DIC INDIA LIMITED

-GROUP 7

Bharat Gupta
Debadutta Acharya
Aditya Kasera
Sameer Bahirat
Ammu Jerome
Balasubramanian krishnan
Amritmay Pandey

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DIC INDIA LIMITED-an analysis

Recommendation: BUY

Market Cap: Rs Cr. 130.82

CMP: 184

12 Month Price Objective: 233

Estimates	2006E	2007E	2008E
Net income	111.47	122.62	134.88
EPS	18.40	23.00	28.75
EPS Growth %	25%	25%	25%

Investment Argument

1) Strong investment in packaging and the expansion of literacy and consumer spending.

2) Change in business composition and rising volumes

3) As per Inkworld estimates "*Asia-Pacific will be the largest ink-producing region within the next five years.*"

DIC India limited is well poised to take advantage of that growth
4) Y-o-Y growth of 12%

Company at a glance:

-Subsidiary of US $ 9 billion **Dainippon Inks and Chemicals (DIC) of Japan**,-world leader (40% global market share) in printing inks, organic pigments and thermosetting resins

-Indian printing inks market is growing at about 15 per cent per annum and in volume terms; it has grown from 70,000 tonnes in 2000 to 1.02 lakh tonnes

-Packaging is trending toward more environmentally friendly inks, primarily due to the pressure from the FMCG's (fast-moving consumer goods companies). Company has made huge investments for catering to the packaging industry

BACKGROUND-The Company

Introduction:

DIC India was formerly known as Coates of India Limited and is a 65.8% subsidiary of US $ 9 billion Dainippon Inks and Chemicals (DIC) of Japan, world leader (40% global market share) in printing inks, organic pigments and thermosetting resins,-through its wholly owned company in Singapore, DIC Asia Pacific Pte Ltd.

Main products:

1) Varn chemicals and blankets from Day International.
2) New ink products including the Naturalith environmentally friendly vegetable oil based inks that have overcome many of the problems of soya oil based inks.
3) World Series, the first universal ink system designed for global use on virtually all sheetfed applications.
4) XX-Treme, a sheetfed ink system formulated for stochastic screening from Kohl & Madden in the U.S.;
5) PrintEasy, a line of web heatset inks designed to improve print quality, consistency and productivity;
6) Aquarella, a new European series of water-based inks for flexo printing from Coates; and
7) Solaris, a global product line of inks and coatings formulated to meet the needs of narrow web printers.

