

TITAGARH WAGONS LTD

BUY

July 8th, 2010

C.M.P.:
Rs.368.55

Target Price:
Rs.424.00

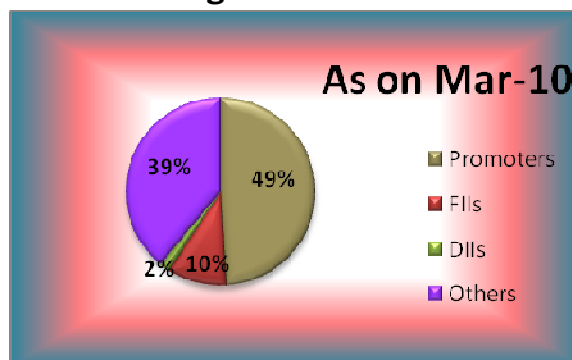
1 Year Comparative Graph



Stock Data

Sector	Commercial vehicles
Face Value(Rs)	Rs.10.00
52 wk. High/Low (Rs.)	Rs.488.70/256.00
Volume (2 wk. Avg.)	29000
BSE Code	532966
Market Cap(Rs in Mn)	6932.06

Share Holding Pattern



V.S.R. Sastry
Equity Research Desk
vrsastry@firstcallindiaequity.com

Dr. V.V.L.N. Sastry Ph.D.
Chief Research Officer
drsastri@firstcallindia.com

SYNOPSIS

- We initiated the coverage of Titagarh Wagons Ltd and set a target price of Rs.424.00 for medium to long term gains.
- Titagarh Wagons Ltd (TWL) incorporated in 1997; is engaged in manufacturing of railway wagons. It is one of the leading private sector wagon manufacturers in India.
- TWL is manufacturing of railway wagons, bailey bridges, heavy earth moving and mining equipment, steel and SG iron castings of moderate to complex configuration. It also manufactures special wagons, shelters and other engineering equipment for the Indian defence establishment.
- The Company has an established presence in the segment and has bagged prestigious orders from the defence sector.
- Titagarh Wagons will take over joint control of SK Birla group's Cimmco Birla, which is a sick wagon unit. This would be 50:50 owned by the Birlas and Titagarh Wagons. Currently, Cimmco Birla is promoted by the SK Birla group.
- The company has received certifications for its quality management such as ISO 9001: 2000 and BS EN ISO 9001:2000.
- Net Sales and PAT of the company are expected to grow at a CAGR of 2% and 10% over 2009 to 2012E respectively.

Financials (Rs in Mn)

	FY09	FY10	FY11E	FY12E
Net Sales	6892.43	5637.70	6426.98	7326.75
EBIDTA	941.16	963.87	1103.01	1256.50
PAT	647.84	653.71	755.28	859.31
EPS	35.13	34.76	40.16	45.69
P/E	10.50	10.60	9.18	8.07

Peer Group Comparison

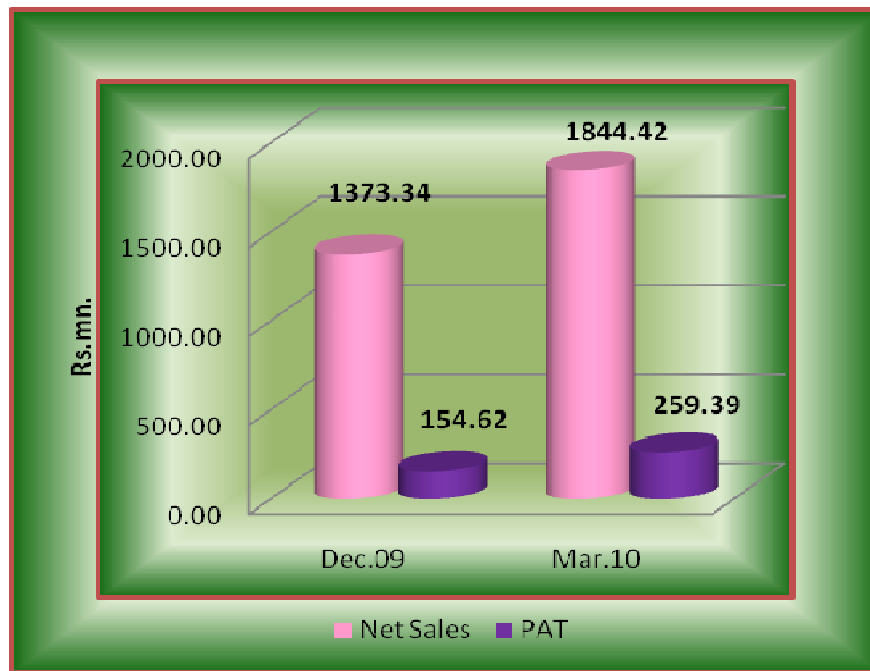
Name of the company	CMP(Rs.)	Market Cap.(Rs.Mn.)	EPS(Rs.)	P/E(x)	P/BV(x)	Dividend (%)
Titagarh Wag	368.55	6932.06	34.76	10.60	1.55	50.00
Tata Motors	756.05	43140.21	39.26	19.26	3.47	60.00
TRF	856.25	942.25	42.87	19.97	7.13	120.00
PIPAVAV SHIP	99.60	6631.35	-	-	-	-

