



# Transformer Sector Step-Up Gains

## Step-Up Gains...

Riding the reforms and improved liquidity in the system, Transformer segment continues to deliver superior business growth. We expect the current momentum in these companies in terms of business, efficiencies, profitability and shareholder returns to continue over the next 2-3 years. We expect the current discount on valuations of these companies (for concurrent overall opportunities) against the Power T&D majors to narrow down on the back of comparable performance parameters (like ROE, ROIC, and growth profile). We initiate coverage on transformer sector with Bharat Bijlee Ltd (BBL) and Voltamp being our top picks.

### Better receivable cycle for transformer players on the back of improving financials of SEBs

Commercial losses (without subsidy) of State Electricity Boards (SEBs), major customers of transformer players, are reducing (as shown in table I on page 2 of this report). This is leading to improvement in receivable cycle of transformer players and is an added positive to the sector which is estimated to grow at 22% p.a. in XIth Plan.

### Delivery Capability in place

The companies in consideration from our universe have delivered volume growth in the range of 25% (revenue growth 55%) during FY03-07. This is in excess of the same-period volume CAGR of 16% of the entire transformer industry. Almost each of these players has since expanded its capacities and is well poised to ride the growth opportunity in the sector with established technology, relationship and financials.

### Discount in valuation compared to T&D majors should narrow down

Our investment universe of transformer companies is currently quoting at a discount of 37% to the combined valuation of T&D majors (ABB, Areva T&D and Crompton) on PEG basis (FY08E EPS). We expect these discounts (for concurrent opportunities on same sector) to narrow down on the back of comparable performance parameters (like ROE, ROIC, and growth profile) with further re-rating of companies under our investment universe.

**We initiate coverage on transformer sector with Bharat Bijlee Ltd(BBL) and Voltamp being our top picks. Both the companies possess a business model focussed on efficiency, profitability and strong earning power.**

BBL has successfully moved into higher range of transformers of 220kv in FY07. Profitability improvement with expansion of installed capacity to 11000MVA (FY08) from 8000MVA (FY07) will enable the company to compound PAT at 34% to Rs 991mn during FY07-09. There do exist issues like lack of management access and less frequency of investor communication which need to be considered before committing investment in the stock.

For investors wary of above concerns, we recommend Voltamp. Voltamp benefits from shorter execution cycle providing cushion against volatility in raw material prices and least debtor days amongst peers on the back of negligible exposure to SEBs.

**Risk:** Any discontinuity on reforms initiated in power sector will act as a drag on investment opportunity in this sector.

### Valuation of peer group companies

Company (Rs mn)	CMP	Mcap	Net Sales		OPM (%)		Net Profit		EPS (Rs)		P/E (x)		RoANW(%)		RoCE (%)	
			FY07	FY08E	FY07	FY08E	FY07	FY08E	FY07	FY08E	FY07	FY08E	FY07	FY08E	FY07	FY08E
BBL	2097	11851	4,699	6,107	18.8	19.5	551	746	100.0	131.9	21.5	15.9	57.0	51.8	68.4	69.4
Voltamp	965	9766	4,049	5,466	15.1	18.1	392	664	38.7	65.6	24.9	14.7	44.0	46.8	57.7	60.9
EMCO	912	10420	6,559	9,816	13.2	13.2	406	611	35.6	53.6	25.7	17.0	18.8	18.7	21.9	21.4
Indo Tech	463	4917	1,554	2,128	25.1	22.6	262	301	24.7	28.3	18.8	16.4	32.2	29.1	47.1	41.8

□ **Growth in transformer industry will track growth in power generation capacity**

**Power generation capacity**

Xth Plan ~ 23000 MW

XIth Plan 54600 MW@

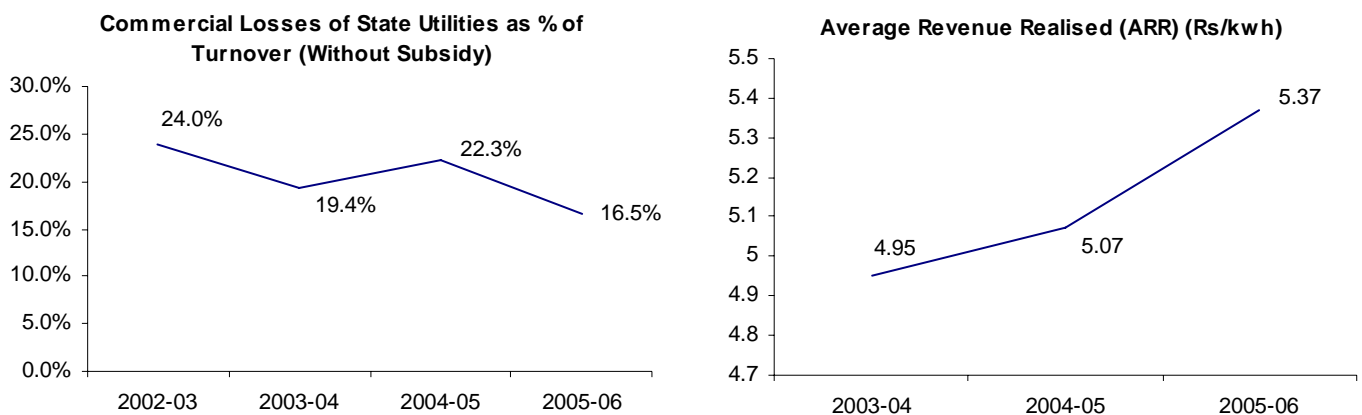
@ 78000MW\*70% (assuming 70% of targeted capacities will be achieved)

- On the back of growth in power generation capacity, we estimate transformer demand to grow at 22% CAGR tracking growth in power generation capacity during XIth Plan.
- During Xth Plan, transformer production compounded at 16% p.a. much ahead of generation capacity CAGR of 4%.
- During Xth Plan, out of total estimated spend of Rs10.3tn planned on entire power sector, T&D segment will constitute 40%.

□ **Improved Business Outlook with Improved Liquidity with SEBS (the main users)**

- On the back of improved contribution to revenue from industrial customers (led by higher industrial growth), SEBs' financials are improving as these customers provide highest per unit tariffs to SEBs.
- Increased investment by SEBs under APDRP on transmission and distribution (T&D) side to reduce losses has also led to improved financials of SEBs.

**Exhibit 1**



Source: Presentation by ministry of power on "opportunities in Indian power sector" in June 2007

□ Demand – supply should be in balance

● Production/demand of transformers

**Exhibit 2**

Transformer demand/production *	MVAs		MVAs
FY01	45269		
FY02	50210	<b>FY08E</b>	<b>128100</b>
FY03	57936	<b>FY09E</b>	<b>156282</b>
FY04	70138	<b>FY10E</b>	<b>190664</b>
FY05	81211	<b>FY11E</b>	<b>232610</b>
FY06	90103	<b>FY12E</b>	<b>283784</b>
FY07P \$	105000		
		<b>TOTAL</b>	<b>991441</b>
<b>CAGR</b>	<b>16%</b>		<b>22%</b>
		<b>Annual</b>	<b>198288</b>

\* Production of transformers has been equated to demand since data on installed base of transformers is available only till FY05.

\$ assumed on the basis of production during Feb'06 to Jan'07 of 102000 MVAs

● Estimated growth in supply from major players during XIth Plan

**Exhibit 3**

Installed capacities in MVAs	FY07P	FY12E	CAGR (FY07-12)
Areva T&D	8500	20000	18.7%
ABB	12000	27000	17.6%
BBL	8000	22000	22.4%
BHEL	12000	30000	20.1%
Crompton	26000	50000	14.0%
ECE	2400	6500	22.1%
EMCO	15000	41000	22.3%
IMP Power	3000	3000	0.0%
Indo Tech	3450	9500	22.5%
Siemens		25000	
Voltamp	7200	20000	22.7%
Vijai Electricals	12500	33000	21.4%
Organised players	<b>110050</b>	<b>287000</b>	<b>21.1%</b>
Unorganised players	22000	52000	18.8%
<b>TOTAL</b>	<b>132050</b>	<b>339000</b>	<b>20.8%</b>
<b>Estimated production</b>	<b>105640</b>	<b>281370</b>	<b>21.6%</b>
Unorganised sector assumed @ 20% of organised sector			
Total supply estimated in XIth Plan (FY08 - FY12)	(A)	991180	
Annualised supply estimated under XIth Plan	(A)/5	198236	

Since gestation period and capital expenditure to undertake brownfield capex is not significant to current size, the companies are able to respond to any demand upsurge on short notice (approx. 4-6 months).

