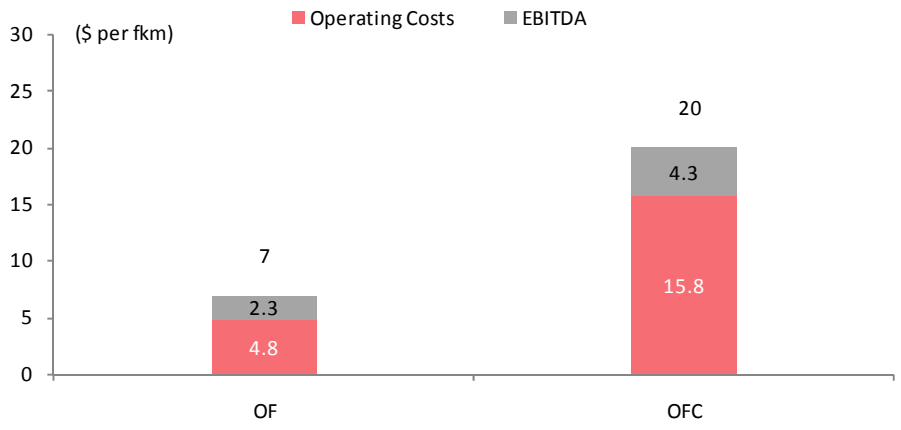
STL is one of the few companies in the world that has a fully integrated optical fiber manufacturing technology. The company has complete control from the raw material manufacturing stage to point when the final product is ready. This allows realization of strong margins on a consistent basis.



While most global fiber manufacturers procure glass and process it into fiber, STL procures silicon directly and converts it into glass and further into fiber. Few players are involved in the activity, owing to the highly automated nature of the conversion process.

The company has generated healthy operating margins within the optic fiber space, owing to backward integration. Even within the optic fiber cables business, the company has generated strong double-digit EBITDA margins, owing to the presence of a backward integrated facility. Notably, the company generates close to 50-60% of the consolidated topline from the optical fiber business and is adding significant capacities in the same.

Backward integration enabling strong operating profitability



Source: Company, India Infoline Research

Telecom services to contribute significantly, though being small for now

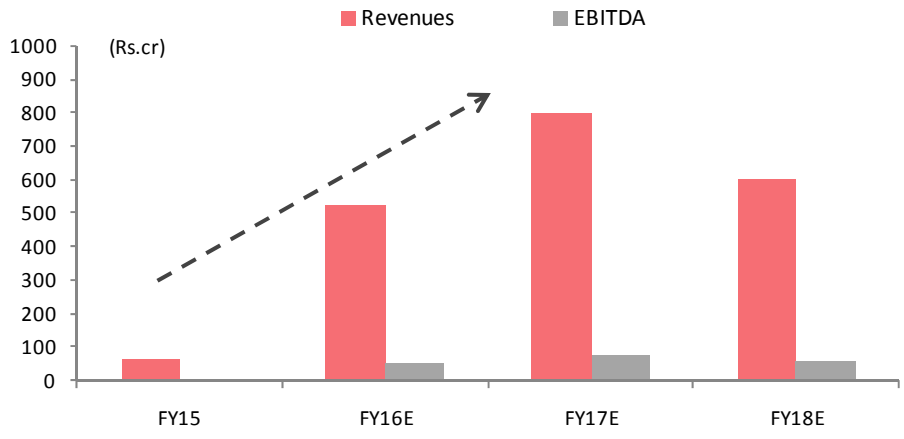
Under the telecom services division, Sterlite undertakes end-to-end creation of telecom infrastructure and applications. The role includes network engineering, integration, and operations and maintenance (O&M). The services business could also be classified as EPC business and offers ample growth opportunities for the company.

During 2014, STL received an order from BSNL to execute a Network for Spectrum (NFS) order for Jammu and Kashmir to build a new communication network for exclusive use by the armed forces. The order comprised cable supply and EPC services, likely to be completed by the end of 2016. The order essentially includes installation and maintenance of OFC. The cost of contract also includes annual maintenance service for seven years relating to network maintenance. The current order book of telecom business stands at nearly Rs.1600 cr, of which, the services business constitute close to Rs.1200 cr. This provides strong revenue visibility over the next couple of years from the business.

