



Electrotherm India Ltd

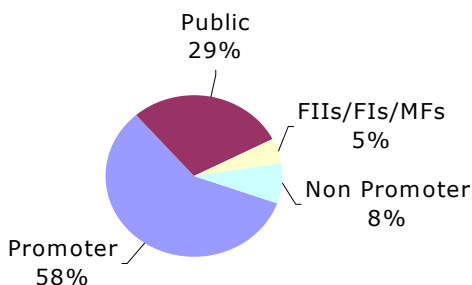
... from steel to wheels

Analyst:
Rohit Gala 91+98197 40163
rohit.gala@nichebrokerage.com

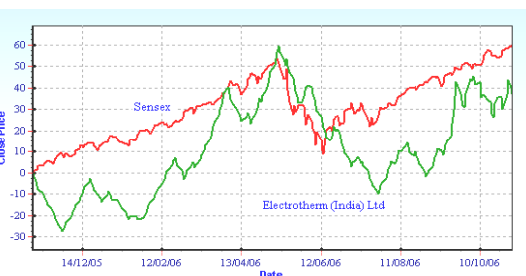
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Electrotherm (India)LtdCMP **Rs.305****STOCK DATA**

Sensex	13130
Nifty	3805
Bse Code	526608
Nse Code	ELECTHERM
Bloomberg Code	EI@IN
Reuters Code	-
Equity Cap	4.77cr
Mkt Cap	145cr
52 wk Hi / Low	Rs.360/157
Avg Daily Vol(Wkly)	36998
Face Value	Rs 10.00

SHARE HOLDING PATTERN**Stock Performance (%)**

	3Mths	6Mths	1Year
Absolute	39	-2	41
Relative	19	-9	-20

Price Movements Vs Sensex**Snapshot**

Electrotherm India Ltd (EIL), is an Ahmedabad based 21 yrs-old company, having its business diversified into six business segment viz:- 1) Engineering, Capital Equipments and Projects 2) Construction Steel / TMT Steel 3) Stainless Steel 4) Structural & Alloys Steel Bar 5) Ductile Iron (DI) Pipe 6) Electrical & Hybrid Vehicle Division (YoBykes).

Investment Rationale**Excellent all round performance to drive growth**

EIL continues to deliver strong operational performance in Q2'FY07 with nearly 105% jump in Topline and nearly 35% jump in bottom-line on YoY basis contributed by the commencement of value added higher margins final products like TMT bars, wire rods, Ductile Iron pipe units in the steel division supplemented with exponential volume growth in Induction furnace on the back of strong steel cycle and equally complemented by Electric Vehicle division (YoBykes) on the bottom-line.

Leveraging expertise to manufacture Steel and DI Pipes

EIL is leveraging its engineering know-how particularly in the production and installation of induction furnaces by backward integration and setting up steel plant to manufacture steel from sponge iron & scrap and vertically integrating to manufacture Stainless Steel, DI Pipes, TMT bars and Wire rods.

Substantial Savings on account fiscal incentive in Kutch

EIL has started commercial production of Billets in April'05 and TMT bars in Decemeber'05. EIL is therefore eligible for Refund of Excise Duty paid on finished products for a period of 5 yrs in addition to that is also eligible for Sales Tax exemption to the extent of 100% of the eligible investments (fixed assets) for a period of 10 years which would lead to an average annual savings of Rs 60 cr during FY07-09.

Financial Snapshot

Particulars	FY05(A)	FY06(A)	FY07(E)	FY08(E)
Net Sales	183.77	344.72	613.00	1225.00
PBIDT	14.98	43.60	105.50	197.50
PBIDT(%)	8.15	12.65	17.21	16.12
PAT	13.50	18.79	44.50	96.50
PAT(%)	7.35	5.45	7.26	7.88
EPS (Rs.)	12.16	16.93	40.09	86.94
ROCE(%)	14.25	14.99	18.26	23.51
ROE(%)	62.25	59.29	54.59	27.03
P/Ex	25.08	18.02	7.61	3.51
EV/EBIDTAx	27.95	12.19	5.50	3.51

* Diluted Equity of Rs 11.10 cr is taken into consideration

Significant savings by lowering power cost The installation of 30 MW Waste Heat Power Plant at Kutch by June'07 would lead to substantial savings in power cost. Power, which currently cost around Rs 4.70 a unit, would be brought down to Rs 2.25 unit translating into an annual average savings of Rs 60 cr by FY08.

YoBykes – New revenue segment set to Scale up Indus Electrans a division of EIL had launched electric bikes running on rechargeable batteries (under brand name YoBykes) in 22 towns in Gujarat in Feb'06. After the initial overwhelming response, EIL is all set to record a sale of around 40000-50000 units in FY07 & around 150000 units in FY08 across India with the help of nearly 200 dealers network and around 100 "YOWORLD" exclusive showrooms.

Vertical Integration EIL has vertically integrated from hot metals to final products. The hot metal will be manufactured using sponge iron and scrap in its induction furnace and has started to manufacture value added products like MS Billets, SS Billets and Alloy Steel Billets, which in turn, will be utilized for TMT, SS Bars, Alloy Steel respectively. For DI pipes, the hot metal will be processed in a caster, which in turn would produce DI pipes. This vertical integration would lead to substantial savings in overall production costs & higher realisation for EIL on account of sale of finished products. The commissioning of 30MW power plant will further lower cost of production.

Strategic location Advantage The Kutch plant has a strategic location advantage with proximity to Kandla and Mudra port. Scrap and Coal being the major raw-material required for manufacturing of steel, are imported through these ports and hence imports of these raw material are less time consuming and comparatively cheaper due to saving on freight cost. Also, Lignite- raw material required for generation of power, is available in abundance in Kutch, which will help to reduce the power cost.

Outlook & Valuations EIL earnings are expected to grow by 65% CAGR for the next 3 years driven largely by the increase in volumes of higher value added products on the back of aggressive expansion across all the business segments and substantial savings on account of captive power plant & fiscal incentives in the form of sales tax incentives & excise refund. Despite an expanded equity, EIL is likely to deliver an ROE of about 38% CAGR over the next 3 years.

At CMP of Rs 305, EIL trades at a PER of 6x FY07E and 2.92x FY08E. In terms of EV/ EBITDA it trades at a multiple of 5.80x FY07E and 3.57x FY08E. Based on our DCF Valuation method, we maintain a "BUY" with target of Rs 464 in a year's time.