## □ Delivery Capability in place

The companies in consideration from our universe have delivered volume growth in the range of 25% (revenue growth 55%) during FY03-07. This is in excess of the same-period volume CAGR of 16% of the entire transformer industry. Almost each of these players has since expanded its capacities and is well poised to ride the growth opportunity in the sector with established technology, customer relationships and financials.

	MVAs FY07	MVAs FY03	Volume CAGR	Rs mn FY07	Rs mn FY03	Revenue CAGR
EMCO (Gross) @	8400	4008	20%	4561.2	756	56.7%
Voltamp (Net)	6250	2484	26%	4040	670	56.7%
Indo Tech (Net)	2300	1200	18%	1550	420	38.6%
BBL (Net) @	6383	1999	34%	3160	460	61.9%
<b>TOTAL</b>	<b>23333</b>	<b>9691</b>	<b>25%</b>	<b>13311.2</b>	<b>2306</b>	<b>55.0%</b>

@ Revenue from Transformer Division

Profitability of these companies have improved or maintained despite significant volatility in raw material prices (especially copper) in FY07 due to

- Better capacity utilizations,
- Applicability of Price variation clause (PVC) in case of orders from SEBs and,
- Hedging raw material costs by entering into back to back contracts for raw materials on receiving orders from pvt sector players.

## □ Discount in valuation compared to T&D majors should narrow down

- Our investment universe of 4 transformer companies is currently quoting at a discount of 37% to the combined valuation of T&D majors (ABB, Areva T&D and Crompton) on PEG basis (FY08E EPS). We expect these discounts (for concurrent opportunities on same sector) to narrow down on the back of comparable performance parameters (like ROE, ROIC, and growth profile) with further re-rating of companies under our investment universe.

### Combined Ratios (Our Investment Universe)

Parameters	FY07	FY08E	FY09E
ROIC	41%	39%	40%
OPM	16%	17%	17%
Sales Growth	61%	39%	34%
PAT Growth	85%	44%	37%
RONW	26%	28%	29%
CAGR (FY 07-09)			
PAT	40%		
Net Sales	37%		

### Combined Ratios (T&D majors\*)

Parameters	FY07	FY08E	FY09E
ROIC	39%	39%	39%
OPM	12%	12%	12%
Sales Growth	41%	35%	32%
PAT Growth	54%	45%	49%
RONW	29%	29%	29%
CAGR (FY 07-09)			
PAT	47%		
Net Sales	34%		

\* ABB, Areva T&D and Crompton

## Valuation:

We initiate coverage on transformer sector with Bharat Bijlee Ltd(BBL) and Voltamp being our top picks. Both the companies possess a business model focussed on efficiency, profitability and strong earning power.

BBL has successfully moved into higher range of transformers of 220kv in FY07. Profitability improvement with expansion of installed capacity to 11000MVA (FY08) from 8000MVA(FY07) will enable the company to compound PAT at 34% to Rs 991mn during FY07-09. However, lack of management access and lesser frequency of investor communication needs to be considered before committing investment in the stock.

We also like Voltamp on the back of shorter execution cycle providing cushion against volatility in raw material prices and least debtor days amongst peers on the back of negligible exposure to SEBs.

## Annexure I

### Revenue base of major players in transformer industry

Installed capacities in MVAs	Product range	Gross Revenue of Transformer Division (Rs mn) FY07
Areva T&D	up to 765kv range	2700
ABB	up to 765kv range	3200
BBL	up to 220kv range	3750
BHEL	up to 400kv range	2900
Crompton	up to 765kv range	10000
ECE	up to 220kv range	2110
EMCO	up to 400kv range	5420
IMP Power	up to 132kv range	700
Indo Tech	up to 220kv range	1870
Siemens	up to 765kv range	-
Voltamp	up to 220kv range	4840
Vijai Electricals	up to 132kv range	12690
Organised players		<b>50180</b>
Unorganised players		10036
<b>TOTAL</b>		<b>60216</b>

## Annexure II

### Break-up of transformer production in terms of power and distribution transformers

Transformer Production Statistics (MVAs)	FY'03	FY'04	FY'05	CAGR
RE segment	4010	4386	8252	43.5%
Non-RE	12487	15476	17943	19.9%
<b>Distribution transformers</b>	<b>16497</b>	<b>19862</b>	<b>26195</b>	<b>26.0%</b>
Power transformers	41439	50276	55014	15.2%
<b>Total</b>	<b>57936</b>	<b>70138</b>	<b>81209</b>	<b>18.4%</b>

## Annexure III

### Comparison of companies covered on various parameters:

	BBL	EMCO	Indo Tech	Voltamp
Realisation per MVA	Rs 5 lac	Rs 5.9lac	Rs 6.75lac	Rs 6.5lac
Order book as on June 30, 2007	Rs 2.7bn	Rs 10bn	Rs 1.3bn	Rs 3.5bn
Installed capacities (MVAs) in FY07	8000	15000	3450	7200
in FY08 (MVAs)	11000	20000	7450	9000
RMC/Net Sales (%)	67	76.5	65.3	76.6
E'ye/Net sales (%)	8.2	3.1	2.4	2.6
Other Expenses/Net Sales (%)	5.9	7.2	7.2	5.7
OPM(%)	18.9	13.2	25.1	15.1
MVAs sold	6383	8400	2300	6250
Revenues (Rs mn)	3160	4890	1554	4049
<b>FY07 Revenue mix (%)</b>				
Transformers	70	75	100	100
Electric Motors	30	-	-	-
Projects	-	18	-	-
Meters	-	7	-	-
<b>Product mix break-up for transformers(%)</b>				
Power Transformers	100 #	not available	78	38
Distribution Transformers		not available	22	39
Dry Type Transformers	-	-	-	23
<b># From FY08</b>				



# Bharat Bijlee Ltd.

**CMP: Rs 2097****Target Price: Rs 2800****Transformer / Buy**

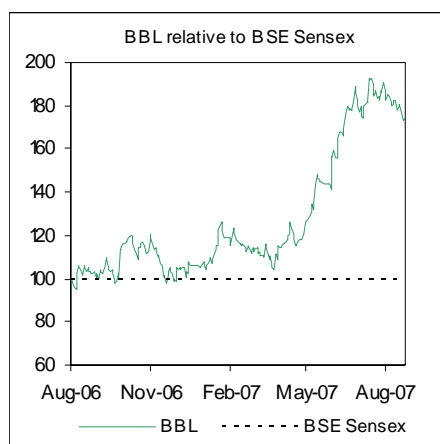
BSE Sensex	14425
NSE Nifty	4190

**Scrip Details**

Equity	Rs.56.5mn
Face Value	Rs.10/-
Market Cap	Rs.11.9bn
	US\$290mn
52 week High/Low	Rs.2496/959
1-Month Avg. Volume (Daily)	10543
BSE Code	503960
NSE Symbol	BBL
Bloomberg Code	BIJL IN
Reuters Code	BBJL.BO

**Business Group - Indian Private****Shareholding Pattern as on June'07 (%)**

Promoter	35.4
MF/Banks/FIs	28.1
FIs	1.9
Corporate Bodies	7.2
Public / Others	27.4

**Accelerating Growth...**

BBL's revenue growth from transformer business in volume terms of 34% during FY'03 - FY'07 has been highest amongst peers. The Company has sizeable land in Thane which will enable it to continue with this growth rate backed by efficient asset turnover ratio.

**Strategic shift to higher range of transformers**

The company has successfully moved into higher range of 220kv transformers in FY07 which will reduce the extent of competition in this segment.

**Enough headroom for expansion**

BBL has sizeable land in Thane to enable the company to expand capacities through brownfield route. In the transformer segment, the Company increased its capacities from 3800 MVA in FY06 to 8000 MVA in FY07 which will expand to 11000 MVAs by FY08.

**Strong Earning Power**

BBL has grown its transformer business at the highest rate amongst the peers (CAGR 34%~ FY03-07). This entire growth has been achieved without any external infusion of equity funds. Excellent asset-turnover ratio of 3.3x (FY07) has been at the core of superior ROANW of 57%.

**Shrinking working capital cycle:**

BBL has consciously worked on reducing its working capital over the years. The working capital cycle stands at 119 days in FY'07 as against 131days in FY'06 leading to improved cash flows.

**Market value of Investments held at Rs350 per share:**

BBL holds investment portfolio worth Rs. 2000mn (at CMP) primarily into shares of Siemens and HDFC.

**Current Performance**

During Q1FY08, Net sales rose 63% yoy to Rs1156mn, PAT growth 194% yoy to Rs126mn and OPM stood at 17.2%.

**Valuation**

Book to bill ratio is at 0.9x based on FY07 revenue from the transformer division. During FY07-09, revenue and PAT are estimated to compound at an annual rate of 30% and 34% respectively.