Investment Highlights

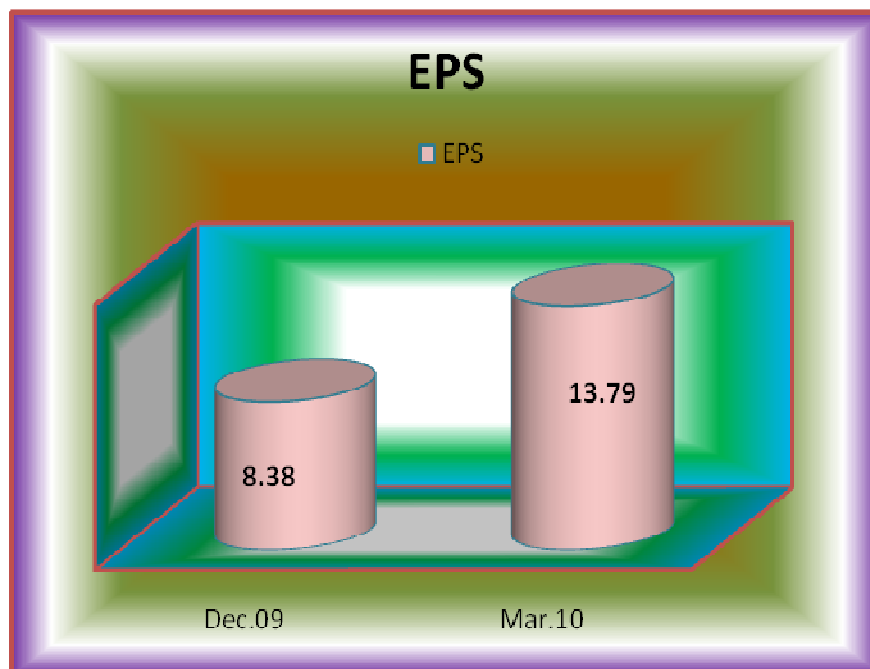
● Q4 FY10 Results Update

Titagarh Wagons Ltd disclosed results for the quarter ended March 2010. Net sales for the quarter moved up 34% to Rs.1844.42 million as compared to Rs.1373.34 million during the corresponding quarter last year. During the quarter, PAT is increased Rs.259.39 million as compared to Rs.154.62 million in previous year same quarter. The Basic EPS of the company stood at Rs.13.79 for the quarter ended March 2010.