The company expects similar business to flow in from other government departments. It seeks to capitalize on the opportunities within the government sector and securing more orders from the defence segment, smart cities, and the government's National Optic Fiber Network project.

Owing to the EPC nature of the business, the EBITDA margins are expected to be close to 10%. The company expects to generate strong topline growth from the business and is focused on generating higher absolute EBITDA compared with margins.

Services business to emerge as strong contributor to STL



Source: Company, India Infoline Research

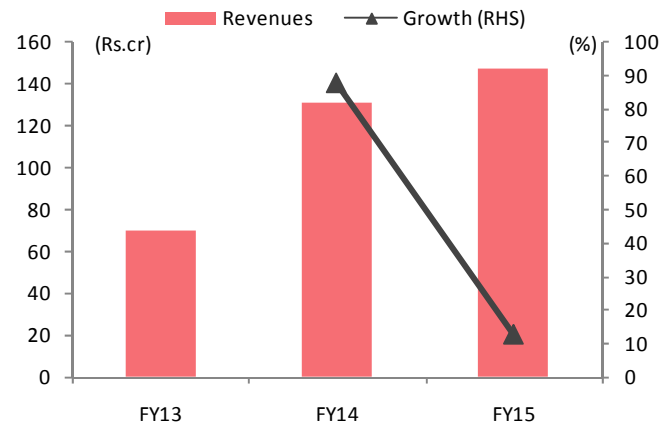
Acquisition of Elitecore, a telecom software solutions company to drive inorganic growth

With a view to foray into telecom software services, STL recently acquired Ahmedabad-based Elitecore Technologies Ltd, a pure play business support and operations support systems player for an enterprise value of Rs.180 cr. The acquisition has enabled STL to mark its foray into telecom software services and established a presence across the entire telecom supply chain. The product mix that would emerge post the acquisition is likely to help STL capitalize on its expertise across segments.

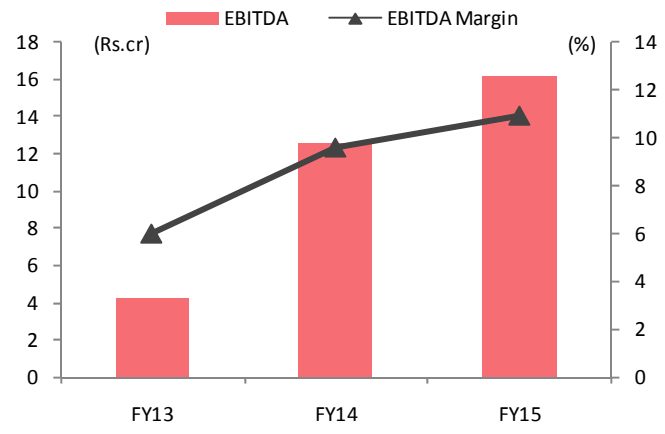
The acquisition will also help STL extract more benefits from synergies and cross-selling of products. Elitecore is servicing 11 out of the top 30 telco players and has a global presence in regards to provision of customer experience solutions. It developed indigenous end-to-end business support systems and packet core solutions and deployed 150+ networks in more than 40 countries.

Elitecore has a presence in the Middle East, Latin America, and Africa. The company is expected to benefit from a strong balance sheet and brand image of the Sterlite Group. Further, Elitecore would be able to expand its global reach. The company expects revenues from Elitecore to double to Rs.300 cr in the next three years.

Elitecore - Exhibits strong revenue growth



Elitecore - Operating performance improving



Source: Company, India Infoline Research

Government projects like BharatNet and Network for Spectrum (NFS) to provide strong growth opportunities