**At Rs.2097 the stock trades at 10x FY09E EPS after deducting market value of investments held to the tune of Rs350 per share.**

**At the target price of Rs.2800, the stock will trade at 16x FY09E EPS based on its core business.**

Year	Net Sales	% growth	EBIDTA	OPM%	PAT	% Growth	EPS (Rs.)	% Growth	PER	RoANW (%)	RoCE (%)
FY05	2,458	-	275	11.2	278	-	32.9	-	42.7	67.2	42.3
FY06	3,008	22	512	17.0	337	21	56.2	71	35.2	52.0	51.1
FY07	4,699	56	883	18.8	551	64	100.0	78	21.5	57.0	68.4
FY08E	6,107	30	1,190	19.5	746	35	131.9	32	15.9	51.8	69.4
FY09E	7,940	30	1,562	19.7	991	33	175.3	33	12.0	45.8	66.7

**INCOME STATEMENT**

Rs.mn

Particulars	Mar'05	Mar'06	Mar'07	Mar'08E	Mar'09E
Gross Sales	2,747.9	3,417.3	5,360.1	6,968.0	9,058.4
Excise	289.5	409.5	661.5	860.6	1,118.8
<b>Revenues</b>	<b>2,458.4</b>	<b>3,007.8</b>	<b>4,698.6</b>	<b>6,107.4</b>	<b>7,939.6</b>
Other income	44.1	36.8	45.4	30.0	30.0
<b>Total Income</b>	<b>2,502.5</b>	<b>3,044.6</b>	<b>4,744.0</b>	<b>6,137.4</b>	<b>7,969.6</b>
Total Opex	2,183.9	2,495.5	3,815.2	4,917.1	6,377.2
<b>Operating Profit (excl. OI)</b>	<b>274.6</b>	<b>512.3</b>	<b>883.4</b>	<b>1,190.3</b>	<b>1,562.4</b>
<b>Operating Profit (incl. OI)</b>	<b>318.7</b>	<b>549.1</b>	<b>928.7</b>	<b>1,220.3</b>	<b>1,592.4</b>
Interest	37.9	46.9	52.9	53.0	20.0
<b>Gross Profit</b>	<b>280.7</b>	<b>502.2</b>	<b>875.8</b>	<b>1,167.3</b>	<b>1,572.4</b>
Depreciation	16.8	18.4	29.3	45.0	50.0
<b>Profit Before Tax &amp; EO Items</b>	<b>263.9</b>	<b>483.8</b>	<b>846.5</b>	<b>1,122.3</b>	<b>1,522.4</b>
Extra Ordinary Exps/(Income)	(91.8)	(19.1)	14.4	-	-
<b>Profit Before Tax</b>	<b>355.7</b>	<b>503.0</b>	<b>832.0</b>	<b>1,122.3</b>	<b>1,522.4</b>
Tax	78.0	166.2	281.3	376.6	531.8
<b>Net Profit</b>	<b>277.7</b>	<b>336.8</b>	<b>550.8</b>	<b>745.7</b>	<b>990.6</b>

**BALANCE SHEET**

Particulars	Mar'05	Mar'06	Mar'07	Mar'08E	Mar'09E
<b>Sources of Funds</b>					
Equity Capital	56.5	56.5	56.5	56.5	56.5
Preference Capital	-	-	-	-	-
Reserves (excl Rev Res)	466.6	716.4	1,101.9	1,666.6	2,546.2
<b>Net Worth</b>	<b>523.1</b>	<b>772.9</b>	<b>1,158.4</b>	<b>1,723.1</b>	<b>2,602.7</b>
Revaluation reserve	-	-	-	-	-
Secured Loans	273.1	110.9	57.1	57.1	57.1
Unsecured Loans	76.9	314.0	202.5	182.3	5.0
<b>Loan Funds</b>	<b>350.0</b>	<b>425.0</b>	<b>259.6</b>	<b>239.4</b>	<b>62.1</b>
Deferred Tax Liability/(Asset)	(1.3)	8.3	4.6	-	-
<b>Total Capital Employed</b>	<b>871.8</b>	<b>1,206.1</b>	<b>1,422.6</b>	<b>1,962.5</b>	<b>2,664.8</b>
<b>Applications of Funds</b>					
Gross Block	417.1	500.0	560.7	710.7	810.7
Less: Accumulated Depreciation	203.6	207.7	222.4	252.4	282.4
<b>Net Block</b>	<b>213.5</b>	<b>292.4</b>	<b>338.3</b>	<b>458.3</b>	<b>528.3</b>
Capital Work in Progress	11.8	1.8	0.1	1.0	1.0
<b>Investments</b>	<b>28.5</b>	<b>183.5</b>	<b>187.3</b>	<b>187.3</b>	<b>336.1</b>
<b>Current Assets, Loans &amp; Advances</b>					
Inventories	351.8	430.0	639.7	863.6	1,165.9
Sundry Debtors	680.5	976.7	1,425.3	1,824.4	2,298.8
Cash and Bank Balance	221.1	62.3	102.5	75.0	97.5
Loans and Advances	183.8	329.5	697.6	924.6	1,202.0
Other Current Assets	85.2	7.9	8.2	-	-
<i>sub total</i>	<i>1,522.3</i>	<i>1,806.3</i>	<i>2,873.4</i>	<i>3,687.7</i>	<i>4,764.2</i>
<b>Less : Current Liabilities &amp; Provisions</b>					
Current Liabilities	701.2	668.1	1,159.1	1,390.9	1,738.7
Provisions	233.4	424.3	817.4	980.9	1,226.1
<i>sub total</i>	<i>934.6</i>	<i>1,092.3</i>	<i>1,976.5</i>	<i>2,371.8</i>	<i>2,964.8</i>
<b>Net Current Assets</b>	<b>587.7</b>	<b>714.0</b>	<b>896.9</b>	<b>1,315.9</b>	<b>1,799.4</b>
Misc Expenses	30.3	14.4	-	-	-
<b>Total Assets</b>	<b>871.8</b>	<b>1,206.1</b>	<b>1,422.6</b>	<b>1,962.5</b>	<b>2,664.8</b>

E-estimates

**IMPORTANT RATIOS**

Rs.mn

Particulars	Mar'05	Mar'06	Mar'07	Mar'08E	Mar'09E
<b>(A) Measures of Performance (%)</b>					
<b>Contribution Margins</b>	<b>NA</b>	<b>23%</b>	<b>24%</b>	<b>24%</b>	<b>24%</b>
Operating Profit Margin (excl. O.I.)	11.2	17.0	18.8	19.5	19.7
Operating Profit Margin (incl. O.I.)	12.7	18.0	19.6	19.9	20.0
Interest / Sales	1.5	1.6	1.1	0.9	0.3
Gross Profit Margin	11.2	16.5	18.5	19.0	19.7
Tax/PBT	21.9	33.0	33.8	33.6	34.9
Net Profit Margin	11.1	11.1	11.6	12.1	12.4
<b>(B) Measures of Financial Status</b>					
Debt / Equity (x)	0.7	0.5	0.2	0.1	0.0
Interest Coverage (x)	8.4	11.7	17.5	23.0	79.6
Average Cost Of Debt (%)	10.8	11.0	20.4	22.1	32.2
Debtors Period (days)	101.0	118.5	110.7	109.0	105.7
Fixed Assets Turnover (x)	11.5	10.3	13.9	13.3	15.0
Working Capital Turnover (x)	4.2	4.2	5.2	4.6	4.4
<b>(C) Measures of Investment</b>					
Earnings Per Share (Rs.) (excl EO)	32.9	56.2	100.0	131.9	175.3
Earnings Per Share (Rs.)	49.1	59.6	97.5	131.9	175.3
Cash Earnings Per Share (Rs.)	52.1	62.8	102.6	139.9	184.1
Book Value (Rs.)	92.6	136.8	205.0	304.9	460.5
Return on Avg. Net Worth (%)	67.2	52.0	57.0	51.8	45.8
Return on Avg. Cap. Employed (%)	42.3	51.1	68.4	69.4	66.7
Return on Cap. Emp. (%) (Excl Cash & Invest.)	41.4	51.4	75.4	67.4	67.8
<b>(D) Valuation Ratios</b>					
Market Price	2,097.0	2,097.0	2,097.0	2,097.0	2,097.0
Price / Earnings Ratio (x)	42.7	35.2	21.5	15.9	12.0
Market Cap. (Rs. mn.)	11,851.4	11,851.4	11,851.4	11,851.4	11,851.4
Market Capitalisation to Sales (x)	4.8	3.9	2.5	1.9	1.5
Enterprise Value (Rs. mn.)	11,980.3	12,214.1	12,008.5	12,015.8	11,816.0
EV/Sales (x)	4.9	4.1	2.6	2.0	1.5
EV/EBDITA (x)	37.6	22.2	12.9	9.8	7.4
Market Price to Book Value (x)	22.66	15.33	10.23	6.88	4.55
<b>Growth Rates (%)</b>					
Sales	20.3	22.3	56.2	30.0	30.0
Operating Profit (excl OI)	63.3	86.6	72.4	34.7	31.3
Gross Profit	101.3	78.9	74.4	33.3	34.7
PBT	109.5	83.3	75.0	32.6	35.6
Net Profit	280.8	21.3	63.5	35.4	32.8
Loans and Advances (% of sales)	7.5	11.0	14.8	15.1	15.1
Depreciation (% of Fixed Assets)	2.4	0.8	2.6	4.2	3.7
Current liabilities (% of Total expenditure)	28.5	22.2	24.7	22.8	21.9