Quarterly Results – Standalone (Rs in mn)			
As At	Mar-10	Mar-09	%Change
Net sales	1844.42	1373.34	34%
PAT	259.39	154.62	68%
Basic EPS	13.79	8.38	64%



Basic EPS of the company stood at Rs.13.79



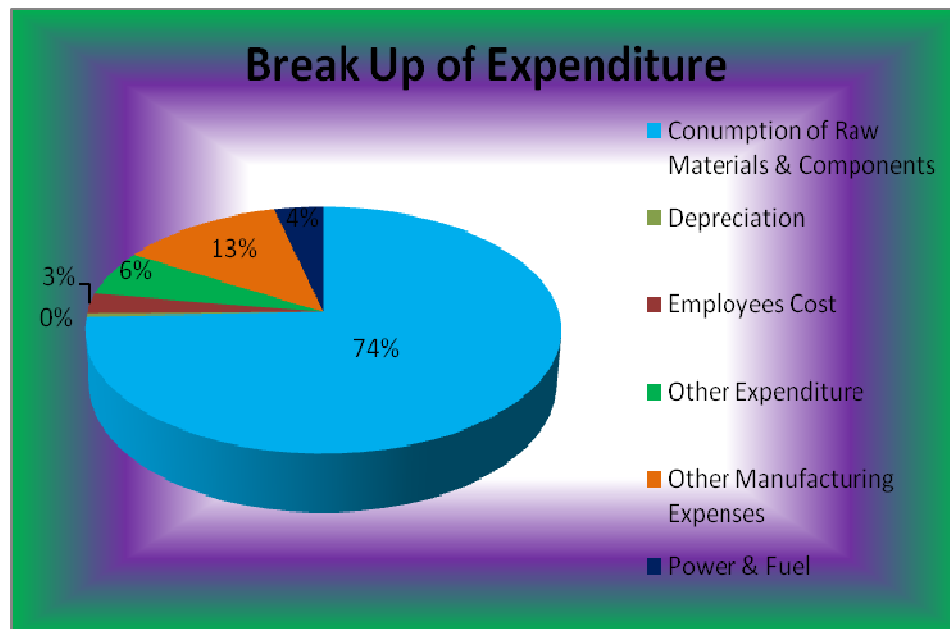
● **Dividend Declaration**

Titagarh Wagons Ltd has recommended a dividend of Rs. 5/- per share for the financial year 2009-10 subject to approval of shareholders.

● Joint Venture Agreement

The company has entered into Joint Venture Agreement (JV) with FCA, a private limited company, Titagarh FreightCar Private Limited, has been incorporated in India (JVC) with the stakes in equity capital of JVC of the Company and FCA being 49% and 51% respectively, to develop, design, manufacture, service and distribute Aluminium Rail Cars, Gondolas and such other products as may be agreed from time to time between the partners of the JV.

● Break Up of Expenditure



Company Profile

Titagarh Wagons incorporated in 1997; is engaged in manufacturing of railway wagons. It is one of the leading private sector wagon manufacturers in India. In its initial year, the company started the development of the prototype of BOXN Wagon. Immediately next year the company was awarded an order from Indian Railway to manufacture BOXN and BCNA type wagons. In 2000 there was addition of new type of wagon i.e. BOBYN. In the year 2001, Titagarh Wagons started its Bailey bridge division. The company started manufacturing of BOBRN type wagon. In 2002 the company despatched its first set of components of Bailey bridges.

Currently, the company is engaged in manufacturing of railway wagons, bailey bridges, heavy earth moving and mining equipment, steel and SG iron castings of moderate to complex configuration. The company also manufactures products for the Indian defence establishment, such as special wagons, shelters and other engineering equipments. The company has received certifications for its quality management such as ISO 9001: 2000 and BS EN ISO 9001:2000.

Products

● **Wagon**

The Company manufactures range of wagons such as hopper wagon, covered wagon, open top wagon, container flat wagon, tank wagon, flat wagon and special purpose wagon.

● **Heavy Earth Moving and Mining Equipment**

Under this the company manufactures hydraulic excavator and crawler mounted crane.

● **Foundry**

Under this company manufactures bogies and couplers.

● **Rail Coach**

Titagarh Wagons manufactures rail coaches for metro systems. It is planning to develop coaches for metro systems setting up at Mumbai, Hyderabad and Bangalore. The Company is also engaged in undertaking special projects such as developing Bailey bridges, other modular steel bridges and equipment for defence sector.

Subsidiary Companies

- Titagarh Biotec Private Limited.
- Flourish Securities and Finance Private Limited.
- Titagarh Singapore Pte. Limited.
- Greysham and Co. Private Limited.