Background

Founded in 1985, Electrotherm India Limited (EIL) is essentially an engineering company with diversified business interests. Its prime objective is to leverage its engineering know-how to integrate and capitalize on related business and innovative products. Although, it has a dominant presence in manufacturing induction furnaces for steel & foundry industries (market share of about 50%), it has diversified into areas such as Steel, DI pipes and Electrical Vehicles.

International Partnerships

In addition, EIL is focusing on executing several turnkey projects in Middle East, Africa, Russia and other countries, in steel and foundry segment. EIL has its foreign collaboration with HYL Technologies, Mexico, which is now a part of Techint Technologies, Milan, Italy, helps it to leverage its expertise in project engineering, project design and project implementation capabilities in export markets and has recently bagged prestigious order of US Dollar 30 million in Middle East. EIL is also in the process of establishing a Wholly Owned Subsidiary in China to manufacture Induction Furnace & related equipments for which land has been allotted at Beichen Hi Tech Industrial Park, Tianjin, China to set up an engineering unit in the industrial park.

Promoters

EIL is promoted by Mr. Mukesh Bhandari (Chairman and Managing Director), is a first generation entrepreneur who has set up his venture in 1983 to produce furnaces for making steel along with Mr Shailesh Bhandari Promoter Director, who is a science graduate with degree in Economies, looks after the areas of Finance, Project Execution, Marketing and International Business. Mr Avinash Bhandari (Director- Operations), a Electronic engineer, MS. MBA-Finance from USA, is an expert in Quality Systems, integrates finance with manufacturing at EIL.

The team is further complemented by Mr Naveen Nakra (Director-Projects) BE Mechanical, MBA and has over 30 yrs experience in setting up and operating steel plants. BK Vaishya, formerly in BHEL has joined EIL early FY05 is heading the Electric and hybrid Vehicles division. Mr BK Vaishya was the first to launch electric bus in Bhopal in FY'02.

From Steel to Wheels, Electrotherm has made a smooth transition. EIL has played a role of leader, follower, inventors and adopters of technology over the years. EIL believes in innovation, which leads the way for future adaptation and evolution. From metallurgical solution provider to custom oriented 'YoBykes' manufacturer is a step forward. EIL has aggressively ventured into new segment of electric vehicles & hybrid electric vehicles and is all set to take the "First Mover Advantage"

Capex Plans

EIL is leveraging its electronic and engineering know-how to set up and expand into steel business and electric vehicles. The capital expenditure had 2 phases with a total outlay of Rs 536 Crores.

The Phase I of the capital expenditure of Rs 125 crore has already been completed in FY06. EIL is in the process of implementing the Phase II of expansion of its steel business at Kutch with a capital outlay of Rs 410 cr of which already Rs 197 cr have been spent. The total expansion of its steel is expected to be completed by March'07 and whereas the captive power plant of 30MW is expected to be commissioned by June'07.

Capital Raising

The Capex plans have been financed by both Equity and Debt component. EIL has taken around Rs 270 cr Long term Debt and raised around Rs 12 cr through the issue of 6% Redeemable Preference shares & Rs 43.50 cr through the issue of 30,00,000 warrants @ Rs 145 per share in September '05. EIL now plans to raise around Rs 100 cr through QIP route or Foreign Currency Convertible Bonds (FCCBs) / Global Depository Receipts (GDRs) / American Depository Receipts (ADRs) or other securities convertible into equity shares and the balance capex would be met by internal accruals of approximately Rs 110 cr.

Sectoral Allocation of Capital Expenditure

Sectoral Allocation	(Rs in Cr)	
	Estimated Cost	Already Incurred
Captive Sponge Iron	60	60
Captive Power Plant	95	10
Billets / TMT	70	70
Stainless Steel Bars	50	38
Alloy / Structural	70	54
DI Pipes	50	40
Electric Vehicles	60	30
Others	81	20
Total	536	322

Source: Company

Industry Overview

Steel Production in India to reach 110 mn tonnes by 2020

The global and domestic demand for steel remains robust. After having grown by 4% in FY2006, global demand is expected to grow at CAGR of 6.5% during FY2006-08. China will continue to be a driving force accounting for 32% of the world consumption. Chinese steel consumption grew by 17% in Calendar year 2006 and expected to grow at 12-13% over the next 2 years.

Demand for furnaces to remain firm

Although India is the 8th largest consumer of steel globally, its per capita consumption is low at 30kg compared to the world average of 150kg. With strong growth momentum in infrastructure, automotive and housing sectors, we expect demand to reach nearly 90 million tonnes by 2020.

In India, Steel production through the Blast Furnace (BF) route account for 60% whereas 40% of the production is through sponge iron (SI), Electric Arc Furnace (EAF) and Induction Furnace (IF) routes. We believe about 11-12 mn tonnes of steel will be produced through the IF route over the next 2 decades. We therefore expect strong growth in demand for induction furnaces in India. On the other hand, there is huge opportunity in the replacement market, as all the existing players have to replace their IF once in 8-10 years.

India is very lucky to have coal reserves of 200 billion tonnes, fourth largest in the world. The main use of such coal will be to generate electricity. Once electricity is available in plenty and at a reasonable cost and rechargeable batteries improve in performance, the best choice will be to switch over to battery operated vehicles. Such vehicles can be charged conveniently by electricity produced from our abundant coal reserves. Transporting electricity over long distances is much more economical and convenient as compared to transporting liquid fuel.

Electric Vehicles industry is large and prosperous with USD 31 bn sales globally in 2005. It is growing strongly and by 2015, Electronic Vehicles market is expected to be 7.3 times the value in 2005. In the last 5 years the demand for electric vehicles in China has witnessed an average growth of more than 73% CAGR. In addition, battery-run two-wheelers are quite popular in Japan and Korea.

EIL has carried out a detail market survey for its Electrical Bykes segment through Mudra Advertising agency, which says that the demand for Electric Vehicles in India will reach to nearly 5.66 lacs by FY2008 and around 32.10 lacs by FY2010.

Business Segment – Diversification

1. Engineering, Capital Equipments and Projects

EIL is one of the dominant players in the Induction furnace business with nearly 50% of market share. EIL is successfully competing with ABB, GEC and Inductotherm largely due to its ability to provide sophisticated technologies & offering customized metallurgical solutions to the steel and forging business.