**(D) Valuation Ratios**

Market Price	2,097.0	2,097.0	2,097.0	2,097.0	2,097.0
Price / Earnings Ratio (x)	42.7	35.2	21.5	15.9	12.0
Market Cap. (Rs. mn.)	11,851.4	11,851.4	11,851.4	11,851.4	11,851.4
Market Capitalisation to Sales (x)	4.8	3.9	2.5	1.9	1.5
Enterprise Value (Rs. mn.)	11,980.3	12,214.1	12,008.5	12,015.8	11,816.0
EV/Sales (x)	4.9	4.1	2.6	2.0	1.5
EV/EBDITA (x)	37.6	22.2	12.9	9.8	7.4
Market Price to Book Value (x)	22.66	15.33	10.23	6.88	4.55

**Growth Rates (%)**

Sales	20.3	22.3	56.2	30.0	30.0
Operating Profit (excl OI)	63.3	86.6	72.4	34.7	31.3
Gross Profit	101.3	78.9	74.4	33.3	34.7
PBT	109.5	83.3	75.0	32.6	35.6
Net Profit	280.8	21.3	63.5	35.4	32.8
Loans and Advances (% of sales)	7.5	11.0	14.8	15.1	15.1
Depreciation (% of Fixed Assets)	2.4	0.8	2.6	4.2	3.7
Current liabilities (% of Total expenditure)	28.5	22.2	24.7	22.8	21.9

E-estimates



# Voltamp Transformers Ltd.



**CMP: Rs965**

**Target Price: Rs1415**

**Transformer / Buy**

BSE Sensex	14425
NSE Nifty	4190

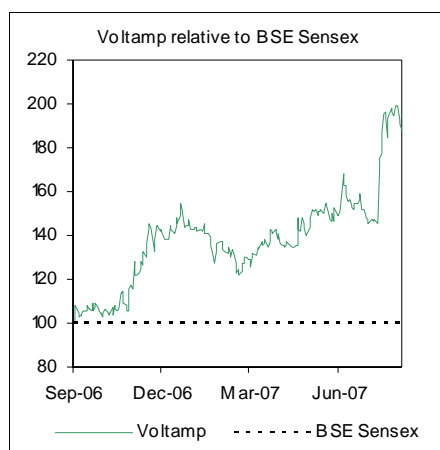
## Scrip Details

Equity	Rs.101.2mn
Face Value	Rs.10/-
Market Cap	Rs9.76.bn
	US\$238mn
52 week High/Low	Rs.1070/375
1-Month Avg. Volume (Daily)	49966
BSE Code	532757
NSE Symbol	VOLTAMP
Bloomberg Code	VAMP IN
Reuters Code	VOTL.BO

## Business Group - Indian Private

## Shareholding Pattern as on June'07 (%)

Promoter	51.7
MF/Banks/FIs	12.2
FIs	24.8
Corporate Bodies	5.4
Public / Others	5.9



## Solid as ever...

**Voltamp is a niche participant in the transformer industry - focused on manufacturing of customized transformers for industrial, building and power application. The business has consciously avoided SEBS to retain working capital efficiency (lower collectibles) - a key differentiator in its business model. The entire growth since inception is funded without external equity infusion - a distinction, which we expect to be retained.**

## Beneficiary of improved industrial as well as real estate sector growth

Industrial capital expenditure is estimated to increase from Rs2100bn (FY02-06) to Rs.6400bn (FY07-11). During the next 5 years real estate segment is estimated to attract investment of Rs2000bn leading to accelerated revenue growth for Voltamp. With 20% share in industrial application transformers and 40% share of dry type building application transformers Voltamp is well placed to benefit from growth in industrial and real estate segment.

## Shorter execution cycle for orders provides cushion against raw material price volatility

Order execution cycle for the company is shorter due to more than 50% contribution to revenue from distribution and dry type transformers. Voltamp enters into back to back forward contracts for copper so as to be protected from price volatility of the same.

## Lowest debtor days amongst peers

Debtors days for Voltamp are the lowest (at 56 days in FY06 and 54 days for FY07P) amongst peers due to lower dependency on SEB business (at 5%).

## Book to bill ratio at 0.9x FY07 revenue and capacity expansion

Book to bill ratio stands at 0.9x based on FY 07 revenue. Voltamp is expanding capacities to 9000MVA from 7200MVA at a cost of Rs150mn during FY08. Break up of the order book of Rs. 4bn at the end of FY 07:

- Power Transformers – 47%
- Distribution Transformers – 37%
- Dry Transformers – 15%

## Current Performance

During Q1FY08, Gross sales rose 67% yoy to Rs1535mn and OPM stood at a high of 18.6%.

## Valuation

Shorter execution cycle provides cushion against volatile raw material prices and efficient receivables management leads to improved cash flows. During FY 07-09, revenue and PAT are estimated to compound at an annual rate of 35% and 51% respectively.

**At Rs. 965 the stock trades at around 10.9x FY09E EPS.**

**At the target price of Rs1415, the stock will trade at 16x FY09E EPS.**

Year	Net Sales	% growth	EBIDTA	OPM%	PAT	% Growth	EPS (Rs.)	% Growth	PER	RoANW (%)	RoCE (%)
FY05	1,744	-	237	13.6	150	-	14.8	-	65.2	64.5	82.9
FY06	2,488	43	344	13.8	230	54	22.8	54	42.4	39.7	49.1
FY07	4,049	63	610	15.1	392	70	38.7	70	24.9	44.0	57.7
FY08E	5,466	35	990	18.1	664	69	65.6	69	14.7	46.8	60.9
FY09E	7,380	35	1,364	18.5	895	35	88.4	35	10.9	40.7	56.8

INCOME STATEMENT		Rs.mn				
Particulars	Mar'05	Mar'06	Mar'07	Mar'08E	Mar'09E	
Gross Sales	1,743.8	2,895.4	4,841.8	5,466.0	7,380.0	
Excise	-	407.5	792.9	-	-	
<b>Revenues</b>	<b>1,743.8</b>	<b>2,487.9</b>	<b>4,048.9</b>	<b>5,466.0</b>	<b>7,380.0</b>	
Other income	27.0	38.4	50.4	50.4	50.4	
<b>Total Income</b>	<b>1,770.7</b>	<b>2,526.3</b>	<b>4,099.3</b>	<b>5,516.4</b>	<b>7,430.4</b>	
Total Opex	1,507.1	2,144.1	3,438.6	4,476.0	6,016.4	
<b>Operating Profit (excl. OI)</b>	<b>236.6</b>	<b>343.8</b>	<b>610.3</b>	<b>990.0</b>	<b>1,363.6</b>	
<b>Operating Profit (incl. OI)</b>	<b>263.6</b>	<b>382.2</b>	<b>660.7</b>	<b>1,040.4</b>	<b>1,414.0</b>	
Interest	7.3	10.1	12.6	15.0	18.0	
<b>Gross Profit</b>	<b>256.3</b>	<b>372.1</b>	<b>648.1</b>	<b>1,025.4</b>	<b>1,396.0</b>	
Depreciation	16.1	19.2	21.7	35.0	60.0	
<b>Profit Before Tax &amp; EO Items</b>	<b>240.2</b>	<b>353.0</b>	<b>626.4</b>	<b>990.4</b>	<b>1,336.0</b>	
Extra Ordinary Exps/(Income)	-	-	-	-	-	
<b>Profit Before Tax</b>	<b>240.2</b>	<b>353.0</b>	<b>626.4</b>	<b>990.4</b>	<b>1,336.0</b>	
Tax	90.5	122.7	234.8	326.8	440.9	
<b>Net Profit</b>	<b>149.7</b>	<b>230.2</b>	<b>391.6</b>	<b>663.6</b>	<b>895.1</b>	