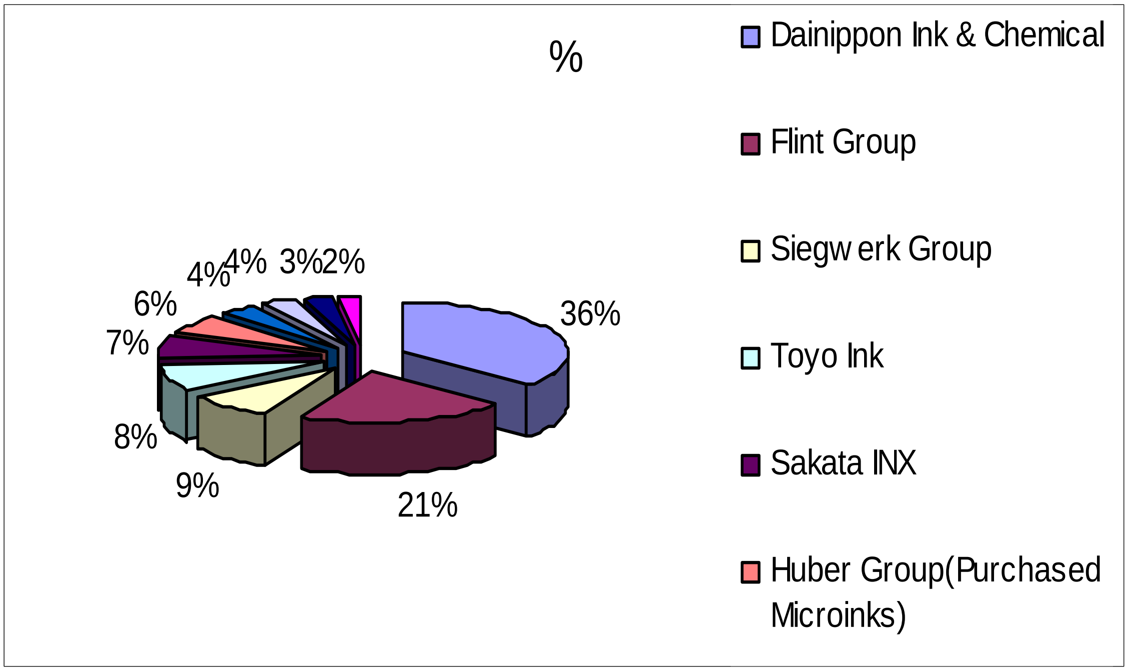
THE INDUSTRY

The industry is divided into three main segments.

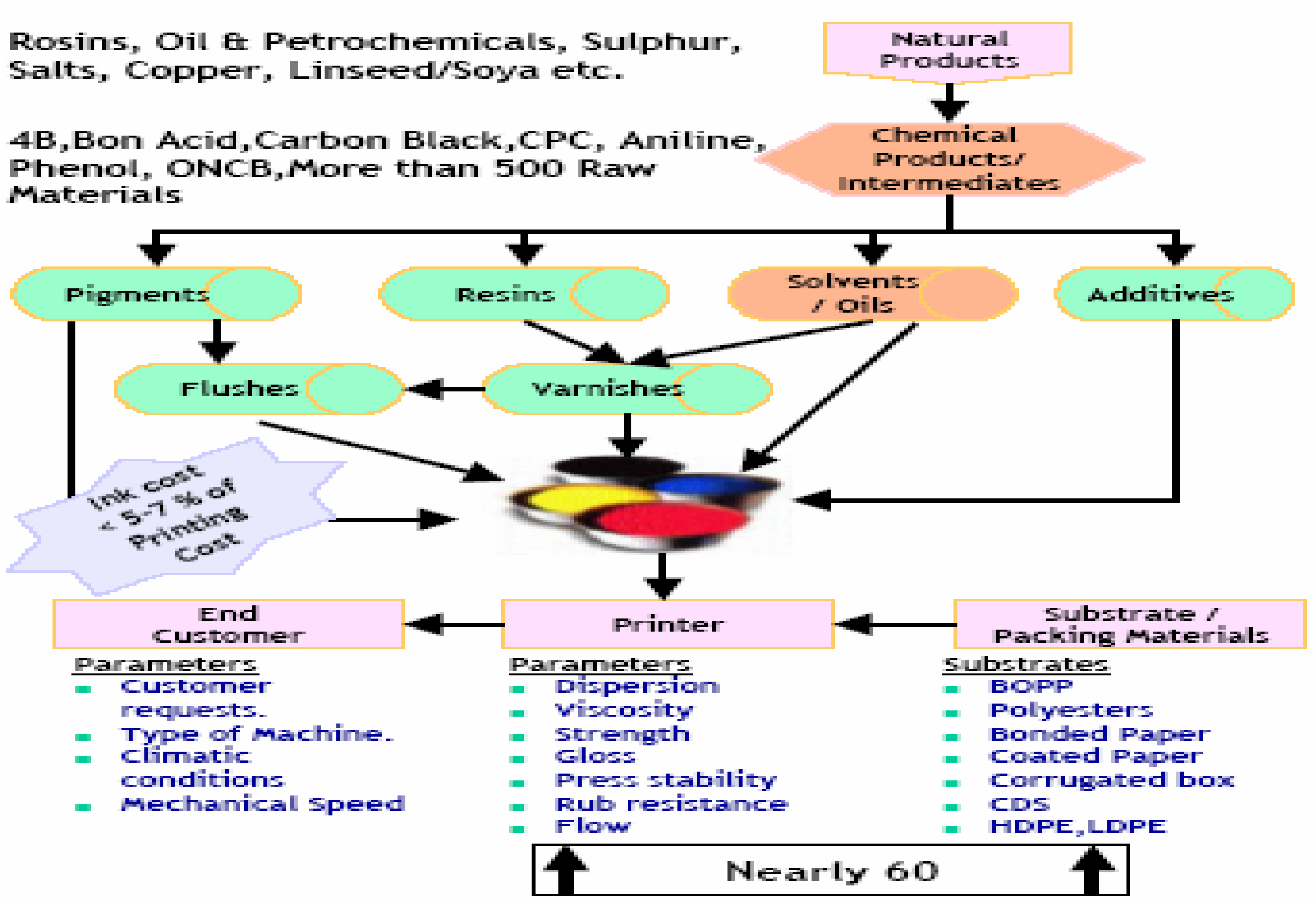
Segment	Type of product	Company presence
Publishing inks	Newspapers, magazines & books	Market leader
Packaging inks	FMCG sector, has tremendous potential to grow	Marginal presence
Commercial	Sales	Marginal