EIL manufactures a wide variety of furnaces ranging from 2 to 30 tonnes. The main products of the company are Induction furnace, Induction Heating and Hardening Equipments, DC Plasma Ladle Refining furnaces, DC Arc furnaces, Submerged Arc furnaces, Metal Refining Converters for stainless steel making, Gas based units and other engineering applications. EIL also delivers customized products to its customers based on specific requirements.

Exports a key growth driver

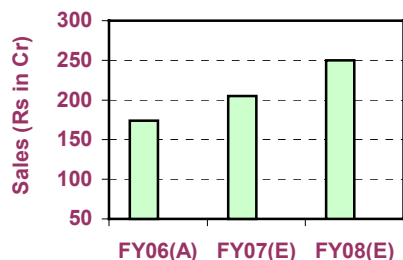
EIL's thrust on exports is ensuring a steady growth in the engineering division and till H1FY07, EIL has exported Rs 23.97 cr worth of equipments as against Rs 9.10 cr in the corresponding period last year. EIL sees huge opportunity in the Middle East, South Africa and CIS regions. EIL exports sales were 15% of the total volumes in FY06 and expect to grow by 43% CAGR for next 3 years and account for nearly 33% of total sales by FY09.

Project Engineering - Emerging Revenue segment

EIL provides customized metallurgical turnkey solutions in setting up of iron & steel making industries, captive power generation, iron ore benefaction and agglomeration. Recently EIL has tied up with HYL Technologies, Mexico which is now a part of Techint Technologies, Milan, Italy, which helps it to leverage its expertise in project engineering, project design and project implementation capabilities in export markets.

EIL has recently bagged prestigious order of US Dollar 30 million in Abu Dhabi for setting up a gas based DRI plant with 0.25 mn ton capacity where in EIL has 60% share in the project and HYL Technologies has remaining 40% share. EIL is expected to realize 50% of the revenues during FY07 and the remaining 50% in FY08. Going forward, EIL expects to get such projects similar in the range of US\$30mn each year for the next 5 years.

■ Engg, Cap Equip & Projects



Latest Addition to EIL's Product Portfolio

CONTIFUR (Continuous Induction Furnace)

EIL has in-house R&D department, which regularly develops new products and technology, which can help to reduce the cost of manufacturing. EIL has developed a pioneering technology for manufacturing steel called CONTIFUR (Continuous Induction Furnace), which acts as a mini blast furnace.

Contifur is an induction furnace, which uses sponge iron, iron ore fines and coal as feedstock to manufacture steel. The cost of production by this method is much lower than the conventional blast furnace and is extremely efficient too. With this technology, the steel produced in smaller plants will be as competitive as that produced by larger integrated steel plants. Contifur is a more efficient furnace as the electrical efficiency is more than 85% and the operating costs are nearly Rs 2000 per ton lower.

EIL has installed contifur of 75000 TPA in its Kutch plant, which uses the iron ore fines / sponge iron as feed and consumes less power to produce steel. Though, EIL is facing some triggering problems with the new technology, which has led to temporarily shutdown of its furnace to change its refractory, is believed to be stabilized by Dec'06. No doubt the use of Contifur would really lead to more operating efficiency and higher margins realization for EIL's Steel division but the real potential lies in the commercialization of Contifur to its client, which would lead to EIL's furnace division to a very high growth trajectory.

DC Plasma Ladle Refining Furnace

EIL's R&D has successfully developed DC Plasma Ladle Refining Furnace. Earlier in India, for the secondary refining, only AC Ladle Refining furnaces were available, which were useful for steel plant of the size of 30 tons & above and having grid electricity. With the R&D of several years, EIL has developed DC Plasma Ladle Refining Furnaces which are useful for smaller steel plant of 15-20 ton furnaces having captive power plants. The DC Plasma Ladle Refining Furnaces can permit production of quality steel and high value items. The operating cost of DC Plasma Ladle Refining Furnace is much lower than conventional AC LRF, which is an added benefit.

2. Construction Steel / TMT

With an aim to leverage its technological expertise and to integrate backward, EIL has set up a fully integrated steel plant at Samakhiali, Kutch in FY06. EIL steel division is broadly divided into Construction Steel / TMT Steel and Stainless Steel.

EIL has set up a rolling mill of 120000 TPA capacity to produce TMT bars and wire rods at Kutch. EIL has started selling the TMT bars under its brand name 'Electro TMT plus' and the rising demand from construction and infrastructural activities coupled with the existence of few players fetches premium value of around Rs 24000-25000 per tonne which is nearly Rs 1000-2000 higher than the prices prevailing in the other parts of the country. Going forward, we expect TMT volumes to increase by 20-22% during FY07-09. The billets produced from FY07 will now primarily be for captive consumption for its rolling mills.

TMT	FY06	FY07E	FY08E	FY09E
Capacities (MT)	75,000	150,000	190,000	190,000
Sales/ Production Volume(MT)	11,996	118,000	159,000	189,000
Realisation (Rs /Tonne)	24,690	24,000	23,000	22,500

Source:Company / Niche Research

3. Stainless Steel

Over the years, EIL by virtue of selling capital equipments & engineering know-how to all the major steel manufacturers, has now taken a step forward by setting up a most modern plant for the production of stainless steel and intends to cater to sophisticated stainless steel customers, both in India and abroad. EIL is expecting to gain substantially from the growth in demand from construction and household utensils segments and targets to increase 4 times its current sales by FY07-09.

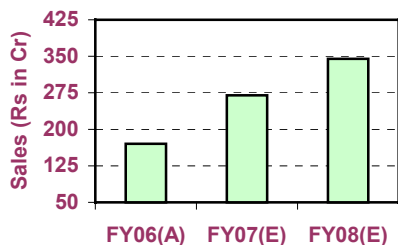
SS Bars	FY06	FY07E	FY08E	FY09E
Capacities (MT)	2,000	5,700	34,200	82,000
Sales/ Production Volume(MT)	1,013	3,195	20,000	42,750
Realisation (Rs /Tonne)	85,870	84,000	83,000	81,500

Source:Company / Niche Research

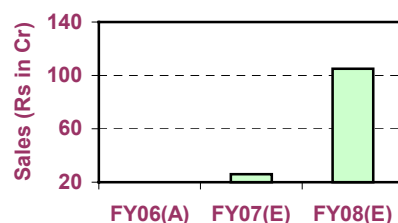
Strong growth in domestic demand for stainless steel

The demand for stainless steel (SS) products is expected to rise by around 5% in 2006. India with an apparent consumption of 1.2mn ton is the 7th largest consumer of stainless steel. India's per capita consumption stood at about 1.1kg as against China 4.1 kg and developed countries stood (15-20kgs). With increased emphasis on infrastructure development, we expect Architecture, Building & Construction (ABC) and Automotive Railway & Transport (ART) to be the key drivers. Recently, we have seen substantial use of Stainless steel in projects like Delhi Metro Rail and going forward would be the case for Mumbai and Bangalore metro.

