

Expensive valuation; maintain Sell

Areva T&D India's 4QCY10 results were in line with expectations. While the 14.4% YoY revenue growth was below expectations, the 140bps expansion in EBITDA margins was better than expectations. Adjusted PAT at ₹881mn increased 36% YoY.

Order inflow for the quarter declined 9% YoY. Note that, order inflow for CY10 at ₹41.9bn was flat. The order book, at the end of CY10, recorded a mere 2% YoY growth. We factor in a 25% YoY order inflow growth in CY11. Despite this, the current valuations at 25x CY12E remains steep (19% earnings CAGR). **Maintain Sell.**

4QCY10 results in line with expectations

Areva T&D India's 4QCY10 results were in line with expectations. While the 14.4% YoY revenue growth was below expectations, the 140 bps expansion in EBITDA margins was better than expectations. The margin expansion was driven by higher sales volumes and better cost controls. Adjusted PAT at ₹881mn increased 36% YoY.

For CY10, revenues grew 12.4% YoY, driven by higher sales volumes. The EBITDA margin at 11% declined 70bps YoY.

Order book flat from CY09 level

Orders from PGCIL have been delayed, while orders from state utilities were flat in CY10. The 765kV projects decided were less than 50% of those decided in CY09. In 1QCY11 so far, ordering activity is still below the trend.

The order book as at the end of CY10 recorded a mere 2% YoY growth. This has resulted in a 21% downward revision in our earnings estimates for CY11. For CY11, we factor in a 25% YoY order inflow growth, based on the possibility of a revival in order inflow from PGCIL and industrial capex.

Steep valuation; maintain Sell

Currently, Areva T&D India trades at 25xCY12E. Note, we expect 19% earnings CAGR during CY10-12E. This is primarily driven by the assumption of a 25% order inflow growth in CY11 and flat margins. We believe that despite these optimistic assumptions, the valuation remains steep at the current level. **Maintain Sell.**

Financial summary

Yr-end December (₹ mn)	CY09A	CY10A	CY11E	CY12E
Net sales	35,832	40,370	42,896	50,966
Net profit	1,966	1,867	1,773	2,623
EPS (Rs)	8.2	7.8	7.4	11.0
RoCE (%)	16.7	13.0	11.7	15.2
RoE (%)	24.1	20.0	16.6	21.6
P/E (x)	32.7	37.0	37.7	25.5
EV/EBITDA (x)	16.9	17.5	16.9	13.0
P/BV (x)	7.4	6.9	5.9	5.1

Source: Alchemymy Research, Company

Maintain

SELL

Sector view: Underweight

Sector relative view: Underperform

TP: ₹220 (-21%)

CMP: ₹280

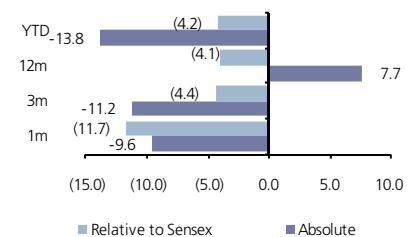
Company data

Shares outstanding	239mn
Market cap	₹67bn/US\$1.49bn
52-wk high/low	₹350/233
Avg. daily traded volume	0.33(mn shrs)

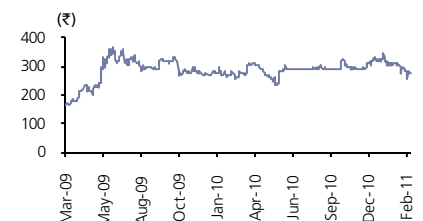
Shareholding pattern (%)

Promoter	FII	DII	Others
72.2	1.2	13.6	13.0

Performance (%)