Financials Results

12 Months Ended Profit & Loss Account (Standalone)

Value(Rs.in million)	FY09A	FY10A	FY11E	FY12E
	12m	12m	12m	12m
Description				
Net Sales	6892.43	5637.7	6426.98	7326.75
Other Income	36.03	9.93	10.43	10.95
Total Income	6928.46	5647.63	6437.4	7337.7
Expenditure	-5987.30	-4683.76	-5334.39	-6081.21
Operating Profit	941.16	963.87	1103.01	1256.50
Interest	65.76	68.87	75.76	83.33
Gross Profit	1006.92	1032.74	1178.77	1339.83
Depreciation	-28.67	-44.36	-34.40	-37.84
Profit before Tax	978.25	988.38	1144.37	1301.98
Tax	-330.41	-334.67	-389.08	-442.67
Profit after Tax	647.84	653.71	755.28	859.31
Equity Capital	184.42	188.09	188.09	188.09
Reserves	3732.32	4280.69	5035.97	5895.28
Face Value	10.00	10.00	10.00	10.00
EPS	35.13	34.76	40.16	45.69

*A=Actual, *E=Estimated

Quarterly Ended Profit & Loss Account (Standalone)

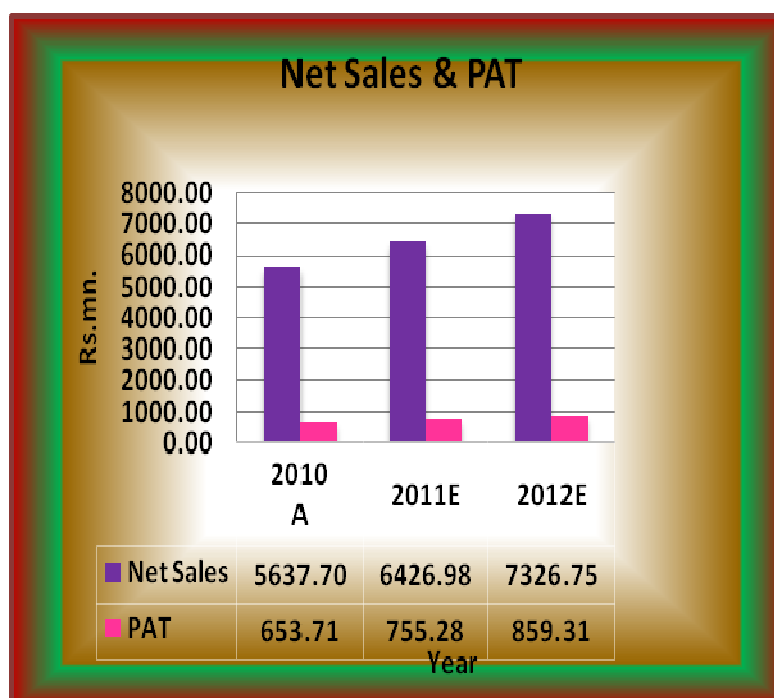
Value(Rs.in million)	30-Sep-09	31-Dec-09	31-Mar-10	30-Jun-10
	3m(A)	3m(A)	3m(A)	3m(E)
Net Sales	1283.84	1373.34	1844.42	1669.2
Other Income	0.10	0.00	9.51	0.01
Total Income	1283.94	1373.34	1853.93	1669.21
Expenditure	-1116.02	-1171.84	-1440.28	-1301.98
Operating Profit	167.92	201.50	413.65	367.23
Interest	33.53	27.61	-12.40	33.60
Gross Profit	201.45	229.11	401.25	400.83
Depreciation	-12.47	-10.75	-5.54	-6.09
Profit before Tax	188.98	218.36	395.71	394.74
Tax	-70.70	-63.74	-136.32	-134.21
Profit after Tax	118.28	154.62	259.39	260.53
Equity Capital	184.42	184.42	188.09	188.09
Face Value	10.00	10.00	10.00	10.00
EPS	6.41	8.38	13.79	13.85