Construction / TMT

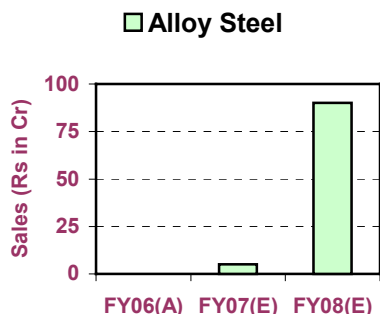


SS Bars



4. Structural's and Alloy Steel Bar

EIL is installing a versatile Rolling mill for production of Alloy steel Bars and structural. It will cater to the growing markets of structural steel used in transmission line towers, engineering projects and infrastructure projects. It will also produce special steels and alloy steels meant for engineering industry and auto sector, both in India and abroad. EIL has already installed a modern melting shop consisting of Ladle Refining Furnace (LRF), Vacuum Degassing facilities and Continuous Casting with Electro Magnetic Stirring. With huge growth potential in this segment, EIL is to seize on this opportunity.

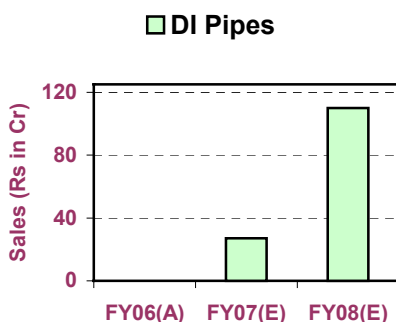


Structure / Alloy Steel Bars	FY06	FY07E	FY08E	FY09E
Capacities (MT)	2,000	5,700	34,200	82,000
Sales/ Production Volume(MT)	85	1,200	20,000	42,750
Realisation (Rs /Tonne)	40,650	40,650	40,000	39,000

Source:Company / Niche Research

5. Ductile Iron Pipes (DI Pipes)

Ductile Iron is one of the most commonly used pipe material in modern society. It is preferred over cast iron pipes, concrete pipes and HDPE Pipes due to its superior properties and hygienic qualities. Today Ductile iron pipe is used worldwide for transportation of raw and potable water, sewerage, gas, slurries, transmission of domestic and industrial effluents, fire-fighting systems- on shore and offshore and process chemical. DI pipes perform the function of transporting liquid object at long distances at high pressure. The main advantages it superior strength, machinability, corrosion resistance, toughness and ductility. There is a huge demand for such pipes in the country on account of growth of cities and infrastructure. We expect DI Pipes demand to grow at about 10% CAGR over the next 5 years.



Ductile Iron Pipes (DI Pipes)	FY06	FY07E	FY08E	FY09E
Capacities (MT)	0	30,000	50,100	100,000
Sales/ Production Volume(MT)	5	8,300	25,000	60,000
Realisation (Rs /Tonne)	33,000	33,000	32,750	32,000

Source:Company / Niche Research

6. Electric and Hybrid Vehicles

After R&D effort of more than 3 years, EIL has developed and launched electrical bykes under the Brand name "YoBykes" in Gujarat in February 2006 which runs on rechargeable batteries.

EIL has set up a modern assembly line for YoBykes at Kutch. Presently, EIL is sourcing components & batteries from more than 50 vendors in Taiwan, Germany, Japan & China and assembling them. EIL plans to manufacture most of the Yobykes components like frames, electronic controller and other electronic parts indigenously in-house at its Kutch plant to have control on its Inventory and maintain quality of its products.

Electric Vehicles - Strong Demand Globally

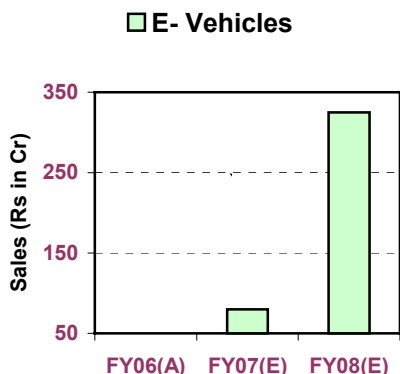
Rising oil prices, environmental issues and development of sophisticated technology has led to substantial growth in electric vehicles. Electric Vehicles industry is large and prosperous with USD 31 bn sales globally in 2005. It is growing strongly and by 2015, Electronic Vehicles market is expected to be 7.3 times the value in 2005. In the last 5 years the demand for electric vehicles in China has witnessed an average growth of more than 73% CAGR. In addition, battery-run two-wheelers are quite popular in Japan and Korea.

EIL has carried out a detail market survey for its Electrical Bykes segment through Mudra Advertising agency, which says that the demand for YoBykes will reach to nearly 5.66 lacs by FY2008 and around 32.10 lacs by FY2010.

Pan India launch of 'YoBykes'

'Indus Elec-trans' a separate division of EIL through which EIL has forayed into the electronic bykes segment has launched its electrical bykes in 22 towns in Gujarat on 9th February 2006 by Chief Minister of Gujarat, Mr Narendra Modi under its brand name 'YoBykes' which runs on rechargeable batteries.

EIL currently has launched 7 models of YoBykes namely "Yo Smart", "Yo Trend", "Yo Teen", "Yo Trust", "Yo Tuff", "Yo Spin" and "Yo Spike" each packed with a variety of design features and in an assortment of colours. EIL has already appointed around 90 dealers across states of Madhya Pradesh, Rajasthan, Chattisgarh, Bihar and most recently into the Metros like Mumbai & Delhi. After the initial overwhelming response with sales of 16000 bykes in Gujarat in first 8 moths, EIL is now targeting a sales of close to around 40,000-50,000 units by FY07E & around 1,50,000 units in FY08E across India with the help of nearly 200 dealers network and around 100 "YOWORLD" exclusive showrooms.



Creating Brand Image and Aggressive Marketing

EIL is aggressively campaigning and promoting its Brand 'YoBykes'. EIL campaigns through the print media, hoardings, bus shelters by setting ads like "Two-wheeler nahi akal chalao". The idea is to position 'Yo Bykes' as a smart choice that saves money-that one would spend on petrol by driving a "No Petrol" Byke.