printing inks	literature,leaflets,brochures,catalogues etc	presence

Global players



Overview of The business



RECENT NEWS:

Date: March 3, 2006

Declaration of dividend

DIC India Limited has informed the Exchange that the Board of Directors of the Company in its meeting held on March 3, 2006 recommended the following :- payment of dividend for the financial year ended December 31, 2005 at the rate of Rs.3.50 per share (2004 - Rs.3.50) per share on 68,85,537 equity shares of Rs.10.00 each.

MANAGEMENT

Jagdish Narain Sapru	Chairman
Prabir Kumar Dutt	Managing Director
Bodi Singh Kampani	Whole-time Director
Dipak Banerjee	Director
Hisato Tanemura	Director
Rasendu Bhushan Putatunda	Director
Masayuki Saito	Director
Paul Koek	Director
Timir Baran Chatterjee	Vice President & CS

The numbers

RATIO ANALYSIS FOR DIC INDIA LIMITED

Ratios	***31-Dec 2005***	***31-Dec-2004***	***31-Dec-2003***	***Trend***
Profitability measures				
PBIT/Cap. Employed (%)	13.13	10.52	8.96	**Up**
PAT/Networth (%)	10.00	8.01	8.51	**Up**
Leverage ratios				
Total Debt/Net worth (x)	0.44	0.40	0.48	**Down**
Long Term Debt/Net worth (x)	0.07	0.07	0.29	**Up**

Interest coverage ratios				
PBDIT/Finance Charges (x)	7.48	6.59	6.16	**Up**
Liquidity ratios				
Current Ratio (x)	2.22	2.39	2.73	**Down**
Asset utilization ratios				
RM Inventory (days consumption)	37.84	41.10	21.94	**Up**
FG inventory (days cost of sales)	23.68	19.32	18.34	**Up**
Receivables (days gross sales)	108.92	109.95	118.66	**Down**
Creditors (days cost of sales)	88.50	75.79	66.47	**Up**
Price to book value ratio				
(source for computation :My iris .com)				

SHARE STATISTICS FOR DIC INDIA LIMITED

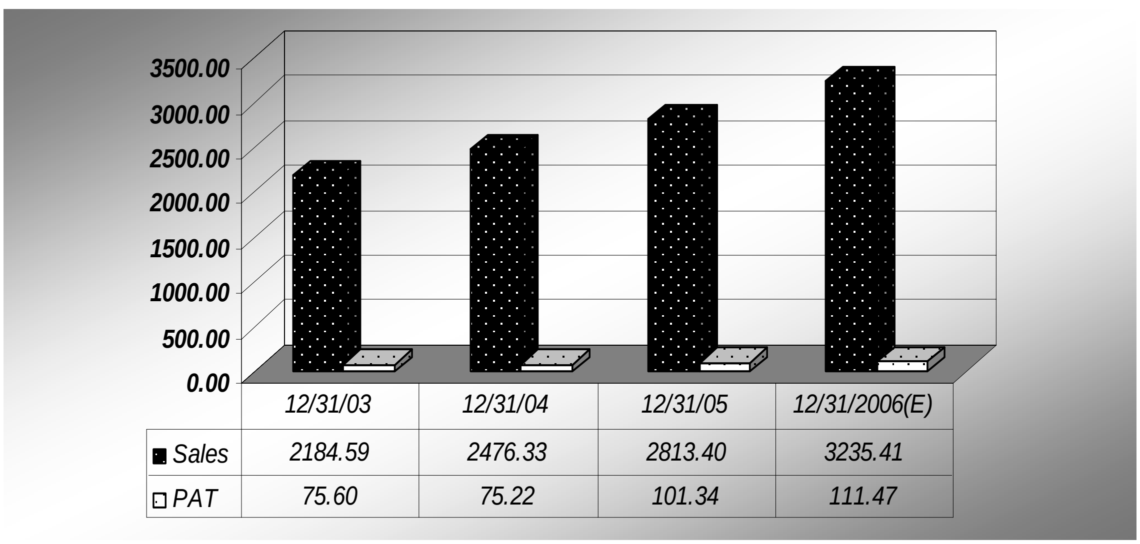
As on	31-Dec-05	31-Dec-04	31-Dec-03
EPS (Rs.)	14.72	10.92	10.98
CFPS (Rs.)	21.94	17.53	16.98
Book Value (Rs.)	147.13	136.40	129.08
DPS (Rs.)	3.50	3.50	3.50