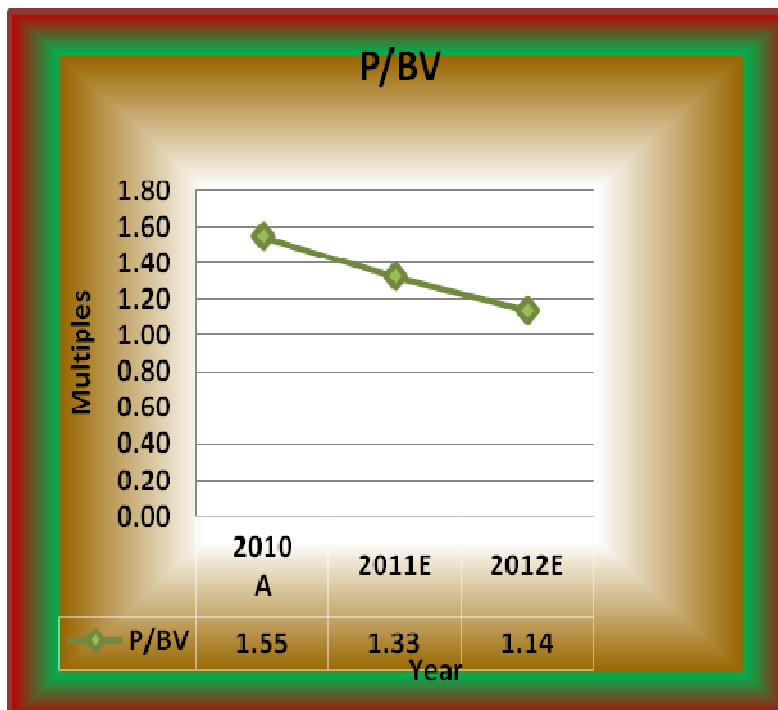
*A=Actual, *E=Estimated

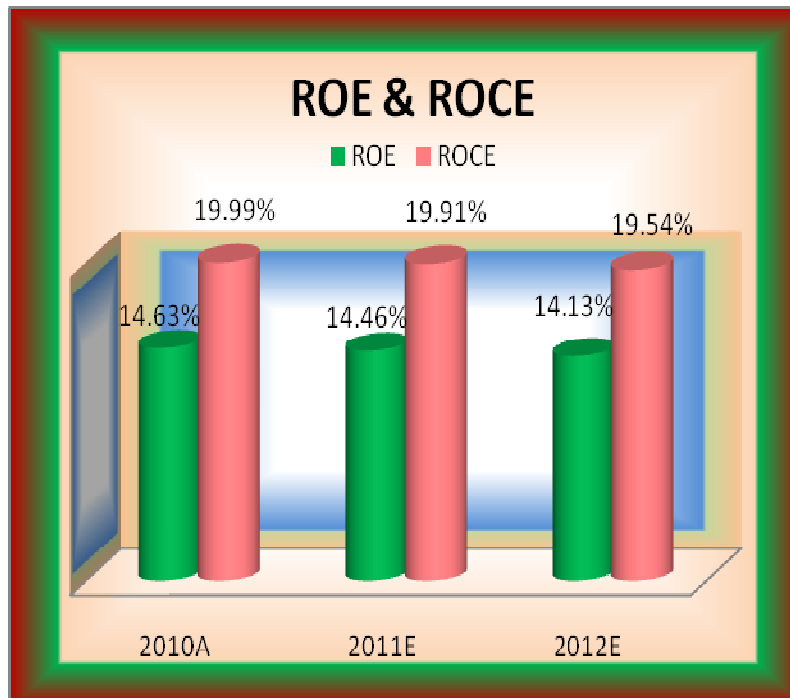
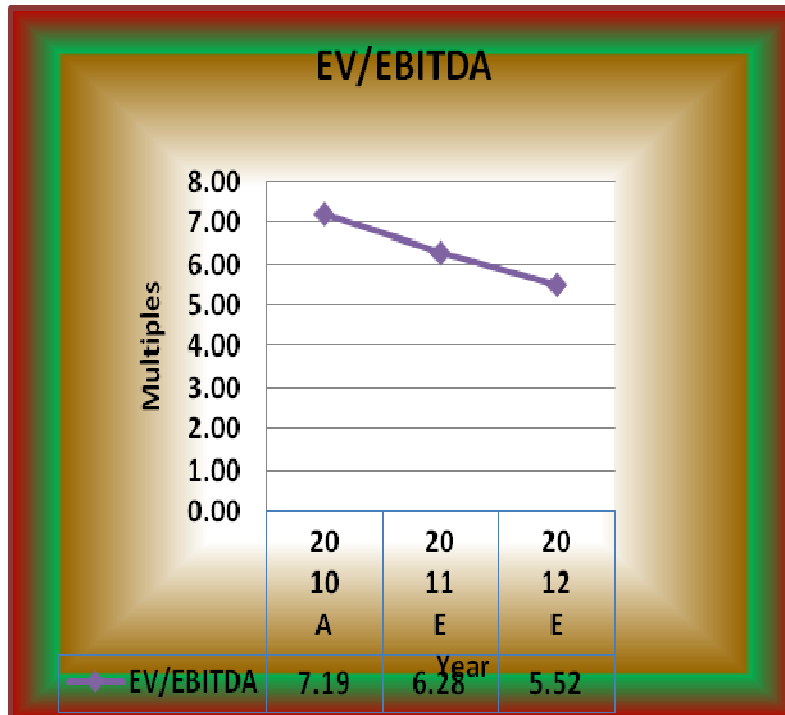
Key Ratios