The target market group are the school- college going students especially girls, working women & housewife and earning male. Advertising through radio show as "Hello Ahmedabad", radio jockey 'Astrology of the day' where in radio jockey would end a tip to "Akal Chlao and paise bachao" thereby establishing the connection between Yo Byke and saving money has got a very good response. We believe that with aggressive advertising budget and good network of 200 dealers across India, YoBykes is all set to create a brand image for itself and will be a major revenue contributor to EIL's total revenue pie.

'Yo Bykes' Vs Conventional Bykes - Advantages

EIL Yobykes are non-polluting, noiseless and eco-friendly bykes with best cost efficiency. EIL Yobykes does not require any RTO permission or license plates as it is placed under 25cc category

Operational Cost EIL Yobykes require only charging of its batteries: i.e 1 unit of electricity charging cost Rs 4 which can run Yobykes for around 50-70 kms and cost around Rs 0.08 per/km. The Yobykes batteries have a standard life of about 20000-25000 km with replacement cost of Rs 2500 to Rs 3000 depending on the model, translating into a cost of around Rs 0.12 per/ km. Thus, the total operational cost of Yobykes varies between Rs 0.20 per/km to Rs 0.33 per/Km as against Rs 0.70 - Rs 1.00 per km for similar petrol driven vehicles.

Maintenance Cost There is as such no maintenance required in electric bykes and the cost of maintenance is practically negligible. Whereas in Petrol driven vehicle it could cost around Rs 0.20 per/km to Rs 0.45 per/km depending on the maintenance, servicing, oiling, etc.

Cost Comparision

	Conventional Bykes (paise per/km)	YoBykes (paise per/km)
Operational Cost	0.70	0.2
Maintaince Cost	0.20	-
Total Cost	0.90	0.20

Source:company Niche Research

New Product Innovations

Electrotherm has also developed a battery-powered three-wheeler autorickshaw in collaboration with the National Institute of Design. EIL plans to launch the three-wheeler into the markets by the end of FY 2006.

EIL is also working on a prototype of hybrid engine bus, which will run jointly on battery along with diesel or CNG. EIL 's hybrid bus would be 15-seater bus with a low floor, one step board, which would be convenient especially for children, women and senior citizens,

EIL is also working on prototype of 100 seater hybrid bus being developed as a city transport vehicle and would be 30-40 per cent economical than the conventional bus. These hybrid buses will also comply with the Euro IV standards and would be very environment friendly. However, the prototype has already been submitted to ARAI (Automotive Research Association of India) for testing and approvals, which would take around 3 to 4 months. However, we believe that if EIL gets approval for the same, the launch of the hybrid bus would take one to one & half year from now. Hence, we are not factoring any revenue from the Hybrid bus into our FY08E projections.

YoBykes Technical Specifications

Specifications	Yo Tuff	Yo Trend	Yo Teen	Yo Trust	Yo Smart	Yo Spin	Yo Spike
Overall Dimen (L* W * H) mn	1840*595*1065	1750*638*1140	1795*635*1080	1900*635*1050	1900*615*1150	1670*650*1070	1710*635*1048
Wheel Size	26"	22"	22"	24"	16"*2.5"	16"*2.12'	16"*3.0"
Gross Pay Load	75 kgs	75 kgs	75 kgs	75 kgs	75 kgs	75 kgs	75 kgs
Motor Power	<200W	<200W	<200W	<200W	<250W	<250W	<250W
Motor	DC Motor DC Motor Permannent Magnet Brushless DC Motor						
Battery	Maintenance Free VRLA Deep Discharge (DD), 12 AH DD, 12AH *2 D D, 20AH D D, 12AH D D, 12AH						
Lamp Voltage	36V	36V	36V	36V	12V	12V	12V
Max. Speed	<25 km / hr	<25 km / hr	<25 km / hr	<25 km / hr	<25 km / hr	<25 km / hr	<25 km / hr
Charg.Duration	6-8 hrs	6-8 hrs	6-8 hrs	6-8 hrs	6-8 hrs	6-8 hrs	6-8 hrs
Range* / Charge (Mileage)	40 - 45 kms	40 - 45 kms	40 - 45 kms	40 - 45 kms	60 kms	50 kms	50 kms
MRP (Rs)	14,000	15,850	16,500	17,500	23,500	20,800	21,500

Financial Performance

P&L(Rs. In Crs)	Q2			Q1		H'Yearly			12Mths
Statement	FY07	FY06	YoY%	FY07	QoQ%	FY07	FY06	YoY%	FY07 (P)
Net Sales	139.1	67.7	105.5%	91.2	52.6%	230.3	123.4	86.5%	613.0
Total Exp	116.4	58.6	98.6%	77.7	49.9%	194.0	108.7	78.6%	507.5
PBIDTA	22.7	9.1	149.7%	13.5	68.2%	36.2	14.8	145.0%	105.5
EBIDTA (%)	16.3%	13.4%	-	14.8%	-	15.7%	12.0%	-	17.2%
Interest	7.1	1.8	288.0%	4.7	0.0%	11.9	2.7	336.0%	28.0
PBDT	15.6	7.3	114.6%	8.8	77.2%	24.4	12.1	101.9%	77.5
EBDT (%)	11.2%	10.7%	-	9.6%	-	10.6%	9.8%	-	12.6%
Depreciation	4.3	1.2	247.6%	2.3	87.4%	6.6	2.5	160.9%	13.0
Other Income	0.7	0.6	15.9%	0.5	62.2%	1.2	1.2	-1.7%	2.0
PBT	12.0	6.7	80.5%	6.9	72.9%	18.9	10.7	76.5%	66.5
PBT (%)	8.6%	9.8%	-	7.6%	-	8.2%	8.7%	-	10.8%
Tax	3.8	0.6	573.2%	1.2	0.0%	4.9	0.9	461.4%	22.0
Tax rate	31.4%	8.4%	-	16.9%	-	26.1%	8.2%	-	33.1%
PAT	8.2	6.1	35.1%	5.8	42.6%	14.0	9.8	42.1%	44.5
PAT (%)	5.9%	9.0%	-	6.3%	-	6.1%	8.0%	-	7.3%
Extra Ordinary	0.0	0.0	0.0%	0.0	0.0%	0.0	0.0	0.0%	0
APAT	8.2	6.1	35.1%	5.8	42.6%	14	9.8	42.1%	44.5
EPS	7.4	5.5	35.1%	5.2	42.6%	12.6	8.9	42.1%	40.1

* EPS Calculated after taking into consideration of diluted equity of 11.10 cr

YoY Comparison

For the quarter ended September'06, Net Sales increased by 105% to Rs 139.10 cr in Q2FY07 as compared to Rs 67.70 cr in Q2FY06 driven largely by Engineering Project division & Steel Sales along with Electric Vehicle division while expenditure increased only by 99% YOY basis to Rs 116.40 cr from Rs 58.60 cr which led to expansion of Ebita margins by 290bps to 16.30% from 13.40% on the back of higher margins contribution from value added products and new electric division which was absent last year.

