

Indo Tech Transformers

Result Update

Rs313; Buy

Sector: Power

Target Price	Rs397
Market cap	Rs3.3 bn/US\$80.9 mn
52-week range	Rs328/118
Shares in issue (mn)	10.6
3-mon avg daily vol (no of shares)	226,249
3-mon avg daily vol (mn)	Rs70.8/US\$1.7
Bloomberg	INDT IN
BSE Sensex	13909
Website	www.indo-tech.com

Shareholding Pattern (%)

Promoters	54.4
FIs	13.3
MFs/FIs/Banks	5.0
Public	16.5
Others	10.9

(As of 31 March 2007)

Price Performance (%)

	1M	3M	12M
Absolute	18.6	5.5	43.8
Relative*	12.6	8.1	26.3

* To the BSE Sensex

Relative Performance



(As of 27 April 2007)

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Above expectations

Indo Tech Transformers (ITTL) has posted 80.2% YoY and 25.9% QoQ rise in topline at Rs567 mn for 4Q FY07. The company has reported 159.1% YoY and 41.3% QoQ rise in bottom line at Rs103 mn for 4Q FY07, above our expectation. This robust performance is on account of full utilization of increased capacity (from 2,450 MVA to 3,350 MVA) and improved realization from Rs67 mn/MVA in 3Q FY07 to Rs77 mn/MVA in 4Q FY07. Further, high margin orders received during 1H FY07 (when key raw material - copper and CRGO-prices were high) were executed in 4Q FY07. Subsequent fall in these raw material prices has helped in improving profitability even after passing on some benefit to clients.

We have revised our estimates upwards for FY08E and are introducing our FY09 estimates for the company. We expect ITTL's revenues to grow at CAGR of 51% in FY07-FY09E on the back of commissioning of ongoing capex. We expect operating margins to be lower at 21.2% for FY08E and 17.7% in FY09E.

The stock is trading 10.9x FY08E earnings and 8.7x FY09E earnings, with an EV/EBITDA of 6.5x for FY08E and 5.0x for FY09E. We maintain our Buy rating and upgrade our 1-year price target to Rs397 (11x FY09E earnings) from Rs371 an upside of 27%.

Highlights

- **Higher than expected volumes of 672 MVA:** ITTL has delivered 738 MVA in 4Q FY07 compared to 585 MVA in 4Q FY06, mainly due to improved operational efficiency due to relocated and modernised Saidapet plant that has increased its capacity from 450 MVA to 750 MVA. Also the company was benefited on account of economies of scale as it increased Thirumazhisai plant capacity from 1,800 MVA to 2,400 MVA. Both the expanded capacities were fully operational in 4Q FY07. We estimate volume for ITTL to grow at 54% CAGR on the back of greenfield expansion of 4,000 MVA scheduled for commissioning in September 2007.

Exhibit 1: Key financials

(Rs mn)

Y/E March	FY06	FY07	FY08E	FY09E
Net sales	973	1557	2227	3535
EBITDA	173	378	479	625
EBITDA (%)	17.8	24.3	21.5	17.7
Net Profit (Adj)	110	263	305	383
EPS (Rs)	10.4	24.7	28.7	36.1
EPS Growth (%)	(62.6)	138.1	16.0	25.8
ROCE (%)	33.5	46.4	43.6	43.5
ROE (%)	22.3	31.9	28.8	28.5
PE (x)	30.1	12.7	10.9	8.7
Price/Book Value (x)	4.7	3.6	2.8	2.2
EV/EBITDA (x)	10.9	8.1	6.5	5.0

Source: Company, ASK Raymond James. Note: Valuations as of 27 April 2007.

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- **Consistently improving realizations:** The company clocked Rs0.77 mn/MVA in 4Q FY07 compared to Rs0.59 mn/MVA in 4Q FY06. The realizations have been consistently improving during the last four quarters on account of high demand of transformers and increased raw material prices of copper and CRGO. These had to be passed on to the customers due to price escalation clause in majority of orders. We expect realizations to stabilize at Rs0.65mn/MVA in FY08-9E.
- **Margins improved by 80 bps QoQ:** ITTL has managed to improve its operating margins by 80 bps QoQ and 1,360 bps in 4Q FY07 due to decreased raw material prices and improvement in efficiency. We expect the company to dock 21.5% and 17.7% EBIDTA margins for FY08E and FY09E respectively. We expect this decrease in EBIDTA margin as more and more revenues of ITTL would come from the northern states like Maharashtra, UP and Rajasthan where competition will be much higher; thus ITTL will not have much of a pricing power.
- **Expansion plans on track:** According to the company's management the expansion plans are well on track and ITTL has started trial runs for the proposed dry type transformer facility from 1 April 2007. The greenfield expansion of 4,000 MVA plant is expected to commence operations in September 2007, which is as scheduled.
- **Healthy order book:** Buoyant demand for transformers has maintained ITTL's order book at a healthy level of Rs1.48 bn (SEBs 84% and industry 16%). This healthy order book gives visibility to the company's earnings going forward.
- **Maintain Buy with a revised price target of Rs397:** We have revised our estimates upwards for FY08E and are introducing our FY09 estimates for the company. We expect ITTL's revenues to grow at CAGR of 51% in FY07-FY09E on the back of commissioning of ongoing capex. We expect operating margins to be lower at 21.2% for FY08E and 17.7% in FY09E.

At current price of Rs313, the stock is trading 10.9x FY08E earnings and 8.7x FY09E earnings, with an EV/EBIDTA of 6.5x for FY08E and 5.0x for FY09E. We maintain our Buy rating and upgrade our 1-year price target to Rs397 (11x FY09E earnings) from Rs371 an upside of 27%.

Exhibit 2: Quarterly results

(Rs mn)

Y/E March	4Q FY07	4Q FY06	% chg YoY	3QFY07	% chg QoQ
Net Sales	567	315	80.2	450	25.9
Expenditure	414	272	52.0	332	24.6
EBITDA	154	43	260.5	119	29.6
EBITDA (%)	27.1	13.5	1360bps	26.3%	80bps
Other income	8	19	58.0	7	14.5
Depreciation	4	2	88.4	3	39.3
EBIT	158	59	165.7	123	28.5
Interest	1	3	(70.7)	2	(60.9)
PBT	157	56	178.6	120	30.2
Tax	54	17	225.5	48	13.2
Tax rate (%)	34.4	29.4	500 bps	39.5%	(510) bps
PAT	103	40	159.1	73	41.3

Source: Company data, ASK Raymond James.

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