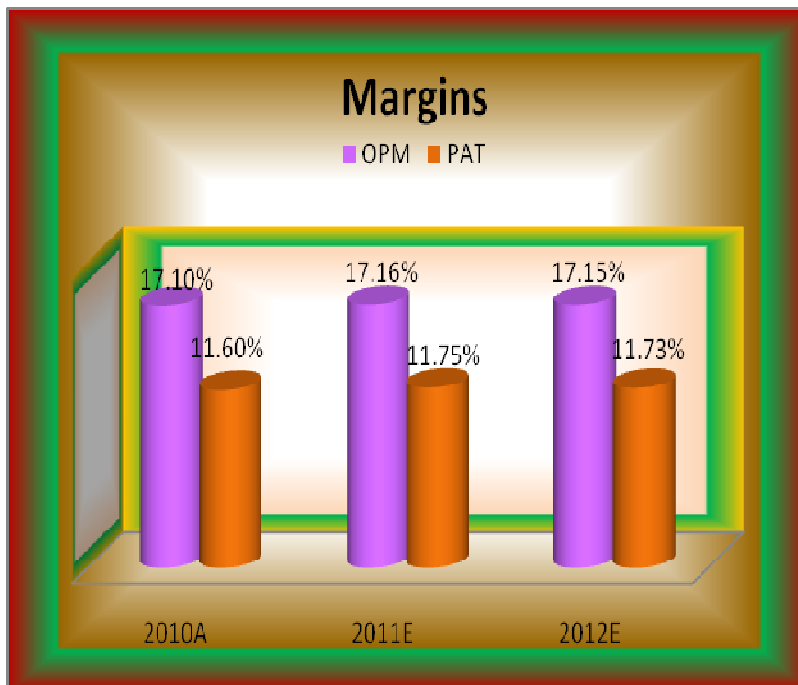
Particulars	FY09	FY10	FY11E	FY12E
EPS (Rs.)	35.13	34.76	40.16	45.69
EBITDA Margin (%)	13.65%	17.10%	17.16%	17.15%
PAT Margin (%)	9.40%	11.60%	11.75%	11.73%
P/E Ratio (x)	10.50	10.60	9.18	8.07
ROE (%)	16.54%	14.63%	14.46%	14.13%
ROCE (%)	22.61%	19.99%	19.91%	19.54%
EV/EBITDA (x)	7.23	7.19	6.28	5.52
Debt-Equity Ratio	0.03	0.03	0.03	0.03
Book Value (Rs.)	212.38	237.59	277.74	323.43
P/BV	1.74	1.55	1.33	1.14

Charts:









Outlook and Conclusion

- At the current market price of Rs.368.55, the stock is trading at 9.18 x FY11E and 8.07 x FY12E respectively.
- Price to Book Value of the stock is expected to be at 1.33 x and 1.14 x respectively for FY11E and FY12E.
- Earning per share (EPS) of the company for the earnings for FY11E and FY12E is seen at Rs.40.16 and Rs.45.69 respectively.
- Net Sales and PAT of the company are expected to grow at a CAGR of 2% and 10% over 2009 to 2012E respectively.
- Titagarh Wagons will take over joint control of SK Birla group's Cimmco Birla, which is a sick wagon unit. This would be 50:50 owned by the Birlas and Titagarh Wagons. Currently, Cimmco Birla is promoted by the SK Birla group.
- On the basis of EV/EBITDA, the stock trades at 6.28 x for FY11E and 5.52 x for FY12E.