EBDT recorded a jump of 114% on a YoY while EBDT margins were only up by 50bps to 11.20% in Q2FY07 as against 10.70% in Q2FY06 because of higher interest outflow. PAT recorded a jump of 35% on a YOY basis to Rs 8.20 cr from Rs 6.10 cr but the PAT margin have decreased by 210bps to 5.90% in Q2FY07 from 9.0% in Q2FY06 due to higher impact of depreciation and deferred tax provision. However, at the same time its Cash EPS has been very robust.

QoQ Comparison

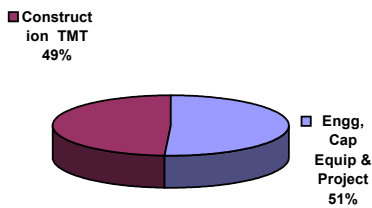
EIL's top line has witnessed a record jump of 52% to Rs 139.10 cr in Q2FY07 as compared to Rs 91.16 cr in Q1FY07, while total expenditure increased by 49% to Rs 77.70 cr from Rs 49.90 cr, which led to margin expansion by 150 bps to 16.30% from 14.80% on a QoQ basis. EIL's operating margins are set to rise on account of higher realisation from value added products like TMT bars, wire rods and Yobykes. PAT jumped by 42% to Rs 8.20 cr from Rs 5.80 cr on the back of increase in topline with the contribution from new steel manufacturing facilities in Kutch and higher sales of Yobykes.

Half Yearly Comparison

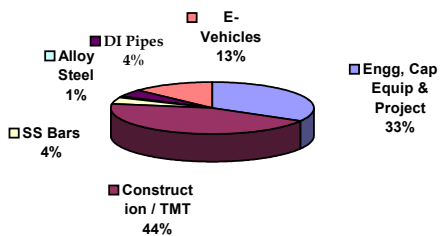
EIL has recorded a jump of 86% on a YoY basis in Net Sales to Rs 230.30 cr in H1FY07 as against Rs 123.40 cr in H1FY06 on the back of commissioning of its steel manufacturing facilities in Kutch and new electric vehicle division (Yobykes). Ebita margins have increased by nearly 380 bps to 15.70% from 11.98% on a YoY basis on the back of higher contribution from higher value added products in Induction furnace divisions and Steel division and EBIDT recorded a jump of 145% to Rs36.23 cr as against Rs14.79 cr were as PAT has jumped by 42% to Rs 14 cr from Rs 9.85 cr on account of higher impact of Interest cost, depreciation and higher deferred tax provision.

Going forward, we believe that EIL is well geared up to capitalize on its 'First Mover Advantage' generate huge revenues from its Electric vehicle division (Yobykes). We believe that going forward should witness strong Sales revenue from its electric vehicle division (Yobykes) on the back of EIL's aggressive marketing strategy to have Pan India presence by rolling out Yobykes in 13 states from current 7 states and aggressively expanding its dealers network to 200 dealers from current 50 dealers and launching exclusive 100 "YOWORLD" showrooms and further complemented by Induction furnace division and Steel manufacturing unit at Kutch.

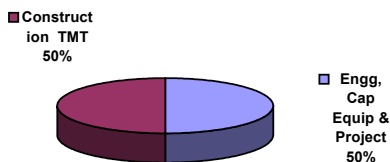
Sales Breakup -FY06(A)



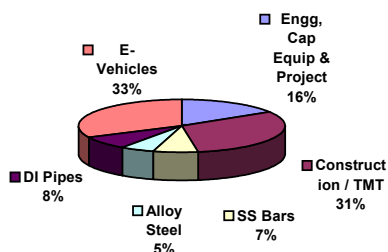
Sales Breakup -FY08(E)



EBITDA Breakup -FY06(A)



EBITDA Breakup -FY08(E)



Segment Wise Break- Up

	(Rs Cr)			
	FY05	FY06	FY07E	FY08E
Eng. Cap Equip. Projects				
Turnover	183	174	205	250
EBITDA	15	22	29	31
EBITDA (%)	8.2%	12.6%	14.0%	12.5%
Construction / TMT				
Turnover		170	270	345
EBITDA		22	54	62
EBITDA (%)		12.9%	19.9%	18.0%
SS Bars				
Turnover			26	105
EBITDA			4	15
EBITDA (%)			15.4%	14.0%
Alloy Steel				
Turnover			5	90
EBITDA			0.63	11
EBITDA (%)			12.6%	12.0%
DI Pipes				
Turnover			27	110
EBITDA			4	15
EBITDA (%)			13.3%	14.0%
E-Vehicles				
Turnover			80	325
EBITDA			15	63
EBITDA (%)			18.7%	19.5%

Source: Company / Niche Research

Risk and Concerns

The key risk, which could de-rail EIL’s growth in the near future

Delay in Operational of New facilities

Any delay or failure on the part of EIL to start operation or ramp up the capacity utilization at its Kutch plant both in Steel segment and Electronic & hybrid vehicles division could adversely impact our projections and potential growth of EIL. However at this juncture as EIL has maintained its track record by starting its facilities in Kutch and ramping up in the coming quarters, we do not see any obstacle for EIL as capex cost has been already been tied- up by Term loans and preferential issue.

Increasing Raw Material Cost

EIL’s operating margins would remain highly sensitive towards rising steel scrap & coal prices, which would directly impact its raw material cost. Any delay or failure to commission its 30 MW Waste Heat Power Plant at Kutch could adversely impact the operating margins. However, we believe the increasing use of sponge iron and locally availability of Lignite to manufacture power should help to reduce operating costs and improve margins considerably.