PROFIT AND LOSS A/C SUMMARY FOR DIC INDIA LIMITED

Year	Dec 2001	Dec 2002	Dec 2003	Dec 2004	Dec 2005

Net Sales	186.22	199.43	215.83	244.24	277.8
Total Income	188.16	208.43	221.11	249.1	287.54
Total Expenses	168.79	189.85	205.09	230.41	264.67
Operating Profit	11.86	13.14	11.48	15.49	18.35
Interest	3.71	3.07	2.45	2.77	3.18
Depreciation	3.45	3.73	4.13	4.55	4.97
Profit Before Tax	12.21	11.78	9.44	11.37	14.72
Net Profit	9.61	8.46	7.56	7.53	10.13

Sales and PAT from 2003 -2006



SHAREHOLDER VALUE MATRIX

Factor	Profitability	Growth	Risk	Capital market conditions	Total
Micro Inks	+	+	-	+	3+
DIC India	+(Note 1)	+(Note 1)	+(Note 3)	+(Note 2)	4 +
Sandesh	-	-	-	-	4 -
Macmillan	+	-	+	-	2+

COMPARISION WITH PEER COMPANIES (AS PER LATEST AVAILABLE FINANCIAL STATEMENTS)

Company Name	Last Price	Net Sales (Rs. cr)	Net Profit (Rs. Cr)	Total assets

(Absolute figures)

Micro Inks	358	928.36	358	954.23
DIC India	184.75	277.8	184.75	145.72
Sandesh	163.3	181.08	2.25	158.2
Macmillan	370.5	137.03	40.94	178.69

(Comparision of ratios)

Company Name	EPS	Net profit to sales (%)	Sales to total assets	P/E ratio	Risk (Note 3)	Price to Book value
Micro Inks	23.68	39%	0.97	15.12	0.35	310.64
DIC India	14.21	67%	1.91	13.00	0.26	147.04
Sandesh	2.58	1%	1.14	63.21	0.86	188.15
Macmillan	23.21	30%	0.77	15.96	0.47	106.24

Valuation of the company

Methods followed

1) DDM model-2 stage
2) Price to multiple ratio

Stage 1:

CALCULATION OF WACC AND BETA

Step 1: Beta coefficients(5 year weekly basis and 1 year daily basis)

	2006	2005	5-year beta
Beta	0.68	1.17	0.71
R-square	0.2228	0.2899	0.2484

As can be seen we get different values of beta depending on the period for which we consider the returns. Generally the longer the period considered in the data the lesser the beta coefficient .Low beta coefficient figures indicate that the company has relatively stable

returns and that it's movement is more or less insulated from the movement of the market.
Thus the company's yearly betas are 1.17 and 0.68 respectively for the years 2005 and 2006 respectively while the 5-year beta is 0.71.However as the R-square figures are quite low these beta coefficient figures need to be looked at with some degree of caution.
Note :All stock price figures are adjusted for dividends(No stock splits in period under review)