- The Company plans to set up new infrastructural facilities with expansion and setting up of new projects for metro railways in few major cities of India, construction of bridges, highways, airports, ports as well as housing construction, the demand for heavy engineering and mining equipments are also believed to take a long leap in the coming years. We expect that the company will keep its growth story in the coming quarters also. We recommend **'BUY'** in this particular scrip with a target price of Rs.**424.00** for Medium to Long term investment.

Industry Overview

The growth of the Indian middle class along with the growth of the economy over the past few years has attracted global auto majors to the Indian market. India provides trained manpower at competitive costs making India a favoured global manufacturing hub.

Propped by the increase in its car sales after the launch of General Motors' (GM) new model Beat, along with the robust growth in the Indian automobile sector, Kevin E Wale, President and Managing Director, General Motors China Group stated that India should be among the top ten markets for the company globally by 2011.

Production:

In recent times, India has emerged as one of the favourite investment destinations for automotive manufacturers.

- Nissan Motor India has announced its 'Made-in-India' compact car (hatchback) Nissan Micra at its manufacturing plant at Oragadam, near Chennai. Toshiyuki Shiga, Chief Operating Officer, Nissan Motor Company stated that the India-made Micra will supply to strategic markets such as Europe, Middle East and Africa
- The German luxury car major, BMW has launched four new variants of its new-generation 5-Series sedan in India

- In a bid to capture a bigger share of the ever-expanding consumer base of luxury segment automobiles in India. Volkswagen has launched its luxury sedan model Phaeton, its latest luxury model
- Hyundai plans to bring forth an upgraded version of i30, latest C segment five-door hatchback which is designed by Hyundai European team in Germany and is based on the Hyundai i-flow HED-7 hybrid concept. As per the manufacturer, i30U has entered mass production in March 2010 after debuting at the Geneva Motor Show
- Y V S Vijay Kumar, Executive-Vice President, Hindustan Motors India stated that the company's Thiruvallur plant has a capacity of 12,000 units and in two years, the company plans to double its manufacturing capacity to reach 24,000 units.
- India's second largest heavy commercial vehicle maker Ashok Leyland Ltd and Japanese car maker Nissan Motor Co. Ltd announced the launch of three light commercial vehicles (LCVs) from 2011 through 2013
- According to Andrew Palmer, senior vice-president, Nissan, the company will start marketing a light commercial vehicle (LCV) under its brand name, from its Oragadam plant near Chennai, in the second half of 2011
- Honda Motorcycle and Scooters India (HMSI), the Indian subsidiary of Japanese auto giant Honda Motor Corporation, will launch its superbike 2010 VFR 1200F in India by December 2010, according to a HMSI executive

Domestic Market/ Sales:

- According to the Society of Indian Automobile Manufacturers (SIAM), overall vehicle sales grew 30 per cent in May 2010 to 1,208,851 units, and 8 per cent over the previous month of April 2010. Two wheeler sales rose 29 per cent, with motorcycle sales increasing 26 per cent to 725,311 units, and scooter sales rising 45 per cent to 157,509 units in May 2010. Commercial vehicle sales rose 58 per cent in May 2010.
- According to SIAM, the medium and heavy commercial vehicle (M&HCV) segment registered a growth of 33.5 per cent at 245,058 units and total commercial vehicle (CV) sales went up by 38.3 per cent to 531,395 units in 2009-10. At an estimated 25 per cent growth, while the M&HCV segment would

be about 306,000 units, total CV sales would be about 664,000 units in 2010-11.

