

November 4, 2008

Rating	Accumulate
Price	Rs195
Target Price	Rs240
Implied Upside	23.1%
Sensex	10,338

(Prices as on November 3, 2008)

Trading Data

Market Cap. (Rs bn)	9.3
Shares o/s (m)	47.8
Free Float	27.8%
3M Avg. Daily Vol ('000)	115.9
3M Avg. Daily Value (Rs m)	32.9

Major Shareholders

Promoters	72.2%
Foreign	1.7%
Domestic Inst.	11.3%
Public & Others	14.8%

Stock Performance

(%)	1M	6M	12M
Absolute	(27.1)	(39.2)	(61.6)
Relative	(9.6)	2.0	(13.3)

Price Performance (RIC: AREV.BO, BB: ATD IN)



Source: Bloomberg

- Results:** Areva T&D India (Areva) reported topline of Rs5.9bn for Q3CY08, a growth of 34% YoY. Other expenses have increased by 83% YoY due to higher fixed cost. The higher fixed cost is a result of additional capacity being added that has resulted in a decrease of 265bps in the EBITDA margin to 16.3%. The company reported PAT of Rs504m, an increase of 5%. PAT was subdued due to increase in interest cost by 742% to Rs93m.
- Capacity expansion on time:** Areva is investing Rs7bn in six new factories at three new greenfield sites at Baroda, Hosur and Padappai for manufacturing transformers, instrument transformers and circuit breakers upto 1200kv, HVDC, rectifiers and distribution transformers, HV GIS and R&D centre (Hosur). These new factories are expected to be commissioned by January 2009.
- Strong order book:** Order intake for the quarter was Rs9.2bn and the order backlog stood at Rs42bn, an increase of 61% YoY. Industry segment led the way for new order intake, with an order worth Rs2.0bn from Bhilai steel plant. Two other large orders were from ISSCO steel plant (Rs873m) and power grid for 400kv substation (Rs530m).
- Valuation:** At the current market price of Rs195, the stock trades at 18.5x CY08E and 13.8x CY09E earnings of Rs10.6 and Rs14.1, respectively. The new capacities are expected to be commissioned by January 2009. Also, Areva is the market leader in the GIS market and its push towards higher KV orders provides scope for further improvement of margins and sustainable growth. Thus we maintain 'Accumulate' rating on the stock with a target price of Rs240, an upside of 23.1%.

Key financials (Y/e Dec)	CY06	CY07	CY08E	CY09E
Revenues (Rs m)	16,058	20,222	27,113	36,960
<i>Growth (%)</i>	<i>84.7</i>	<i>25.9</i>	<i>34.1</i>	<i>36.3</i>
EBITDA (Rs m)	2,098	3,734	4,528	6,098
PAT (Rs m)	1,299	2,168	2,530	3,381
EPS (Rs)	5.4	9.1	10.6	14.1
<i>Growth (%)</i>	<i>5.5</i>	<i>66.9</i>	<i>16.7</i>	<i>33.7</i>
Net DPS (Rs)	1.2	1.8	2.2	2.8

Source: Company Data; PL Research

Profitability & valuation	CY06	CY07	CY08E	CY09E
EBITDA margin (%)	13.1	18.5	16.7	16.5
RoE (%)	59.2	46.5	39.2	38.1
RoCE (%)	61.5	45.9	31.9	26.8
EV / sales (x)	0.5	0.4	0.4	0.4
EV / EBITDA (x)	3.7	2.4	2.5	2.2
PE (x)	36.0	21.5	18.5	13.8
P / BV (x)	12.2	8.5	6.1	4.5
Net dividend yield (%)	0.6	0.9	1.1	1.4

Source: Company Data; PL Research

Apurva Patel
 ApurvaPatel@PLIndia.com
 +91-22-6632 2257



Q3CY08 Result Overview

(Rs m)

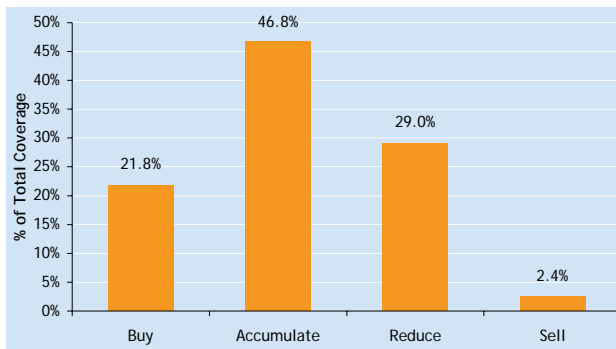
Y/e Dec	Q3CY08	Q3FY07	YoY gr. (%)	Q2CY08	9MCY08	9MCY07	YoY gr. (%)
Net Sales	5,865	4,371	34.2	6,218	17,111	12,777	33.9
Expenditure							
Raw Material	3,619	2,739	32.1	3,634	10,455	8,084	29.3
<i>% of Net Sales</i>	<i>61.7</i>	<i>62.7</i>		<i>58.4</i>	<i>61.1</i>	<i>63.3</i>	
Personnel Cost	546	399	36.9	514	1,542	1,084	42.2
<i>% of Net Sales</i>	<i>9.3</i>	<i>9.1</i>		<i>8.3</i>	<i>9.0</i>	<i>8.5</i>	
Others	747	407	83.5	970	2,268	1,404	61.5
<i>% of Net Sales</i>	<i>12.7</i>	<i>9.3</i>		<i>15.6</i>	<i>13.3</i>	<i>11.0</i>	
Total Expenditure	4,912	3,545	38.6	5,117	14,265	10,573	34.9
EBITDA	953	826	15.3	1,101	2,846	2,204	29.2
<i>Margin (%)</i>	<i>16.3</i>	<i>18.9</i>		<i>17.7</i>	<i>16.6</i>	<i>17.2</i>	
Other income	2	2	(11.1)	17	53	50	7.0
Depreciation	107	63	70.5	96	262	165	59.3
EBIT	847	765	10.7	1,022	2,637	2,089	26.3
Interest	93	11	742.7	40	162	36	344.8
PBT	755	754	0.1	982	2,475	2,053	20.6
Total Taxes	251	274	(8.6)	348	879	723	21.6
<i>ETR (%)</i>	<i>33.2</i>	<i>36.3</i>		<i>35.4</i>	<i>35.5</i>	<i>35.2</i>	
Minority Interest	-	-		-	-		#DIV/0!
PAT	504	480	5.0	634	1,596	1,330	20.1
Extra ordinary	19	-		12	-	6	
PAT after extra ordinary	523	480	9.0	646	1,596	1,324	20.6

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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