Step 2: Calculation of market returns

Year	**1-Jan-96**	**30-Sep-06**	**CAGR**
Nifty	903	6510.4	19.67%

Assuming the returns of the CNX Nifty Junior as a proxy for market returns we get market returns to be approximately 19.67% .(Note: Returns are calculated on CAGR basis with CNX NIFTY Junior figures for the last 11 years being considered)

Step 3: The risk free rate

Risk Free rate(Rf)	**5 Years**	**1 Year**
Treasury bills(1-year)		6.71%
Government bonds	7.43%	

Step 4: Calculation of the cost of equity ,Ke

Cost of equity	5 Years	1 Year
Market risk premium (Rm - Rf)	12.24%	12.96%
Debt/Equity(Note 1)	0.3520	0.3520
Marginal Taxation(Note 2)	30%	30%
Beta		
Equity beta-levered	0.71	0.68
Ke (cost of equity)	16.09%	15.53%

Notes to calculation of beta and WACC

Note 1: Calculation of Debt equity ratio:

Calculation of Debt equity ratio			
Rs in crores	31-Dec-05	31-Dec-04	31-Dec-03
Market capitalization	126.16	115.20	98.53
Total Debt		37.901	42.438
Total value of the firm	170.57	153.10	140.97
No of shares	6.89	6.89	6.89
Debt -equity ratio	0.3520	0.3290	0.4307

Note 2: Calculation of the tax rate

Calculation of the marginal tax rate			
	31-Dec-05	31-Dec-04	31-Dec-03
Operating profit before tax	137.35	113.1	75.57
Tax	54.65	34.1	15.5
Tax rates	40%	30%	21%
Average tax rate	30%		

Step 5: Computation of the weighted average cost of capital

calculation of WACC	using	
	5 year beta	1 year beta
Equity/V	0.74	0.74
Debt/Value	0.26	0.26
Kd	7.46%	6.75%
Kd*(1-t)	5.21%	4.72%
ke	16.09%	15.53%
WACC	13.26%	12.72%

Note 3: Calculation of Cost of Debt

A) Historical values :

Calculation of cost of debt			
Total Debt	444.1	379.01	424.38
interest	31.76	27.72	24.56
Interest costs	7.15%	7.31%	5.79%
Average interest cost	6.75%		

B) Market values :

Book values of debt have been taken as the company has mostly short term loans and commercial paper loans. As per CRISIL the company has a short term rating of P1+.(Highest rating).So we have taken the risk free rate(short term-1year =6.71%) and added a spread of 75 basis points-(conservative approach).This gives us an interest cost of 7.46%.

We have taken the higher of the two interest costs ie.7.46%

Stage 2: Computation of growth rates

Method 1:Historical

Trailing growth rates-historical					
Tens of millions	2005	2004	2003	2002	Growth rates(CAGR)
Sales	321.33	282.84	249.19	230.2	8.70%
Net Income	10.13	7.52	7.56	8.74	3.76%
EPS	14.70	10.91	10.97	12.69	3.76%

Growth estimate	3.76%

Method 2: Fundamental growth rates

Growth in retained earnings

Tens of millions

Summarised Financial statements

	2005	2004	2003	2002
Net Income after tax	10.13	7.52	7.56	8.74
Dividend	2.75	2.75	2.72	2.72
Net worth	101.32	93.93	89.16	84.32
Number of shares	0.689	0.689	0.689	0.689
Ratios				
EPS	14.70	10.91	10.97	12.69
return on equity	10%	8%	8%	10%
dividend payout ratio	27%	37%	36%	31%
retention ratio	73%	63%	64%	69%
growth rate	7%	5%	5%	7%

Weighted average growth rate

year		Weights	Growth %	Weighted growth
	2005	4	7%	29.14%
	2004	3	5%	15.23%
	2003	2	5%	10.16%
	2002	1	7%	7.14%
Total		10		61.67%
Growth Estimate		6.17%		

Method 3: Equity Reinvestment rate

Tens of millions

Computation of equity reinvestment rate	2005	2004	2003	CAGR
Capital expenditure	9.75	6.95	7.45	9.38%
less:depreciation	5	4.57	4.15	
Add:net investment in working capital	151.27	140.81	138.27	3.04%
less:Net debt taken	-6.52	4.55	-1.8	
Equity reinvestment	149.5	147.74	139.77	
equity reinvestment rate(ERQ)	14.76	19.65	18.49	
expected growth rate(ROE*ERQ)	1.48	1.57	1.57	
% increase in net fixed assets	11.77%	6.27%	9.52%	

Note: It is expected that in the coming years there would be a substantial growth in the News Inks business and in anticipation, the Company has made major capital investments in Noida for the News Colours Project and in Ahmedabad for the News Black Project.The capex figures are indicative of this.