BALANCE SHEET		Rs.mn				
Particulars	Mar'05	Mar'06	Mar'07	Mar'08E	Mar'09E	
<b>Sources of Funds</b>						
Equity Capital	101.2	101.2	101.2	101.2	101.2	
Preference Capital	-	-	-	-	-	
Reserves (excl Rev Res)	363.2	593.5	985.1	1,648.6	2,543.8	
<b>Net Worth</b>	<b>464.4</b>	<b>694.7</b>	<b>1,086.3</b>	<b>1,749.8</b>	<b>2,645.0</b>	
Revaluation reserve	-	-	-	-	-	
Secured Loans	132.2	189.5	180.0	215.0	150.0	
Unsecured Loans	-	-	67.4	4.7	6.8	
<b>Loan Funds</b>	<b>132.2</b>	<b>189.5</b>	<b>247.4</b>	<b>219.7</b>	<b>156.8</b>	
Deferred Tax Liability/(Asset)	0.9	(1.4)	-	-	-	
<b>Total Capital Employed</b>	<b>597.5</b>	<b>882.8</b>	<b>1,333.7</b>	<b>1,969.6</b>	<b>2,801.7</b>	
<b>Applications of Funds</b>						
Gross Block	149.9	177.5	206.0	356.0	550.0	
Less: Accumulated Depreciation	77.8	96.6	118.0	156.0	216.0	
<b>Net Block</b>	<b>72.1</b>	<b>80.9</b>	<b>88.0</b>	<b>200.0</b>	<b>334.0</b>	
Capital Work in Progress	1.5	3.5	7.0	2.0	2.0	
<b>Investments</b>	<b>0.5</b>	<b>0.5</b>	<b>1.0</b>	<b>67.9</b>	<b>182.3</b>	
<b>Current Assets, Loans &amp; Advances</b>						
Inventories	208.7	631.6	969.8	1,406.3	1,898.4	
Sundry Debtors	418.6	381.5	599.0	808.6	1,051.2	
Cash and Bank Balance	30.5	27.8	50.4	70.6	95.3	
Loans and Advances	41.8	85.4	134.1	187.8	244.1	
Other Current Assets	-	-	-	-	-	
<i>sub total</i>	<i>699.6</i>	<i>1,126.3</i>	<i>1,753.3</i>	<i>2,473.2</i>	<i>3,289.0</i>	
<b>Less : Current Liabilities &amp; Provisions</b>						
Current Liabilities	176.3	328.5	515.7	773.5	1,005.6	
Provisions	-	-	-	-	-	
<i>sub total</i>	<i>176.3</i>	<i>328.5</i>	<i>515.7</i>	<i>773.5</i>	<i>1,005.6</i>	
<b>Net Current Assets</b>	<b>523.3</b>	<b>797.8</b>	<b>1,237.7</b>	<b>1,699.7</b>	<b>2,283.5</b>	
<b>Total Assets</b>	<b>597.5</b>	<b>882.8</b>	<b>1,333.7</b>	<b>1,969.6</b>	<b>2,801.7</b>	

E-estimates

IMPORTANT RATIOS		Rs.mn				
Particulars	Mar'05	Mar'06	Mar'07	Mar'08E	Mar'09E	
<b>(A) Measures of Performance (%)</b>						
<b>Contribution Margins</b>		<b>14.84%</b>	<b>16.06%</b>	<b>19.12%</b>	<b>19.49%</b>	
Operating Profit Margin (excl. O.I.)	13.6	13.8	15.1	18.1	18.5	
Operating Profit Margin (incl. O.I.)	14.9	15.1	16.1	18.9	19.0	
Interest / Sales	0.4	0.4	0.3	0.3	0.2	
Gross Profit Margin	14.5	14.7	15.8	18.6	18.8	
Tax/PBT	37.7	34.8	37.5	33.0	33.0	
Net Profit Margin	8.5	9.1	9.6	12.0	12.0	
<b>(B) Measures of Financial Status</b>						
Debt / Equity (x)	0.3	0.3	0.2	0.1	0.1	
Interest Coverage (x)	36.1	37.9	52.4	69.4	78.6	
Average Cost Of Debt (%)	5.5	5.3	5.1	6.8	11.5	
Debtors Period (days)	87.6	56.0	54.0	54.0	52.0	
Fixed Assets Turnover (x)	24.2	30.8	46.0	27.3	22.1	
Working Capital Turnover (x)	3.3	3.1	3.3	3.2	3.2	
<b>(C) Measures of Investment</b>						
Earnings Per Share (Rs.) (excl EO)	14.8	22.8	38.7	65.6	88.4	
Earnings Per Share (Rs.)	14.8	22.8	38.7	65.6	88.4	
Cash Earnings Per Share (Rs.)	16.4	24.7	40.8	69.0	94.4	
Book Value (Rs.)	45.9	68.7	107.3	172.9	261.4	
Return on Avg. Net Worth (%)	64.5	39.7	44.0	46.8	40.7	
Return on Avg. Cap. Employed (%)	82.9	49.1	57.7	60.9	56.8	
Return on Cap. Emp.(%) (Excl Cash & Inv.)	38.9	38.0	45.9	52.2	51.6	
<b>(D) Valuation Ratios</b>						
Market Price	965.0	965.0	965.0	965.0	965.0	
Price / Earnings Ratio (x)	65.2	42.4	24.9	14.7	10.9	
Market Cap. (Rs. mn.)	9,762.9	9,762.9	9,765.8	9,765.8	9,765.8	
Market Capitalisation to Sales (x)	5.6	3.9	2.4	1.8	1.32	
Enterprise Value (Rs. mn.)	9,864.7	9,924.6	9,962.8	9,914.9	9,827.3	
EV/Sales (x)	5.7	4.0	2.5	1.8	1.3	
EV/EBDITA (x)	37.4	26.0	15.1	9.5	7.0	
Market Price to Book Value (x)	21.02	14.05	8.99	5.58	3.69	
<b>Growth Rates (%)</b>						
Sales	-	42.7	62.7	35.0	35.0	
Operating Profit (excl OI)	-	45.3	77.5	62.2	37.7	
Gross Profit	-	45.2	74.2	58.2	36.1	
PBT	-	46.9	77.5	58.1	34.9	
Net Profit	-	53.8	70.1	69.5	34.9	
Loans and Advances (% of sales)	2.4	3.4	3.3	3.4	3.3	
Depreciation (% of Fixed Assets)	51.9	10.6	10.4	10.7	10.9	
Current liabilities (% of Total expenditure)	10.1	13.2	12.7	14.2	13.6	

E-estimates

# EMCO Ltd.

**CMP: Rs914**

**Target Price: Rs1234**

**Transformer / Buy**

BSE Sensex	14425
NSE Nifty	4190

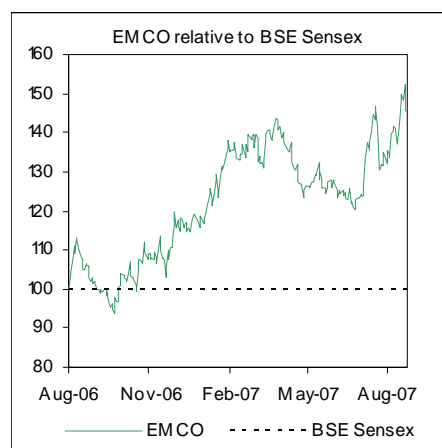
## Scrip Details

Equity	Rs.114mn
Face Value	Rs.10/-
Market Cap	Rs.10.4bn
	US\$254mn
52 week High/Low	Rs.1048/502
1-Month Avg. Volume (Daily)	21153
BSE Code	504008
NSE Symbol	EMCO
Bloomberg Code	EMCOIN
Reuters Code	EMCO.BO

## Business Group - Indian Private

## Shareholding Pattern as on June'07 (%)

Promoter	32.6
MF/Banks/FIs	14.8
FIs	29.6
Corporate Bodies	14.6
Public / Others	8.5



## Spreading Wings...

EMCO is a serious sizeable participant in the transformer segment. While retaining its focus on the core business (tie up with the Chinese player for 400kv range), the company is spreading wings in other complementary businesses like Transmission (Acquisition of Urja Engineering in FY07), focus in substation projects business (18% of revenue) and meters segment (7% of revenue). EMCO's growth is based on an asset heavy model (mainly working capital) which reflects on its comparative ratios.

## Tie up with Chinese player for 400kv range of transformers

Emco is the third largest player in the transformers market next to Crompton and BHEL in terms of presence in higher range of transformers. It has entered into a technical tie up with Baoding Tainwei Baobian Electric Co. Ltd. of China for manufacturing a diverse range of 400 kV class transformers.