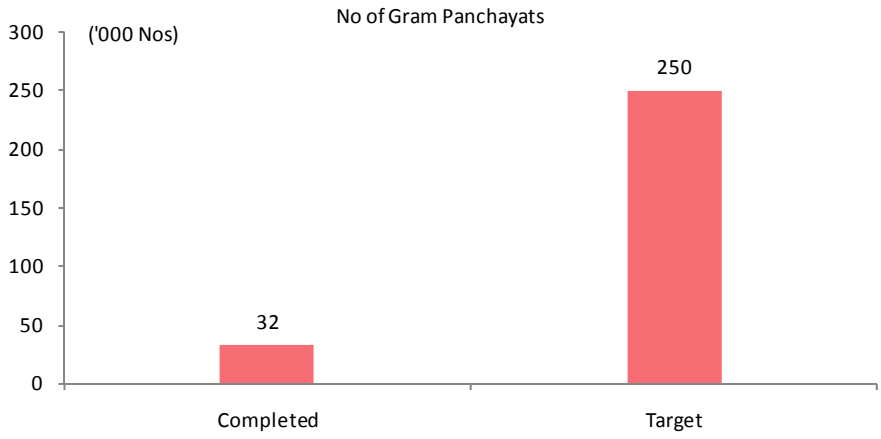
Execution of BharatNet (Erstwhile National Optical Fiber Network) project to boost demand for fiber cables

The Government of India (GoI) cleared the National Optical Fiber Network (NOFN) project in 2011 to provide high-speed broadband connectivity to 2.5 lakh villages by using fiber optic cable connectivity. The estimated cost of the project was nearly Rs.20,000 cr to be funded by the Universal Service Obligation (USO) Fund. Under NOFN, a SPV, namely Bharat Broadband Network Limited (BBNL) was formed and the optical fibers were to be deployed by BSNL, MTNL, and RailTel.

Owing to dismal execution, the project was later revamped and renamed as BharatNet and the government decided to involve state governments and the private sector for participating in the project. The BharatNet also proposed to use spectrum and satellites and the project cost is now estimated to be over 72,000 cr. Until December 2015, the government has managed to install optical fibers in around 32,000 gram panchayats and has released about Rs.3,000 cr for the programme until October 2015. STL enjoys a strong market share in this segment and is all set to capitalize on the opportunity. The incremental capacity addition by STL would also be a strong factor that would enable the company to tap the rising demand.

Linking Gram Panchayats by broadband internet to drive demand for OFC

Successful execution of BharatNet project to spur demand for OFCs over the near to long term



Source: Committee Report on NOFN, India Infoline Research

NFS project to provide strong push to OFC demand

GoI is setting up fiber optic cable networks for the defence forces. This entails a total investment of ~Rs.7,000 cr. The NFS project comprises installing of OFC totaling to ~57,000 kms divided into seven packages and to be completed in a period spanning 18 months. The project includes procurement, supply, installation, testing, and maintenance of OFC on an EPC basis. The cost also includes an annual maintenance contract for seven years for maintaining the network once it is laid. We envisage more such projects to come up in the future, driving further demand for OFCs over the medium to long term.

Pose the demerger, Revenue growth to get stronger

Feeble growth in the power sector has had an impact on topline growth

Over FY11-15, STL clocked a CAGR of close to 8%, driven by strong growth in the telecom segment. While the telecom segment had a strong 25% CAGR, the power segment's growth was flat during the period, dragging the overall performance. Post the demerger of the power business, the listed entity will likely see robust growth.

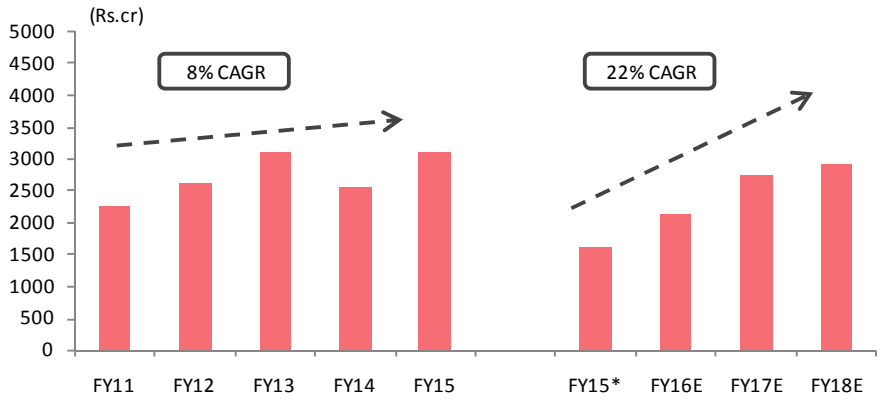
Strong capacity addition in the telecom segment, contribution from the telecom services business, contribution from Elitecore provide significant comfort on future topline growth