As can be seen from the above tables growth rates in the company are varying a lot based on the type of method used.

So to estimate growth for the Company we also consider the following factors

1) Management estimates about growth(including some comments by competitors)

Comments from company management:
"We are expecting an annual cumulative growth rate of 10-15 per cent in printing and graphic ink business here. At present, DIC India

has seven manufacturing facilities. We want to increase the production capacity, which includes setting up new units as well as expanding the existing ones"

"In India, the high growth segments are packaging at greater than 15 percent, followed by news inks at greater than 10 percent. The positive aspect of this growth is that it is all internal usage and is on the back of strong investment in packaging and the expansion of literacy and consumer spending. Sheetfed and publication growth will follow as economic momentum gathers pace"
-Damian Johnson, president, Flint Group, India/Pacific

So management's average growth estimate= 12.5%

2) Analysts' forecasts of growth

DIC India, 65.8% subsidiary of US $ 9 billion Dainippon Inks and Chemicals (DIC) of Japan, world leader (40% global market share) in printing inks, organic pigments and thermosetting resins, is set for quite good growth in future driven by rising volumes following change in business composition & better macro picture on the industry front and improved margins. DIC India, 65.8% subsidiary global market share) in printing future driven by rising volumes front and improved margins pace of ~ 20% or so. Thus topline growth of around 12% is expected and bottomline is expected to grow by 20%.

Consensus estimates: 20% growth in PAT

3) Macroeconomic indicators
With the huge expected growth in the printing industry (around 12-15%) because of
1) GDP growth =8-9%
2) Literacy growth= 3-4%

Total 12-15%
Conclusion: 13.5% average growth

4) Indications of future growth from stock prices

	2005	2004	2003	2002	Growth rates
Stock prices(at end of year)	210.2	166.2	143	101.9	19.84%
EPS	14.70	10.91	10.97	12.69	3.76%
P/Earnings ratios	14.30	15.23	13.03	8.03	15.50%
Net worth	101.32	93.93	89.16	84.32	4.70%
Number of shares	0.69	0.69	0.69	0.69	
Book values	147.05	136.33	129.40	122.38	4.70%
P/Book value ratios	1.43	1.22	1.11	0.83	14.47%

As we can see above the market is valuing the Company at around 14 times earnings (Price to earnings ratio). Growth in share price has also been around 20%.

5) Indications from M&A activities in the Asia pacific region:

According to Ink World estimates, the region's printing ink sales have surpassed the $4 billion mark, making it equal to that of Europe and of North America, and at the present rate, Asia-Pacific will be the largest ink-producing region within the next five years. The continuing expansion in printing in China, India, Vietnam, Indonesia and other countries in the region is driving growth for ink manufacturers, while Japan and Australia remain important markets.

This growth is underscored by major movements on the merger and acquisition front in 2005 :

CVC Capital Partners' merger of Flint Ink and XSYS Print Solutions into Flint Group has had an impact on the Asia-Pacific market, as the Flint Group continues to make headway in China.
Siegwerk's purchase of SICPA's packaging ink division gives it an increased presence in China, India and Australia.
The largest impact can be found in Huber Group's acquisition of Micro Inks, the leading ink manufacturer in India.

Conclusion: Strong growth in the range of 10-15% expected in the near future.