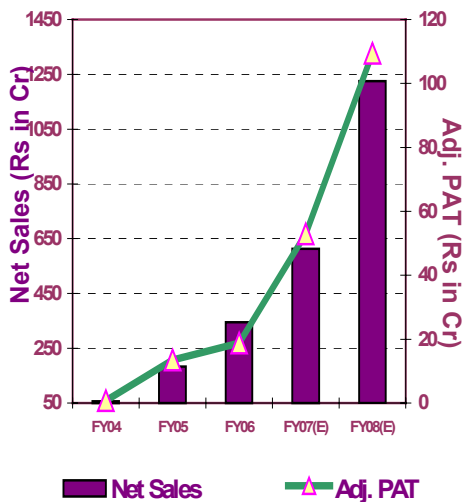
Swot Analysis

<p>Strengths</p> <ul style="list-style-type: none"> * 'First Mover Advantage' with regard to Electronic Vehicles - "YoBykes " * Strong Cliental Relationships with Jindal , OM Metals, in Inducting furnace segment * Locational advantage with a view of proximity to raw material, ports and fiscal incentives * Strong product portfolios in diversified segments * Huge Capacity expansion to meet demand * Fully Integrated Facilities both in Inducting Furnace and Steel * Experienced and Proven Management * Impressive Track Record 	<p>Weakness</p> <ul style="list-style-type: none"> * Diversifying into various products at the same time * YoBykes can carry a maximum load of 75kgs and has a Speed Limit of only 25 km / hour * Currently all component & batteries of YoBykes are imported, hence any short supply or price hike can adversely impact the operating margins
<p>Opportunities</p> <ul style="list-style-type: none"> * Use of Electrical Vehicles (YoBkyes) to drive exponential growth as it is non-polluting, noiseless and eco-friendly byke * Leveraging expertise to manufacture Stainless Steel, TMT, SS Bars & DI Pipes * Launch of Electrical Three - wheeler and Hybrid Bus. * Leveraging expertise in project engineering in export markets with the help its Foreign Collaboration - HYL Technologies, Mexico * Value unlocking through, Listing of Indus- Electrans, a division of EIL manufacturing YoBykes is on cards 	<p>Threats</p> <ul style="list-style-type: none"> * Delay in execution and ramping up of capacity utilisation of new facilities * Large number of domestic players entering the fast growing TMT bars Segment * Increasing prices of Steel scrap & Coal can dampen the operating margins * No entry Barrier as such in Steel and Electric Vehicle segment

DCF BASED VALUATIONS

Outlook & Valuations EIL with its aggressive expansion into diversified segments & moving up the value chain with higher margins, will provided an edge to EIL to leverage its technical Know-now in this competitive and booming market. It will help EIL to boost its revenues in the coming quarters. Thus, EIL will not only be just Inducting furnace provider but become full-fledged solution provider in the engineering services & projects along with fully integrated steel division. The combined strength of EIL & Indus Electrans, a division of EIL into electric & hybrid vehicles thus provides compelling valuations.

For the FY07 end, we expect the EIL to post Total Income of Rs 613 cr and Net Profit of Rs 52.90 cr giving an EPS of Rs 40.09 on the fully diluted equity of Rs 11.10 cr.



Valuations

At the CMP of Rs 305, EIL trades at a PEx of 7.61x and 3.51x for FY07E and FY08E respectively with the EPS of Rs 40.09 and Rs 86.94 for FY07E and FY08E respectively. EIL is currently trading at EV / EBITDA of 5.80x FY07E and 3.57x on FY08E, which is at a steep discount and has enough room for re-rating based on the rich product mix and strong fundamentals.

On the Discounted Cash Flows (DCF), we have valued EIL assuming 12% growth in the second phase from FY2011-2015 and 4% terminal growth rate, factoring risk-free rate of 7.50% and Weight Average Cost of Capital (WACC) of 10.42%.

Based on our DCF Valuation Model, we maintain a "BUY" on EIL, with a target price of Rs 464 in a years time, giving an appreciation of 52%.

Sensitivity Analysis

Terminal growth (%)	WACC (%)					
	10.25%	10.42%	11.00%	11.50%	12.00%	12.50%
2.00%	278	253	176	118	67	21
3.00%	374	344	252	183	122	69
4.00%	502	464	348	265	192	129
5.00%	677	627	478	371	281	204

FINANCIAL SUMMARY

Electrotherm India Ltd

Income Statement (Rs.in Crore.) (YE March)	FY2005	FY2006	FY2007E	FY2008E
Net Sales	183.8	344.7	613.0	1225.0
<i>Growth (%)</i>	220.7	87.6	77.8	99.8
Raw materials	148.0	238.7	405.0	810.0
Power & Fuel exp	1.2	21.2	40.0	62.0
Manufacturing exp	9.3	14.8	18.5	47.0
Employee cost	4.4	9.1	13.5	28.0
Selling & Admin Exp	5.5	16.0	25.0	68.0
Other Expenses	0.4	1.4	5.5	12.5
Total Operating Expenses	168.8	301.1	507.5	1027.5
EBIDTA	15.0	43.6	105.5	197.5
<i>Margins (%)</i>	8.2	12.6	17.2	16.1
Interest	1.6	9.2	28.0	34.0
Depreciation	0.9	7.1	13.0	22.0
Other Income	2.2	1.8	2.0	2.0
PBT	14.7	29.2	66.5	143.5
Tax	1.2	10.4	22.0	47.0
PAT	13.5	18.8	44.5	96.5
<i>Margins (%)</i>	7.3	5.5	7.3	7.9
Extra ordinary Items	0.0	0.0	0.0	0.0
EO Adj. PAT	13.5	18.8	44.5	96.5
<i>Margins (%)</i>	7.4	5.5	7.3	7.9
EPS	12.2	16.9	40.1	86.9
FV	10.0	10.0	10.0	10.0

Balance Sheet (Rs. In Crore. YE March)	FY2005	FY2006	FY2007E	FY2008E
Equity Capital	8.3	16.8	23.1	23.1
Reserves and Surplus	17.0	26.9	182.2	345.9
Shareholders funds	25.3	43.7	205.3	369.0
Secured Loans	55.6	182.8	271.0	330.0
Unsecured Loans	33.4	31.3	43.0	58.0
Total Loans	89.0	214.1	314.0	388.0
Deferred Tax Liability	0.0	14.3	23.0	38.0
Capital Employed	114.3	272.1	542.3	795.0
Gross Block	78.4	166.6	310.0	545.0
Less: Depreciation	6.9	13.9	26.9	48.9
Net Block	71.5	152.7	283.1	496.1
CWIP	0.0	36.3	43.0	16.0
Investments	0.0	0.1	10.0	5.0
Inventory	41.8	75.0	135.0	280.0
Receivables	21.3	62.2	145.0	295.0
Cash and Bank	8.8	21.0	72.6	34.0
Loans and Advances	13.9	24.4	35.0	45.0
Current Assets	85.8	182.6	387.6	654.0
Payables	40.8	95.8	177.0	365.0
Other Liabilities and Prov.	2.3	5.5	6.1	13.0
Current Liabilities	43.1	101.3	183.1	378.0
Net Current Assets	42.8	81.3	204.5	276.0
Misc. Expenses not w/o	0.0	1.6	1.7	1.9
Capital Deployed	114.3	272.1	542.3	795.0