We expect STL to experience strong topline growth, backed by strong capacity additions in the OFC segment, which is experiencing a high demand. The incremental capacity will likely be absorbed easily by the market, owing to the expectation of strong demand from the BharatNet project and heavy capex investment by telecom operators toward rolling out 4G and maintaining 2G and 3G networks. The company is positioning itself as a services player, which has helped it bag big orders from NFS, thus showing revenue visibility for the coming years. We expect the company to gradually increase its penetration in the services segment over the medium term.

Revenues would also be bolstered by the recently acquisition of Elitecore. Elitecore's established presence coupled with STL's brand image and product profile shows significant growth potential in the software services business over the near to long term.

We envisage strong revenue growth at 22% CAGR during FY15-18, backed by a strong order book, penetration into newer segments, and expected contribution from Elitecore.

Revenues to get stronger post the demerger



Source: Company, India Infoline Research, Note - FY15 contains Proforma financials excluding power business revenues for comparison purpose.*

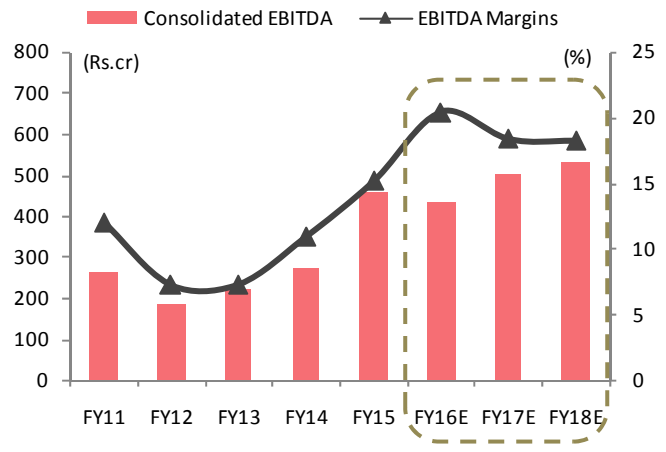
Earnings to be strong over FY15-18E led by strong operating performance and lower interest costs

The performance at the operating level has taken a hit during the past few years, owing to weak performance of the power business. EBITDA margins have hovered around single digits or lower double digits during the past five years. However, with the demerger, we expect the company's performance to show improve considerably in FY16, with EBITDA margins breaching the 15% mark.

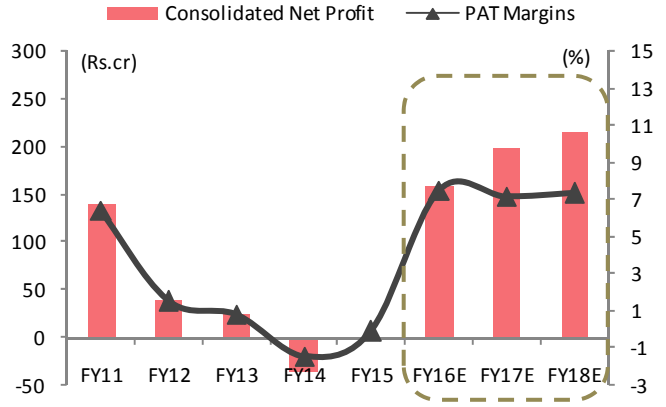
As most of the major capex is already incurred, most of the future capex will be directed toward maintenance. Therefore, depreciation costs are likely to see slower growth than operating profitability. With D/E reducing considerably post the demerger to 1.0x levels as against 5.0x previously, interest costs would decline significantly. Debt is expected to decline further over the next few years, as the company generates strong free cash flows and pays off certain portions of debt. At the net level, we expect the company to see a sharp increase in profitability during the next few years.

While operating profits will likely register ~16% CAGR during FY15-18 (FY15 only telecom business considered), net profit will clock a CAGR of 22% during the same period. Following capacity additions by the company in the relatively low-margin OFC segment, overall operating profits would have to counter marginal pressure. However, slower growth in depreciation expenses and the expected decline in interest costs would lead to sharp improvement in net profits during the forecast period.