## Acquisition of Urja Engineering in power transmission line segment

The company recently acquired Urja Engineers at a consideration of Rs. 1.35 bn to enter the fast growing power transmission line business at the end of FY07. Urja had a turnover of Rs. 800mn and 10% EBIDTA margins in FY07. It is in the business of manufacturing towers for the power and telecom industry as well as undertaking EPC projects.

## Setting up 270MW merchant based power project through wholly owned subsidiary

Emco has formed a SPV for setting up a 270 MW coal based power project near Nagpur in Maharashtra for Rs 11bn. It has obtained coal linkage for the same.

## Book to bill ratio at 2x based on FY 07 revenue of transformer division.

Order book stands at Rs 10bn. Break up of the order book is as follows:-

- Transformers – 71%.
- Meters – 2%.
- Projects – 27%

EMCO's presence in higher range of transformers compared to peers leads to longer execution cycle for order book.

## Current Performance

During Q1FY08, Net sales rose 40% yoy to Rs15432mn, PAT rose 20% yoy to Rs90mn and OPM was 13.1% lowest amongst peers.

## Valuation

Continuous equity dilution has led to doubling of equity capital to Rs114mn. During FY 07-09, revenue and PAT are estimated to compound at an annual rate of 42% and 47% respectively.

EMCO is certainly a company that has a hunger for business growth. However, the business model remains more asset-heavy among its peer set (mainly on working capital) - which in medium term is unlikely to improve in terms of its return ratios.

At Rs. 914, the stock trades at around 11.8x its FY09E EPS.

**At the target price of Rs1234, the stock will trade at 16x FY09E EPS.**

Year	Net Sales	% growth	EBIDTA	OPM%	PAT	% Growth	EPS (Rs.)	% Growth	PER	RoANW (%)	RoCE (%)
FY05	2,359	-	310	13.1	96	-	14.8	-	60.7	26.2	26.0
FY06	4,054	72	520	12.8	191	99	16.2	10	38.1	18.4	20.8
FY07	6,559	62	866	13.2	406	113	35.6	120	25.7	18.8	21.9
FY08E	9,816	50	1,296	13.2	611	51	53.6	51	17.0	18.7	21.4
FY09E	13,307	36	1,758	13.2	880	44	77.2	44	11.8	22.2	22.7

INCOME STATEMENT					Rs.mn
Particulars	Mar'05	Mar'06	Mar'07	Mar'08E	Mar'09E
Gross Sales	2,619.2	4,454.8	7,322.7	10,885.6	14,804.5
Excise	259.7	401.1	763.8	1,069.3	1,497.0
<b>Revenues</b>	<b>2,359.5</b>	<b>4,053.7</b>	<b>6,558.9</b>	<b>9,816.3</b>	<b>13,307.4</b>
Other income	0.8	0.1	1.3	1.0	-
<b>Total Income</b>	<b>2,360.2</b>	<b>4,053.8</b>	6,560.2	9,817.3	13,307.4
Total Opex	2,049.8	3,533.6	5,693.19	8,519.9	11,549.6
<b>Operating Profit (excl. OI)</b>	<b>309.7</b>	<b>520.1</b>	<b>865.7</b>	<b>1,296.5</b>	<b>1,757.8</b>
<b>Operating Profit (incl. OI)</b>	<b>310.5</b>	<b>520.3</b>	<b>867.0</b>	<b>1,297.5</b>	<b>1,757.8</b>
Interest (inclu excl. Variation)	135.7	117.5	198.1	300.0	350.0
<b>Gross Profit</b>	<b>174.8</b>	<b>402.8</b>	<b>668.9</b>	<b>997.5</b>	<b>1,407.8</b>
Depreciation	52.3	56.5	59.8	85.0	95.0
<b>Profit Before Tax &amp; EO Items</b>	<b>122.5</b>	<b>346.214</b>	<b>609.1</b>	<b>912.5</b>	<b>1,312.8</b>
Extra Ordinary Exps/(Income)	1.9	62.3	-	-	-
<b>Profit Before Tax</b>	<b>120.6</b>	<b>283.9</b>	<b>609.1</b>	<b>912.5</b>	<b>1,312.8</b>
Tax	24.5	93.2	203.1	301.1	433.2
<b>Net Profit</b>	<b>96.1</b>	<b>190.7</b>	<b>406.03</b>	<b>611.3</b>	<b>879.6</b>

BALANCE SHEET					
Particulars	Mar'05	Mar'06	Mar'07	Mar'08E	Mar'09E
<b>Sources of Funds</b>					
Equity Capital	63.8	79.4	114.0	114.0	114.0
Preference Capital	-	-	-	-	-
Reserves (excl Rev Res)	668.5	1,262.5	2,868.5	3,437.6	4,257.5
<b>Net Worth</b>	<b>732.3</b>	<b>1,341.9</b>	<b>2,982.5</b>	<b>3,551.6</b>	<b>4,371.5</b>
Revaluation reserve	-	-	-	-	-
Secured Loans	915.2	982.8	1,862.6	982.8	982.8
Unsecured Loans	253.3	80.0	-	1,912.5	2,881.4
<b>Loan Funds</b>	<b>1,168.6</b>	<b>1,062.8</b>	<b>1,862.6</b>	<b>2,895.3</b>	<b>3,864.1</b>
Deferred Tax Liability/(Asset)	81.7	71.3	34.6	-	-
<b>Total Capital Employed</b>	<b>1,982.6</b>	<b>2,476.0</b>	<b>4,879.7</b>	<b>6,446.9</b>	<b>8,235.7</b>

<b>Applications of Funds</b>					
Gross Block	1,004.0	1,078.2	1,229.8	1,529.8	1,679.8
Less: Accu. Dep.(incl. Lease adj.)	429.1	484.2	542.1	627.1	722.1
<b>Net Block</b>	<b>574.9</b>	<b>594.0</b>	<b>687.7</b>	<b>902.7</b>	<b>957.7</b>
Capital Work in Progress	40.3	1.4	150.8	-	-
<b>Investments</b>	<b>5.6</b>	<b>9.8</b>	<b>295.9</b>	<b>1,209.8</b>	<b>1,209.8</b>
<b>Current Assets, Loans &amp; Advances</b>					
Inventories	633.1	1,070.9	1,571.1	2,278.1	3,189.3
Sundry Debtors	1,305.4	2,144.3	3,634.8	5,270.5	7,378.7
Cash and Bank Balance	172.8	82.2	1,000.0	150.0	210.0
Loans and Advances	152.4	248.5	544.5	854.8	1,196.7
Other Current Assets	-	-	-	-	-
<i>sub total</i>	2,263.8	3,545.9	6,750.4	8,553.4	11,974.7
<b>Less : Current Liabilities &amp; Provisions</b>					
Current Liabilities	885.1	1,643.1	2,935.6	4,109.9	5,753.8
Provisions	16.8	32.0	69.5	109.1	152.7
<i>sub total</i>	901.9	1,675.1	3,005.1	4,218.9	5,906.5
<b>Net Current Assets</b>	<b>1,361.9</b>	<b>1,870.8</b>	<b>3,745.3</b>	<b>4,334.4</b>	<b>6,068.2</b>
Misc Expenses	-	-	-	-	-
<b>Total Assets</b>	<b>1,982.6</b>	<b>2,476.0</b>	<b>4,879.7</b>	<b>6,446.9</b>	<b>8,235.7</b>

E-estimates

IMPORTANT RATIOS					Rs.mn
Particulars	Mar'05	Mar'06	Mar'07	Mar'08E	Mar'09E
<b>(A) Measures of Performance (%)</b>					
<b>Contribution margins</b>	<b>22%</b>	<b>20%</b>	<b>21%</b>	<b>20%</b>	<b>20%</b>
Operating Profit Margin (excl. O.I.)	13.1	12.8	13.2	13.2	13.2
Operating Profit Margin (incl. O.I.)	13.2	12.8	13.2	13.2	13.2
Interest / Sales	5.8	2.9	3.0	3.1	2.6
Gross Profit Margin	7.4	9.9	10.2	10.2	10.6
Tax/PBT	20.3	32.8	33.3	33.0	33.0
Net Profit Margin	4.1	4.7	6.2	6.2	6.6

<b>(B) Measures of Financial Status</b>					
Debt / Equity (x)	1.6	0.8	0.6	0.8	0.9
Interest Coverage (x)	2.3	4.4	4.4	4.3	5.0
Average Cost Of Debt (%)	11.6	11.1	10.6	10.4	9.1
Debtors Period (days)	201.9	193.1	202.3	196.0	202.4
Fixed Assets Turnover (x)	4.1	6.8	9.5	10.9	13.9
Working Capital Turnover (x)	1.7	2.2	1.8	2.3	2.2