Conclusion:

Weighted average growth figures				
	Growth %	Weights	Weighted growth	Remarks
Historical method	3.76%	5.00%	0.19%	Least weight
Fundamental method	6.17%	5.00%	0.31%	Least weight
Equity reinvestment method	1.48%	15.00%	0.22%	
Management estimates	12.50%	25.00%	3.13%	maximum weight has been given because of the experience and soundness of the management
Analysts' forecasts	20.00%	20.00%	4.00%	
Share market indications	15.50%	10.00%	1.55%	
Macroeconomic indicators	13.50%	20.00%	2.70%	
Total		100%	12.09%	

Considering all the above factors we can say that the Company will grow by around 12.09% per annum.

Conclusions about growth

So we conclude by saying that the Company will grow by around 13% for the next 10 years followed by around 6% stable growth (in line with growth in GDP)

Stage 3: Valuation

A) Dividend discount model
-2 stage model

DIC INDIA LIMITED

Two-stage Dividend discount model															
Cost of equity	15.5%														
Terminal growth rate	6%														
growth in dividends	10%														
Summarised Financial statements		**(Rs in million)**													Terminal year
	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17
Profit / Loss A/C	(Actual)	(Actual)	(Actual)	forecast	(forecasts)	(forecasts)	(forecasts	(forecasts	(forecasts)	(forecasts)	(forecasts	(forecasts	(forecasts	(forecasts)	(forecasts)
Sales	2184.59	2476.33	2813.40	2869.67	2927.06	2985.60	3045.31	3106.22	3168.35	3200.03	3232.03	3264.35	3296.99	3329.96	3529.76
Profit after tax(PAT)	75.60	75.22	101.34	114.79	117.08	119.42	121.81	124.25	126.73	128.00	129.28	130.57	131.88	133.20	141.19
Net worth	888.78	939.22	1013.08	1103.77	1196.75	1292.07	1389.79	1489.93	1592.57	1696.47	1801.65	1908.12	2015.90	2125.00	2242.09
Equity Dividend(total)	24.10	24.10	24.10	24.10	24.10	24.10	24.10	24.10	24.10	24.10	24.10	24.10	24.10	24.10	24.10
EPS (Rs.)	10.98	10.92	14.72	16.67	17.01	17.35	17.69	18.05	18.41	18.59	18.78	18.97	19.16	19.35	20.51
Book Value per share	129.08	136.35	147.15	159.63	173.83	187.68	201.87	216.42	231.33	246.42	261.70	277.16	292.82	308.66	325.67
No of shares	6.89	6.89	6.88	6.88	6.88	6.88	6.88	6.88	6.88	6.88	6.88	6.88	6.88	6.88	6.88
DPS (Rs.)	3.50	3.50	3.50	4.20	4.62	5.08	5.59	6.15	6.77	7.44	8.19	9.00	9.91	10.90	11.99
return on equity	0.09	0.08	0.10	0.10	0.10	0.09	0.09	0.08	0.08	0.08	0.07	0.07	0.07	0.06	0.06
dividend payout ratio	0.32	0.32	0.24	0.21	0.21	0.20	0.20	0.19	0.19	0.19	0.19	0.18	0.18	0.18	0.17
plowback ratio	0.68	0.68	0.76												
g(=plowback ratio* ROE)	0.06	0.05	0.08												
Discounting Factor	NA	NA	NA	0.87	0.75	0.65	0.56	0.49	0.42	0.36	0.32	0.27	0.24	0.20	0.18
Discounted Dividends	NA	NA	NA	3.64	3.46	3.30	3.14	2.99	2.85	2.71	2.58	2.46	2.34	2.23	126.16
													terminal value		22.38
share value	54.10														

Assumptions:

1) Dividends are growing at 20% per annum for the next 10 years.
2) PAT margin will be maintained at 4% (approximately) which is the same level at which at which it has been maintained at the past 10 years-across various business cycles.
3) Growth in sales has been assumed to be 15 %.(Refer note 1)
And the terminal growth rate is assumed to be 5% (in line with future growth in GDP)
4) Total number of shares is constant.
5) The company's sales will grow at an approximate rate of 20% for the next 6 years and subsequently go down to 10% for the next 4 years and then slow down to 6 %(in line with long term GDP growth)

Stage 4: Conclusions

Current market price (CMP)= 190

Price as per valuation models

- 2-stage discount model = 233.90

-price multiples = 264.00

Final Recommendation	"Buy"