Operating performance to improve post de-merger



Net performance to witness substantial growth



Source: Company, India Infoline Research, Data from FY11to FY15 is pre-demerger which includes Power as well as Telecom business. FY16-18 is post de-merger numbers which includes telecom business

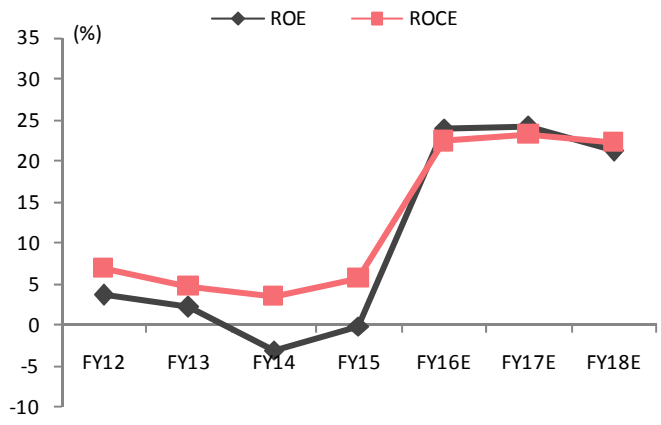
Significant decline in D/E post the demerger; Return ratios to improve drastically over long term

The company operated with a D/E of close to 5x in FY15, but now would operate with a D/E of nearly 1.0x, as the asset heavy power business gets demerged. Low debt-to-equity would lower interest expenses and trigger a sharp increase in return ratios. The company expects strong free cash flows in the future, which will help it clear more debt and reduce its leverage.

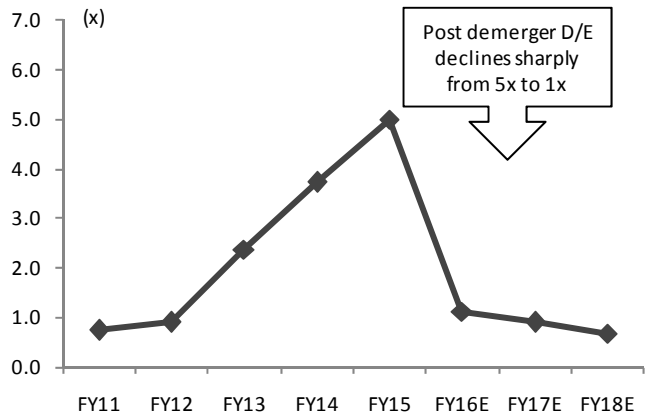
The company has already incurred the required capex toward enhancing its capacity for OF and OFC. As per our interaction with the management, they are unlikely to add significant capacity during next few years and would only be incurring a maintenance capex. With no major capex in the near to medium term, return ratios are likely to increase considerably.

With a strong order book, new capacity coming on-stream leading to higher revenues, and marginal capex requirement, return ratios will see a marked improvement in the next few years. This would be in stark contrast to what has panned out during the past few years, when the asset heavy power business significantly negated returns generated by the telecom business. With the demerger, the outlook for the listed telecom business is highly promising.

Return ratios to improve drastically post demerger



D/E to decline sharply and remain low



Source: Company, India Infoline Research, Data from FY11to FY15 is pre-demerger which includes Power as well as Telecom business. FY16-18 is post de-merger numbers which includes telecom business

Strong earnings growth post the demerger available at attractive valuation

We envisage strong earnings growth for the company during the next few years, owing to various government initiatives such as BharatNet and NFS, doubling of capacity of OFC by Sterlite, demerger of the low-margin power business. Robust earnings growth and strong return ratios seem sustainable over the next few years.

Sterlite is trading at EV/EBITDA of 7.2x its FY18E EBITDA. Backed by a strong growth outlook, we believe the company is currently trading at attractive valuations. We have valued the telecom business at target EV/EBITDA of 8x over and above the power business value of Rs.22.5.