<b>(C) Measures of Investment</b>					
Earnings Per Share (Rs.) (excl EO)	14.8	16.2	35.6	53.6	77.2
Earnings Per Share (Rs.)	15.0	24.0	35.6	53.6	77.2
Cash Earnings Per Share (Rs.)	23.2	31.1	40.9	61.1	85.5
Book Value (Rs.)	114.7	169.0	261.6	311.5	383.5
Return on Avg. Net Worth (%)	26.2	18.4	18.8	18.7	22.2
Return on Avg. Cap. Employed (%)	26.0	20.8	21.9	21.4	22.7
Return on Cap. Emp. (%) (Excl Cash & Inv.)	14.3	19.4	22.5	23.8	24.4

<b>(D) Valuation Ratios</b>					
Market Price	914.0	914.0	914.0	914.0	914.0
Price / Earnings Ratio (x)	60.7	38.1	25.7	17.0	11.8
Market Cap. (Rs. mn.)	5,834.0	7,256.6	10,419.6	10,419.6	10,419.6
Market Capitalisation to Sales (x)	2.5	1.8	1.6	1.1	0.78
Enterprise Value (Rs. mn.)	6,829.7	8,237.2	11,282.2	13,164.9	14,073.7
EV/Sales (x)	2.9	2.0	1.7	1.3	1.1
EV/EBDITA (x)	22.0	15.8	13.0	10.1	8.0
Market Price to Book Value (x)	7.97	5.41	3.49	2.93	2.38

<b>Growth Rates (%)</b>					
Sales	-	71.8	61.8	49.7	35.6
Operating Profit (excl OI)	-	67.9	66.4	49.8	35.6
Gross Profit	-	130.4	66.1	49.1	41.1
PBT	-	182.7	75.9	49.8	43.9
Net Profit	-	98.5	112.9	50.6	43.9
Loans and Advances (% of sales)	6.5	6.1	8.3	8.7	9.0
Depreciation ( % of Fixed Assets)	42.7	5.1	4.7	5.6	5.7
Current liabilities (% of Total expenditure)	37.5	40.5	44.8	41.9	43.2
E-estimates					



# Indo Tech Transformers Ltd.

**CMP: Rs463****Target Price: Rs621****Transformer / Buy**

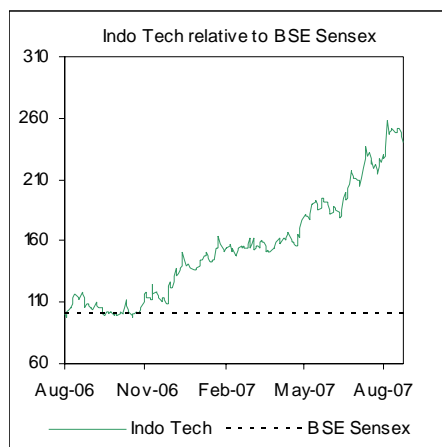
BSE Sensex	14425
NSE Nifty	4190

**Scrip Details**

Equity	Rs.106.2mn
Face Value	Rs.10/-
Market Cap	Rs.4.92bn US\$120mn
52 week High/Low	Rs.525/146
1-Month Avg. Volume (Daily)	58687
BSE Code	532717
NSE Symbol	INDOTECH
Bloomberg Code	INDTIN
Reuters Code	INTT.BO

**Business Group - Indian Private****Shareholding Pattern as on June'07 (%)**

Promoter	54.4
MF/Banks/FIs	3.1
FII's	13.8
Corporate Bodies	11.1
Public / Others	17.6

**Small is Beautiful...**

Indo Tech Ltd. (ITL) is niche player from the southern region in the transformer segment. Most of its business growth is backed by profitable and efficient operations. ITL's business growth continues to be impressive (backed by timely expansions). However, the future performance in non-southern markets (current business concentration to South Indian SEBs is 75% of revenue) would weigh-in heavy for its future deliverance.

**Shortest working capital cycle amongst peers:**

Net working capital cycle for the company stood at 92 days in FY07, lowest amongst peers, since the company primarily caters to relatively financially sound Southern SEBs. ITL has a pedigree of association with established players like L&T, ABB and REL - which would enable the company to adequately remain efficient in its working capital.

**More than doubling of capacity to 7450MVAs:**

The current capacity of 3450 MVAs will be expanded to 7450 MVAs by H2FY08 at an estimated cost of Rs525mn. Dry type transformers capacity will be of 100MVA of the above.

**Book to bill ratio at 0.8x based on FY 07 revenue.**

Break up of the order book of Rs. 1.3bn for 1550 MVAs at the end of Q1FY08:-

- Power Transformers – 74%
- Distribution Transformers – 26%

Break up of the order book (customer wise):-

- SEBs – 86%
- Industrial – 14%

**Current Performance**

During Q1FY08, Net sales rose 84% yoy to Rs394mn, PAT rose 115% yoy to Rs69mn and OPM stood at a highest amongst peers at 25%.

**Valuation**

During FY 07-09, revenue and PAT are estimated to compound at an annual rate of 37% and 25.4% respectively. The current profitability of 25% would be subject to pressure as revenue contribution from non-southern SEBs are expected to increase.

**At Rs. 462, the stock trades at 11.9x its FY 09E EPS.**

**At the target price of Rs621, the stock will trade at 16x FY09E EPS.**

Year	Net Sales	% growth	EBIDTA	OPM%	PAT	% Growth	EPS (Rs.)	% Growth	PER	RoANW (%)	RoCE (%)
FY05	675	-	117	17.4	80	-	28.3	-	16.4	66.6	82.1
FY06	927	37	173	18.7	111	39	10.4	(63)	44.5	23.2	33.5
FY07	1,554	68	390	25.1	262	137	24.7	137	18.8	32.2	47.1
FY08E	2,128	37	481	22.6	301	15	28.3	15	16.4	29.1	41.8
FY09E	2,916	37	660	22.6	412	37	38.8	37	11.9	31.0	45.4

INCOME STATEMENT					Rs.mn
Particulars	Mar'05	Mar'06	Mar'07	Mar'08E	Mar'09E
Gross Sales	811.7	1,115.3	1,879.3	2,128.0	2,915.8
Excise	137.1	188.1	325.6	-	-
<b>Revenues</b>	<b>674.5</b>	<b>927.2</b>	<b>1,553.7</b>	<b>2,128.0</b>	<b>2,915.8</b>
Other income	5.8	8.0	32.2	7.9	7.9
<b>Total Income</b>	<b>680.3</b>	<b>935.2</b>	<b>1,585.9</b>	<b>2,135.9</b>	<b>2,923.8</b>
Total Opex	557.4	754.2	1,163.5	1,647.3	2,256.3
<b>Operating Profit (excl. OI)</b>	<b>117.1</b>	<b>173.0</b>	<b>390.2</b>	<b>480.7</b>	<b>659.6</b>
<b>Operating Profit (incl. OI)</b>	<b>123.0</b>	<b>181.0</b>	<b>422.4</b>	<b>488.6</b>	<b>667.5</b>
Interest (include exch. Variation)	6.5	7.4	14.7	15.0	17.0
<b>Gross Profit</b>	<b>116.5</b>	<b>173.6</b>	<b>407.8</b>	<b>473.6</b>	<b>650.5</b>
Depreciation	8.6	8.5	11.4	25.0	35.0
<b>Profit Before Tax &amp; EO Items</b>	<b>107.9</b>	<b>165.04</b>	<b>396.4</b>	<b>448.6</b>	<b>615.5</b>
Extra Ordinary Exps/(Income)	-	-	-	-	-
<b>Profit Before Tax</b>	<b>107.9</b>	<b>165.0</b>	<b>396.4</b>	<b>448.6</b>	<b>615.5</b>
Tax	28.2	54.4	134.3	148.0	203.1
<b>Net Profit</b>	<b>79.69</b>	<b>110.6</b>	<b>262.1</b>	<b>300.6</b>	<b>412.4</b>