- Passenger vehicles sales alone grew by 33.93 per cent in the month of April 2010 as per SIAM report. The growth within this segment was largely driven by a 39.48 per cent growth witnessed in passenger car sales whereas exports continue to grow stronger for the industry as overall exports posted a growth of 87.61 per cent as reported by SIAM.
- Furthermore, the three wheelers segment witnessed a sales increase of 20.41 per cent in April 2010 over April 2009. Two wheeler segment also continued the growth trend registering an upswing of 22.07 per cent at 8,55,670 in April 2010 compared with 7,00,987 in the corresponding period of last year.
- Mahindra and Mahindra (M&M) became the world's number one tractor company by selling a record of 1.59 lakh tractors in 2009 surpassing John Deere of the US.

Road Ahead:

R Seshasayee, managing director, Ashok Leyland, stated that the company plans to invest around US\$ 436.6 million over the next two years. The commercial vehicle major said it had earmarked US\$ 262 million for capex in addition to investments earmarked for the various joint ventures (JVs) to the tune of US\$ 174.7 million.

The market for electric vehicles, particularly two-wheelers or e-bikes, is expected to grow with the governments at the Centre and states offering fiscal incentives and as awareness about the ecological benefits of using these vehicles spreads, according to Ms Hemalatha Annamalai, Founder and Chief Executive Officer of Ampere Vehicles Pvt Ltd (AMPVL), Coimbatore.

Furthermore, following the initiative taken by the Society of Manufacturers of Electric Vehicles (SMEV), the government has given duty concession on the import of certain key components needed by the industry. In addition, the Tamil Nadu Government has also reduced Value Added Tax (VAT) from 12.5 per cent to four per cent benefitting the industry.

Pune-based Automotive Research Association of India (ARAI) and DSM of the Netherlands have entered into an alliance to develop new lighter materials that could substitute metals in the automotive industry, and help auto components shed weight.

According to the Society of Indian Automobile Manufacturers (SIAM), total commercial vehicle (CV) sales is estimated to grow to 664,000 units in 2010-11, while the medium and heavy commercial vehicle (M&HCV) segment would be about 306,000 units.

The Indian automotive industry is all geared up for a roller coaster journey of growth and there is every reason to remain positive about the Indian auto sector in the future.

Disclaimer:

This document prepared by our research analysts does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable but do not represent that it is accurate or complete and it should not be relied on as such. Firstcall India Equity Advisors Pvt. Ltd. or any of its affiliates shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provide for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision.

Firstcall India Equity Research: Email – info@firstcallindia.com	
B. Harikrishna	Banking
B. Prathap	IT
A. Rajesh Babu	FMCG
C.V.S.L.Kameswari	Pharma
U. Janaki Rao	Capital Goods
E. Swethalatha	Oil & Gas
D. Ashakirankumar	Auto
Kavita Singh	Diversified
Nimesh Gada	Diversified
Priya Shetty	Diversified
Neelam Dubey	Diversified

Firstcall India also provides

Firstcall India Equity Advisors Pvt.Ltd focuses on, IPO's, QIP's, F.P.O's,Takeover Offers, Offer for Sale and Buy Back Offerings.

Corporate Finance Offerings include Foreign Currency Loan Syndications, Placement of Equity / Debt with multilateral organizations, Short Term Funds Management Debt & Equity, Working Capital Limits, Equity & Debt Syndications and Structured Deals.

Corporate Advisory Offerings include Mergers & Acquisitions(domestic and cross-border), divestitures, spin-offs, valuation of business, corporate restructuring-Capital and Debt, Turnkey Corporate Revival – Planning & Execution, Project Financing, Venture capital, Private Equity and Financial Joint Ventures

Firstcall India also provides Financial Advisory services with respect to raising of capital through FCCBs, GDRs, ADRs and listing of the same on International Stock Exchanges namely AIMs, Luxembourg, Singapore Stock Exchanges and other international stock exchanges.

For Further Details Contact:

3rd Floor,Sankalp,The Bureau,Dr.R.C.Marg,Chembur,Mumbai 400 071

Tel. : 022-2527 2510/2527 6077/25276089 Telefax : 022-25276089

E-mail: info@firstcallindiaequity.com

www.firstcallindiaequity.com