Stronger operating performance than most peers

Comparative analysis

Company Name	Mkt Cap	EBITDA Margin (%)				PAT (Rs. Cr)			
	(Rs Cr)	FY12	FY13	FY14	FY15	FY12	FY13	FY14	FY15
Sterlite Technologies	**3,271**	**7.2**	**7.2**	**10.7**	**21.3**	**40**	**25**	**-36**	**118**
Aksh Optifibre Ltd	217	11.5	15.4	15.2	14.8	19.6	25.8	21.7	25.3
Birla Ericsson Optical	93	5.0	11.2	12.6	12.2	-4.8	5.7	19.2	12.5
Vindhya Telelinks	747	7.0	12.0	14.3	18.2	1.9	21.2	34.8	74.6
HFCL	1,983	14.9	23.4	12.2	14.0	-63.2	55.1	473.3	311.6

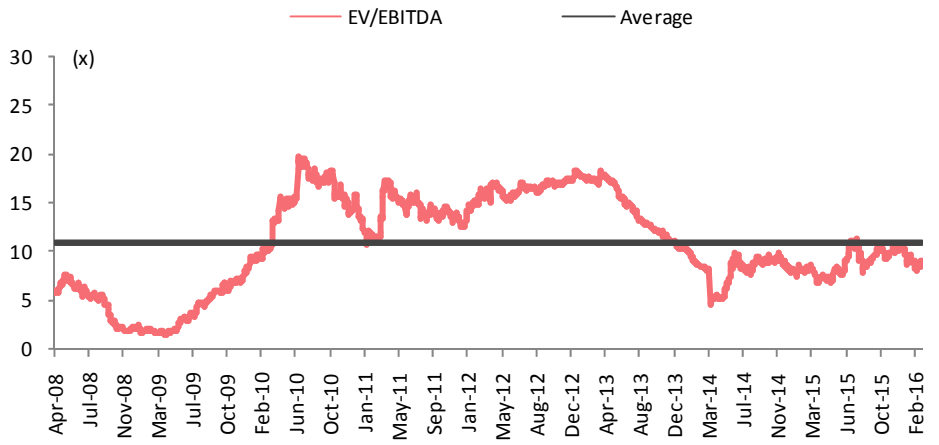
Source: Bloomberg, India Infoline Research, Price as on 21 March 2016

Company Name	P/E (x)		EV/EBITDA (x)		ROE %				D/E (x)	Promoter Holding (%)
	FY14	FY15	FY14	FY15	FY12	FY13	FY14	FY15	FY15	As on Dec 31
Sterlite Technologies	**NA**	**27.3**	**28.6**	**13.0**	**3.6**	**2.2**	**-3.1**	**13.8**	**1.1**	**54.8**
Aksh Optifibre Ltd	10.2	8.8	9.8	6.7	6.2	7.5	6.1	6.9	0.35	30.0
Birla Ericsson Optical	5.3	8.1	3.3	6.3	-8.2	9.6	27.4	15.2	0.67	66.4
Vindhya Telelinks	22.2	10.3	5.0	6.8	0.7	7.3	11.0	20.3	0.77	43.5
HFCL	4.3	6.6	4.9	4.9	0.0	78.1	145.0	43.6	0.33	39.0

Source: Bloomberg, India Infoline Research, Price as on 21 March 2016

STL is one of the largest optic cable manufacturers in India and worldwide. With an increased capacity, it is all set to kick start the next leg of its growth. This provides significant comfort on business prospects. The company's entry into the services segment would also provide STL diversification and allow it to leverage its product manufacturing expertise. Sharp decline in debt post the demerger and no major capex are significant benefits from the company's perspective in the near to long term.

EV/EBITDA trend



Source: Bloomberg, India Infoline Research

STL's valuations have been affected in the past because of poor performance in the power business and piling up of debt leading to significant pressure on profitability. With the demerger of the power business, the valuations are poised for improvement.

Taking into consideration the strong outlook, we value STL's telecom business with a target EV/EBITDA of 8x FY18E EBITDA. On combining the value of Rs.22.5 for the power business, which the shareholders would receive at the end of FY16, we arrive at a SOTP target value of Rs.113/share, reflecting 36% upside in the stock price from current levels. Thus, we recommend BUY rating on the stock.