Total Diluted Equity shares 1.10 cr

30 lacs shares warrant issued at Rs 145 on Sept'05

* Assumed further equity dilution of 33.30 lacs shares through QIP route

Issued 6% Preference Share capital of Rs 12 cr

Ratio Analysis	FY2005	FY2006	FY2007E	FY2008E
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Cost Analysis	FY2005	FY2006	FY2007E	FY2008E
Raw Material/Sales	80.5%	69.2%	66.1%	66.1%
Power and Fuel/Sales	0.7%	6.1%	6.5%	5.1%
Staff Cost/Sales	2.4%	2.6%	2.2%	2.3%
Manufacturing cost/Sales	5.0%	4.3%	3.0%	3.8%

Return Ratios (%)	FY2005	FY2006	FY2007E	FY2008E
EBIDTA	8.2	12.6	17.2	16.1
PBT	8.0	8.5	10.8	11.7
PAT	7.3	5.5	7.3	7.9
Adj PAT	7.4	5.5	7.3	7.9
RoCE	14.3	15.0	18.3	23.5
RoE	62.2	59.3	54.6	27.0

Growth Ratios (%)	FY2005	FY2006	FY2007E	FY2008E
Net Sales	220.7	87.6	77.8	99.8
EBIDTA	819.0	191.1	142.0	87.2
PAT	1700.0	39.2	136.8	116.9
Adj. PAT	1702.7	39.0	136.8	116.9

Per Share data	FY2005	FY2006	FY2007E	FY2008E
EPS	12.2	16.9	40.1	86.9
EPS Adj	12.2	16.9	40.1	86.9
CEPS	13.0	23.3	51.8	106.8
Cash and Bank/share (Rs.)	7.9	19.0	65.4	30.6
BV	19.6	28.5	174.1	321.6
DPS	0.6	0.9	2.5	2.5

Valuation Ratios (x)	FY2005	FY2006	FY2007E	FY2008E
PE	25.1	18.0	7.6	3.5
CPE	23.5	13.1	5.9	2.9
EV/Market Cap	1.2	1.6	1.7	2.0
EV/Sales	2.3	1.5	0.9	0.6
EV/EBIDTA	28.0	12.2	5.5	3.5
EV/Adj PAT	31.0	28.3	13.0	7.2
CMP/BV	15.6	10.7	1.8	0.9
Dividend Payout (%)	5.3	5.1	5.0	2.3
Dividend Yield (%)	0.2	0.3	0.7	0.7

Turnover Ratios	FY2005	FY2006	FY2007E	FY2008E
Sales/Total Assets (x)	1.61	0.78	0.88	0.65
Sales/Net FA (x)	2.57	2.26	2.17	2.47
RoA- Du Pont Analysis	11.8	6.9	8.2	12.2
Debtors turnover (days)	42	66	86	88
Inventory turnover (days)	83	79	80	83
Payable turnover (days)	81	101	105	109
Work. Cap. Turn (days)	85	86	122	82

Other Key Ratios	FY2005	FY2006	FY2007E	FY2008E
Debt-Equity Ratio	3.5	4.9	1.5	1.1
Debt- Assets Ratio	0.8	0.8	0.6	0.5
Current Ratio (x)	2.0	1.8	2.1	1.7
Quick Ratio (x)	1.0	1.1	1.4	1.0
Interest Cover (x)	10.2	4.2	3.4	5.2

Niche Brokerage Team

Name	E-Mail	Telephone Nos.
Research		
Mr. Priyadarshi Srivastava	priyadarshi.srivastava@nichebrokerage.com	6777 6777 (Ext 114)
Mr. Rohit Gala	rohit.gala@nichebrokerage.com	6777 6777 (Ext 230)
Ms.Binita Patel	binita.patel@nichebrokerage.com	6777 6777 (Ext 227)
Mr.Jignesh Dhabalia	jignesh.dhabalia @nichebrokerage.com	6777 6777 (Ext 231)
Ms Ekta Vyas	ekta.vyas@nichebrokerage.com	6777 6777 (Ext 229)
Mr Imtiyaz Qureshi (Technical)	imtiyaz.qureshi@nichebrokerage.com	6777 6777 (Ext 224)
Mr Pankaj Chhangani	pankaj.chhangani@nichebrokerage.com	6777 6777 (Ext 232)
Mr.Bhadresh Nayee	bhadresh.nayee@nichebrokerage.com	6777 6777 (Ext 228)
Institutional Sales		
Mr.Devang Shah	devang.shah@nichebrokerage.com	6777 6777 (Ext 102)
Mr.Mahavir Mehta	mahavir.mehta@nichebrokerage.com	2854 3744
Mr.Divyesh Parikh	divyesh.parikh@nichebrokerage.com	6777 6777 (Ext 107)
Mr.Hitendra Nayee	hitendra.nayee@nichebrokerage.com	6777 6888 / 6777 (Ext 122/ 111)
Derivatives		
Mr.Sanjay Patel	sanjay.patel@nichebrokerage.com	2870 8407
Mr.Ashish Shah	ashish.shah@nichebrokerage.com	6777 6888 (Ext 123)
Retail Sales		
Ms.Anita Nayee	anita.nayee@nichebrokerage.com	6777 6888 (Ext 126)
Mr.Premal Sharma	premal.sharma@nichebrokerage.com	6777 6888 (Ext 121)
Mr.Pravin Gawde	pravin.gawde@nichebrokerage.com	6777 6888 (Ext 125)

NICHE BROKERAGE PVT. LTD.

11/13, Botawala Building, Office no 4-5, 1st floor, Horniman Circle, Mumbai - 400 001.
Tel : 67776777 Fax : 67776889 Email : research@nichebrokerage.com

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