



(Investment Idea

Walchandnagar Industries (WIL)

WIL, well established engineering company, has posted strong set of numbers for the 1st quarter ended December 31, 2006 (Q1 FY 2007).

Net Sales more than doubled to Rs 124.28 crore (Rs 55.32 crore) while PBT (after extra-ordinary items) zoomed to Rs 11.28 crore (Rs 2.18 crore). PAT jumped more than 5 times to Rs 7.71 crore (Rs 1.35 crore) including Rs 1.1 crore being profit on sale of investment in a subsidiary.

WIL will be one of the major beneficiaries of Indo-US Nuclear deal passed recently as it will open up new growth avenues in nuclear power sector projects.

Company is planning special thrust to enhance its market share in fields of Space, Defence and Co-Generation Power Plants to take advantage of its core strength and growing opportunities in these areas. It is also focusing on Engineering, Procurement & Construction (EPC) type of projects and has created a separate Project Division to execute such projects.

Company's current order book of Rs 1,000 crore mostly consists of heavy engineering division (2.8 times of FY 2006 sales of Rs 358.41 crore). Most of the orders are fixed price contracts thereby insulating WIL from rise in steel and other input material prices. WIL is going to be benefited from huge spending in infrastructure projects in India as it caters to varied industries like cement, sugar, mining, minerals etc. Company has recently raised Rs 50.72 crore by issuing 8 lakh warrants to promoter group companies @ Rs 634/- per warrant to be converted into equal number of equity shares within 18 months from the date of allotment of warrants. These funds will be used for the expansion plans in nuclear and defence projects.

At CMP of Rs 1,570.45, share is trading at 18.2 times FY 2007 expected fully diluted (post 800,000 warrants conversion) EPS of Rs 86.3 and 14 times FY 2008 expected fully diluted EPS of Rs 112.5. Considering sustainability of high growth rate in future, we recommend to "BUY" the share at CMP.

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