Key Risks

- **Slow recovery in demand for optical fibers globally**

  While demand is expected to pick up, owing to 4G rollout in India as well as some other countries, any delays could have an adverse impact on demand for the company's products and realizations.

- **Lower-than-expected penetration in telecom services business**

  Sterlite is a relatively new player in the telecom services business and is aiming to achieve strong growth from that business. If it is unable to penetrate into the market significantly, this would leave the company solely dependent on the product business, thus affecting the overall performance.

- **High dependence on Government projects**

  STL is focusing on projects, including BharatNet and NFS, which are from Government agencies. Any delays on releasing the orders as seen in the past NOFN projects can lead to significant underutilization of capacities for the company.

- **Risk on maintaining profitability**

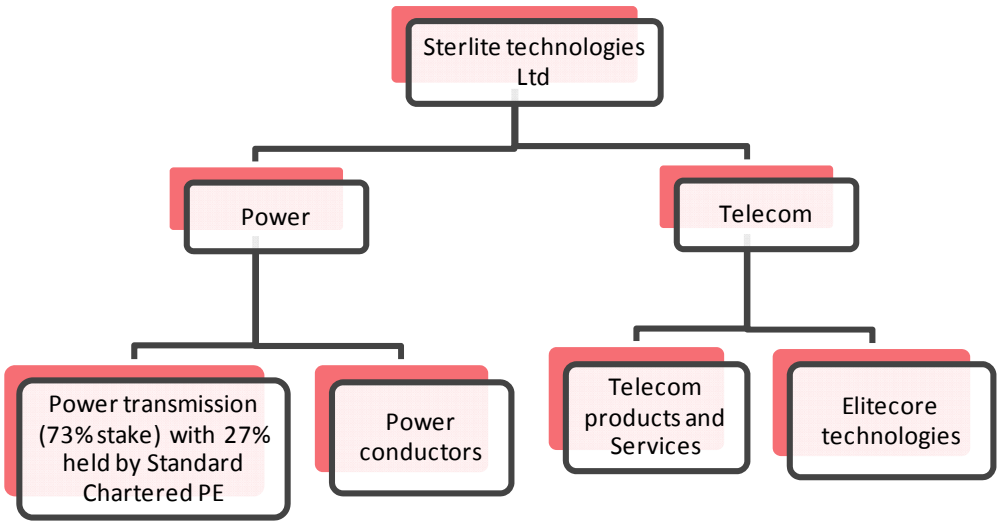
  The company has increased its capacity significantly in the OFC space, which has enabled to lower margins considerably compared with OF. While the blended margins would feel the effect as and when incremental capacity comes on-stream, the company expects this to be partially offset by increase in realizations and synergies because of the scale of operations. If the company is unable to increase realizations, profitability might suffer.

Company Background

Sterlite Technologies delivers products and solutions in the telecom cables and power space globally and enjoys a strong market share across product categories. STL is among the leading players within the optical fiber and optic fiber cables space and has operations spread across India, China, and Brazil. It is one of the few integrated OFC players in the world, which hands it a clear edge over competition. It is working on government initiatives in regards to providing broadband internet across villages. Apart from telecom, STL is also developing transmission lines spread across India. With the recent capacity expansion in the OFC space, it has further increased its dominance in the telecom space.

STL was founded by Mr. Anil Agarwal in 1976 who has been engaged in the operations of the company since its inception. He is the Executive Chairman of Vedanta Resources Plc and also the Chairman Emeritus of Sesa Sterlite Limited. He has over three decades of experience in business strategy, general management, and commercial matters. STL is run by an experienced management team headed by Mr. Pravin Agarwal, who is the Vice Chairman of the board. The day-to-day operations are managed by Dr Anand Agarwal, the CEO of the Company.

Over the years, the company has added capacities in the telecom space and the recent capacity expansion is likely to catapult it to the next level in terms of its growth. The company also acquired Elitecore Technologies. This will enhance its offerings in the telecom services space.



