

BUZZING

STOCK

# RPG Transmission Ltd

CMP – Rs.213

**Analyst**

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**Key Stock Data**

|                     |                          |
|---------------------|--------------------------|
| Sensex              | 13966                    |
| Nifty               | 4134                     |
| Sector              | Transmission Line Towers |
| Bloomberg           | SAE IN                   |
| Reuters             | RPGT.BO                  |
| No. of shares (m)   | 16                       |
| Market Cap (Rs m)   | 3,408                    |
| Market Cap (US\$ m) | 83                       |
| 52-week H/L         | Rs.238/75                |

**Shareholding Pattern (%)**

|                  |       |
|------------------|-------|
| Promoters        | 37.5  |
| Mutual Funds     | 8.38  |
| FII's            | 5.11  |
| Corporate Bodies | 18.62 |
| Pubic & Others   | 30.4  |

**Better yearly Performance :**

Good cost control and true benefit of outsourcing of low margin works, have helped RPG Transmission to put up a very good financial for the year FY07. The sales has remained in our expected lines at Rs 3725.2 m but due to higher than expected margins both at operating and net level have led to a net profit of Rs 256.8 m as against our expectation of Rs 210 m.

**Higher expectation from Power Grid :**

Currently Power Grid Corporation (PGC) is the largest customer of the company. Power Grid plans to add 4700 MW to its existing national grid capacity of 13700 MW (After the recent completion of 765KV Bina-Gwalior-Agra and 400KV Kahalgaon-Patna-Balia-Lucknow transmission lines) by the end of FY08 and further plans to increase its total national grid capacity to 40,000MW by FY12 in line with the increase in the generation capacity in the country. So we believe the growth of PGC would remain the major growth driver for the company going forward.

**Order Book :**

The company has a total current order book of around Rs.4.8bn, which is 1.28x of the FY07 turnover. 60% of the total order book is from orderbook PGC and 25% is from state distribution utilities. As all these major orders are covered under price variation clause so there would be little impact on margins in the event of rise in raw material prices. The period of execution of this total order book is 18 months.

**Outlook :**

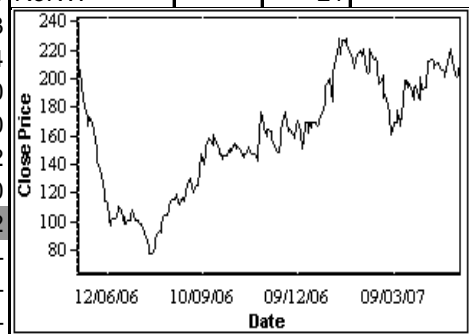
The performance of the company during the year remained little ahead of our expectation. This year however would be a challenging year for the company so far as increasing its orderbook is concerned, particularly when the other transmission players (both Old and New) are also in the run for orders from the Power Grid, the largest Grid service company in our country. In this context we believe the future growth for the company will lie on the transmission capex growth in the SAARC region and the enhanced private participation in the transmission capex in the country. The company is confident of maintaining an EBITDA margin of around 12% going forward and due to higher provision of deferred tax the cash outflow for tax will continue to remain low, which in other way will help maintaining the current debt level for the company. We have a very stable with upward bias outlook for the company for FY08.

**Valuation**

Based on the current order book we believe the topline of the company would grow by 20% Rs.4,470m in FY08 and with better execution efficiency the EBITDA margin of the company would improve to 12%. However the interest cost would go up marginally due to higher use of cash credit facility than this year. As there would not be any great addition to the capex so depreciation provision will remain stable. Therefore we estimate net profit at Rs.294m for FY08. The share price is trading at 11x to our FY08E EPS of Rs.19.

## Financial Snapshot

| RPG Transmission Ltd.                        |            |           |            |            |           | Rs.m       | Ratios (%)   |      |      |         |
|--|------------|-----------|------------|------------|-----------|------------|--------------|------|------|---------|
| Financial Year End: March                    | Q4 FY07    | Q4 FY06   | Chg. (%)   | FY07       | FY06      | Chg. (%)   |              | FY07 | FY06 | Chg.(%) |
| Net Sales                                    | 1007       | 970       | 4          | 3725       | 1951      | 91         | Debt -Equity | -    | 25.7 | -       |
| Other Income                                 | 1          | 3         | (70)       | 1          | 5         | (77)       | PBIDTM       | 12   | 11   | 3       |
| Total Income                                 | 1008       | 973       | 4          | 3726       | 1957      | 91         | PBDTM        | 10   | 6    | 49      |
| Total Expenditure                            | 888        | 861       | 3          | 3295       | 1756      | 88         | RoCE         | -    | 24   | -       |
| PBIDT  | 120        | 112       | 7          | 431        | 201       | 115        | RoNW         | -    | 21   | -       |
| Interest                                     | 18         | 25        | (30)       | 74         | 66        | 13         |              |      |      |         |
| PBDT   | 102        | 87        | 18         | 358        | 135       | 164        |              |      |      |         |
| Depreciation                                 | 6          | 5         | 6          | 20         | 15        | 30         |              |      |      |         |
| Tax  | (4)        | (48)      | (92)       | 81         | 45        | 80         |              |      |      |         |
| Reported Profit After Tax                    | 100        | 38        | 166        | 257        | 75        | 242        |              |      |      |         |
| Extra -ordinary Items                        | 0          | 0         | 0          | 0          | 0         | 0          |              |      |      |         |
| <b>Adj. Profit After Extra-ordinary item</b> | <b>100</b> | <b>38</b> | <b>166</b> | <b>257</b> | <b>75</b> | <b>242</b> |              |      |      |         |
| No. of shares (m)                            | 16         | 16        | -          | 16         | 16        | -          |              |      |      |         |
| EPS (annualised.) (Rs.)                      | 25.7       | 9.7       | -          | 16.4       | 6.4       | -          |              |      |      |         |
| P/E  | 8.3        | 22.0      | -          | 13.0       | 33.2      | -          |              |      |      |         |



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