BALANCE SHEET					Rs.mn
Particulars	Mar'05	Mar'06	Mar'07	Mar'08E	Mar'09E
<b>Sources of Funds</b>					
Equity Capital	28.2	106.2	106.2	106.2	106.2
Preference Capital	-	-	-	-	-
Reserves (excl Rev Res)	211.1	607.5	806.5	1,047.1	1,399.5
<b>Net Worth</b>	<b>239.3</b>	<b>713.7</b>	<b>912.7</b>	<b>1,153.3</b>	<b>1,505.7</b>
Revaluation reserve	-	-	-	-	-
Secured Loans	-	-	45.0	45.0	45.0
Unsecured Loans	21.2	20.3	19.7	13.5	4.0
<b>Loan Funds</b>	<b>21.2</b>	<b>20.3</b>	<b>64.7</b>	<b>58.5</b>	<b>49.0</b>
Deferred Tax Liability/(Asset)	18.1	16.2	19.7	12.0	5.0
<b>Total Capital Employed</b>	<b>278.6</b>	<b>750.1</b>	<b>997.1</b>	<b>1,223.8</b>	<b>1,559.6</b>
<b>Applications of Funds</b>					
Gross Block	167.7	204.1	457.4	757.7	757.4
Less: Accu. Dep.(incl. Lease adj.)	61.4	69.7	74.8	87.8	102.8
<b>Net Block</b>	<b>106.3</b>	<b>134.4</b>	<b>382.6</b>	<b>669.9</b>	<b>654.6</b>
Capital Work in Progress	-	-	-	-	-
<b>Investments</b>	<b>0.6</b>	<b>113.5</b>	<b>220.2</b>	<b>16.4</b>	<b>153.6</b>
<b>Current Assets, Loans &amp; Advances</b>					
Inventories	102.8	124.8	120.4	264.9	344.4
Sundry Debtors	194.9	226.2	426.1	703.1	966.8
Cash and Bank Balance	105.0	479.5	340.2	115.2	149.8
Loans and Advances	53.0	138.0	249.5	374.2	486.4
Other Current Assets	-	-	-	-	-
<i>sub total</i>	455.8	968.5	1,136.2	1,457.4	1,947.4
<b>Less : Current Liabilities &amp; Provisions</b>					
Current Liabilities	239.0	345.7	451.8	560.2	728.3
Provisions	45.1	120.6	290.2	359.8	467.7
<i>sub total</i>	284.1	466.2	742.0	920.0	1,196.0
<b>Net Current Assets</b>	<b>171.7</b>	<b>502.2</b>	<b>394.3</b>	<b>537.4</b>	<b>751.4</b>
Misc Expenses	-	-	-	-	-
<b>Total Assets</b>	<b>278.6</b>	<b>750.1</b>	<b>997.1</b>	<b>1,223.8</b>	<b>1,559.6</b>

E-estimates

IMPORTANT RATIOS					Rs.mn
Particulars	Mar'05	Mar'06	Mar'07	Mar'08E	Mar'09E
<b>(A) Measures of Performance (%)</b>					
<b>Contribution Margins</b>	<b>22%</b>	<b>22%</b>	<b>28%</b>	<b>27%</b>	<b>27%</b>
Operating Profit Margin (excl. O.I.)	17.4	18.7	25.1	22.6	22.6
Operating Profit Margin (incl. O.I.)	18.1	19.4	26.6	22.9	22.8
Interest / Sales	1.0	0.8	0.9	0.7	0.6
Gross Profit Margin	17.1	18.6	25.7	22.2	22.2
Tax/PBT	26.1	33.0	33.9	33.0	33.0
<b>Net Profit Margin</b>	<b>11.7</b>	<b>11.8</b>	<b>16.5</b>	<b>14.1</b>	<b>14.1</b>
<b>(B) Measures of Financial Status</b>					
Debt / Equity (x)	0.1	0.0	0.1	0.1	0.0
Interest Coverage (x)	19.0	24.5	28.8	32.6	39.3
Average Cost Of Debt (%)	30.5	36.5	22.7	25.6	34.7
Debtors Period (days)	105.5	89.0	100.1	120.6	121.0
Fixed Assets Turnover (x)	6.3	6.9	4.1	3.2	4.5
Working Capital Turnover (x)	3.9	1.8	3.9	4.0	3.9
<b>(C) Measures of Investment</b>					
Earnings Per Share (Rs.) (excl EO)	28.3	10.4	24.7	28.3	38.8
Earnings Per Share (Rs.)	28.3	10.4	24.7	28.3	38.8
Cash Earnings Per Share (Rs.)	31.3	11.2	25.8	30.7	42.1
Book Value (Rs.)	84.9	67.2	85.9	108.6	141.8
Return on Avg. Net Worth (%)	66.6	23.2	32.2	29.1	31.0
Return on Avg. Cap. Employed (%)	82.1	33.5	47.1	41.8	45.4
Return on Cap. Emp. (%) (Excl Cash & Inv.)	62.7	104.7	86.8	41.7	49.7
<b>(D) Valuation Ratios</b>					
Market Price	463.0	463.0	463.0	463.0	463.0
Price / Earnings Ratio (x)	16.4	44.5	18.8	16.4	11.9
Market Cap. (Rs. mn.)	1,304.2	4,917.1	4,917.1	4,917.1	4,917.1
Market Capitalisation to Sales (x)	1.9	5.3	3.2	2.3	1.7
Enterprise Value (Rs. mn.)	1,220.4	4,457.8	4,641.5	4,860.3	4,816.2
EV/Sales (x)	1.8	4.8	3.0	2.3	1.7
EV/EBDITA (x)	9.9	24.6	11.0	9.9	7.2
Market Price to Book Value (x)	5.45	6.89	5.39	4.26	3.27
<b>Growth Rates (%)</b>					
Sales	-	37.5	67.6	37.0	37.0
Operating Profit (excl OI)	-	47.7	125.5	23.2	37.2
Gross Profit	-	49.0	134.9	16.2	37.3
PBT	-	53.0	140.2	13.2	37.2
Net Profit	-	38.8	137.0	14.7	37.2
Loans and Advances (% of sales)	7.9	14.9	16.1	17.6	16.7
Depreciation ( % of Fixed Assets)	36.6	4.1	1.1	1.7	2.0
Current liabilities (% of Total expenditure)	35.4	37.3	29.1	26.3	25.0

BALANCE SHEET					Rs.mn
Particulars	Mar'05	Mar'06	Mar'07	Mar'08E	Mar'09E
<b>Sources of Funds</b>					
Equity Capital	28.2	106.2	106.2	106.2	106.2
Preference Capital	-	-	-	-	-
Reserves (excl Rev Res)	211.1	607.5	806.5	1,047.1	1,399.5
<b>Net Worth</b>	<b>239.3</b>	<b>713.7</b>	<b>912.7</b>	<b>1,153.3</b>	<b>1,505.7</b>
Revaluation reserve	-	-	-	-	-
Secured Loans	-	-	45.0	45.0	45.0
Unsecured Loans	21.2	20.3	19.7	13.5	4.0
<b>Loan Funds</b>	<b>21.2</b>	<b>20.3</b>	<b>64.7</b>	<b>58.5</b>	<b>49.0</b>
Deferred Tax Liability/(Asset)	18.1	16.2	19.7	12.0	5.0
<b>Total Capital Employed</b>	<b>278.6</b>	<b>750.1</b>	<b>997.1</b>	<b>1,223.8</b>	<b>1,559.6</b>
<b>Applications of Funds</b>					
Gross Block	167.7	204.1	457.4	757.7	757.4
Less: Accu. Dep.(incl. Lease adj.)	61.4	69.7	74.8	87.8	102.8
<b>Net Block</b>	<b>106.3</b>	<b>134.4</b>	<b>382.6</b>	<b>669.9</b>	<b>654.6</b>
Capital Work in Progress	-	-	-	-	-
<b>Investments</b>	<b>0.6</b>	<b>113.5</b>	<b>220.2</b>	<b>16.4</b>	<b>153.6</b>
<b>Current Assets, Loans &amp; Advances</b>					
Inventories	102.8	124.8	120.4	264.9	344.4
Sundry Debtors	194.9	226.2	426.1	703.1	966.8
Cash and Bank Balance	105.0	479.5	340.2	115.2	149.8
Loans and Advances	53.0	138.0	249.5	374.2	486.4
Other Current Assets	-	-	-	-	-
<i>sub total</i>	455.8	968.5	1,136.2	1,457.4	1,947.4
<b>Less : Current Liabilities &amp; Provisions</b>					
Current Liabilities	239.0	345.7	451.8	560.2	728.3
Provisions	45.1	120.6	290.2	359.8	467.7
<i>sub total</i>	284.1	466.2	742.0	920.0	1,196.0
<b>Net Current Assets</b>	<b>171.7</b>	<b>502.2</b>	<b>394.3</b>	<b>537.4</b>	<b>751.4</b>
Misc Expenses	-	-	-	-	-
<b>Total Assets</b>	<b>278.6</b>	<b>750.1</b>	<b>997.1</b>	<b>1,223.8</b>	<b>1,559.6</b>

The ratings are based on the absolute upside of our target price from the current price.

**Upside**

> 25 %  
15% - 25%  
0% - 15%  
< 0 %

**Ratings**

Buy  
Accumulate  
Reduce  
Sell

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