Financials

Income statement

Y/e 31 Mar (Rs cr)	FY15	FY16E	FY17E	FY18E
Revenue	1,619	2,120	2,745	2,924
Operating profit	**345**	**433**	**504**	**533**
Depreciation	(96)	(116)	(122)	(129)
Interest expense	(75)	(82)	(91)	(88)
Other income	0	0	0	0
Profit before tax	**174**	**235**	**292**	**317**
Taxes	(55)	(75)	(93)	(101)
Adj. profit	**118**	**160**	**199**	**216**
Exceptional items	0	0	0	0
Net profit	**118**	**160**	**199**	**216**

Balance sheet

Y/e 31 Mar (Rs cr)	FY15	FY16E	FY17E	FY18E
Equity capital	79	79	79	79
Reserves	521	660	831	1,047
Net worth	**600**	**739**	**910**	**1,125**
Debt	674	824	824	774
Total liabilities	**1,274**	**1,563**	**1,734**	**1,899**
Fixed assets	984	1,155	1,223	1,290
Fund Involvement	290	382	494	527
Total Assets	**1,274**	**1,563**	**1,734**	**1,899**

Cash flow

Y/e 31 Mar (Rs cr)	FY16E	FY17E	FY18E
Profit before tax	235	292	317
Depreciation	116	122	129
Tax paid	(75)	(93)	(101)
Operating cashflow	276	321	345
Capital expenditure	(287)	(190)	(197)
Free cash flow	**(11)**	**131**	**148**
Equity raised	-	-	30
Investments	(92)	(113)	(32)
Debt financing/disposal	150	-	(50)
Net Δ in cash	**26**	**(9)**	**66**

Note - FY15* contains Proforma financials post demerger of power business for comparison purpose.

Key ratios

Y/e 31 Mar	FY15	FY16E	FY17E	FY18E
Growth matrix (%)				
Revenue growth	NA	31.0	29.5	6.5
Op profit growth	NA	25.7	16.5	5.8
EBIT growth	NA	27.8	20.3	5.8
Net profit growth	NA	35.5	23.9	8.6
Profitability ratios (%)				
OPM	21.3	20.4	18.4	18.2
EBIT margin	15.4	15.0	13.9	13.8
Net profit margin	7.3	7.6	7.2	7.4
RoCE	7.5	22.4	23.2	22.3
RoNW	13.8	23.9	24.1	21.2
RoA	2.9	11.3	12.0	11.9
Per share ratios				
EPS	3.0	4.1	5.0	5.5
Dividend per share	0.3	0.5	0.6	0.7
Book value per share	15.2	18.8	23.1	28.6
Valuation ratios (x)				
P/E	27.7	20.4	16.5	15.2
P/CEPS	10.6	11.4	9.8	9.1
P/B	5.5	4.4	3.6	2.9
EV/EBIDTA	11.4	9.4	8.1	7.4
Payout (%)				
Dividend Payout	11.6	13.0	14.0	14.0
Tax payout	31.9	31.9	31.9	31.9
Leverage ratios				
Interest coverage	3.3	3.9	4.2	4.6
Net debt / equity	1.1	1.1	0.9	0.6
Net debt / op. profit	2.0	1.8	1.6	1.3

Du-Pont Analysis

Y/e 31 Mar (Rs cr)	FY15	FY16E	FY17E	FY18E
Tax burden (x)	0.68	0.68	0.68	0.68
Interest burden (x)	0.70	0.74	0.76	0.78
EBIT margin (x)	0.15	0.15	0.14	0.14
Asset turnover (x)	0.39	1.49	1.67	1.61
Financial leverage (x)	4.80	2.12	2.00	1.79
RoE (%)	**13.8**	**23.9**	**24.1**	**21.2**

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Nirmal Jain, Chairman, IIFL, received the award for The Best Broker of the Year (for contribution to broking in India) at India's Best Market Analyst Awards 2014 organised by the Zee Business in Mumbai. The award was presented by the guest of Honour Amit Shah, president of the Bharatiya Janata Party and Piyush Goel, Minister of state with independent charge for power, coal new and renewable energy.

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +15%

Accumulate – Absolute return between 0% to +15%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

Call Failure - In case of a Buy report, if the stock falls 20% below the recommended price on a closing basis, unless otherwise specified by the analyst; or, in case of a Sell report, if the stock rises 20% above the recommended price on a closing basis, unless otherwise specified by the analyst

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