Share price movement



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Exhibit 1: 4QCY10 results

(₹ mn)	4QCY09	1QCY10	2QCY10	3QCY10	4QCY10
Order inflows	14,180	10,156	10,192	8,550	12,950
YoY change (%)	80	3	31	(18)	(9)
Order book	47,717	49,750	51,112	49,207	48,765
Book-to-bill	1.4	1.4	1.4	1.3	1.2
Sales	11,599	7,768	8,855	10,477	13,272
YoY change (%)	23.6	(8.1)	12.3	41.6	14.4
Total expenditure	10,205	7,346	8,040	9,145	11,488
(Inc.)/dec. in stocks	243	(774)	(432)	(66)	45
Raw material	7,986	6,449	6,379	7,175	9,013
Personnel cost	844	858	869	810	923
Other expense	1,132	813	1,224	1,225	1,507
EBITDA	1,394	423	815	1,332	1,784
YoY change (%)	1.4	(61.1)	(23.9)	109.5	28.0
EBITDA margins (%)	12.0	5.4	9.2	12.7	13.4
YoY change (bps)	(263)	(743)	(439)	412	142
Interest	173	134	103	144	219
Depreciation	242	237	225	245	230
Other income	1	-	-	-	2
PBT before non-recurring items	978	52	487	943	1,335
Non-recurring items	51	-	-	-	-
PBT	1,029	52	487	943	1,335
Tax	348	17	164	313	455
Tax rate (%)	33.8	32.9	33.7	33.2	34.0
PAT	681	35	322	630	881
Adj. PAT	647	35	322	630	881
YoY change (%)	-9.6	-93.9	-38.6	181.0	36.2
Key cost parameters					
RM/sales	70.9	73.1	67.2	67.9	68.2
Staff cost/sales	7.3	11.0	9.8	7.7	7.0
Other exp./sales	9.8	10.5	13.8	11.7	11.4

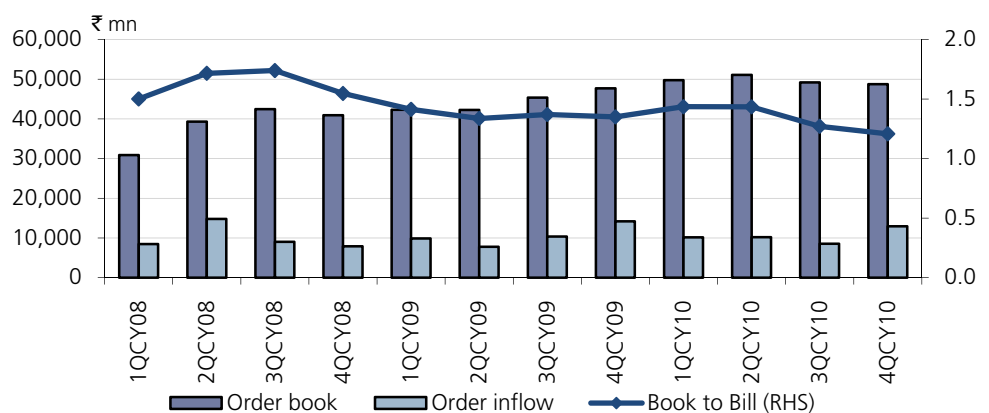
Source: Alchemy Research, Company

Order inflow declined 9% YoY due to delay in order finalization and price erosion

Muted order inflow led to decline in book-to-bill ratio

Improvement in margins due to higher sales volume

Exhibit 2: Order book remains flat



Source: Alchemy Research, Company

The order book, at the end of CY10, remains flat as compared to that in CY09. Hence, we expect a mere 6% revenue growth in CY11.

Financial statements and assumptions

Profit and loss account

Yr-end December (₹ mn)	CY09A	CY10A	CY11E	CY12E
Net sales	35,832	40,370	42,896	50,966
Raw materials	24,925	27,531	29,261	34,767
Employee cost	2,924	3,460	3,806	4,266
Other expenses	3,794	4,971	5,468	6,288
Total expenditure	31,643	35,963	38,536	45,321
EBITDA	4,189	4,407	4,360	5,645
Other income	16	2	10	10
Interest	579	657	698	629
Depreciation	611	936	1,026	1,112
PBT	2,931	2,816	2,646	3,915
Total tax	997	949	873	1,292
PAT	1,921	1,867	1,773	2,623
Less: Adjustments	—	—	—	—
Adjusted PAT	1,966	1,867	1,773	2,623

Key assumptions

Yr-end December	CY09A	CY10A	CY11E	CY12E
Order inflow	42,250	40,196	50,245	57,781
Order book (derived)	47,717	48,765	54,545	59,495
Book-to-bill (derived)	1.3	1.2	1.2	1.1

Balance sheet

Yr-end December (₹ mn)	CY09A	CY10A	CY11E	CY12E
Equity capital	478	478	478	478
Reserves & surplus	8,188	9,552	10,821	12,510
Net worth	8,666	10,030	11,299	12,988
Minority interest	—	—	—	—
Total debt	7,676	8,957	7,957	7,757
Total	16,342	18,987	19,256	20,745
Net block	8,384	8,567	8,641	8,529
Capital WIP	519	400	300	300
Total fixed assets	8,903	8,967	8,941	8,829
Investments	—	—	—	—
Net working capital	6,014	8,878	8,985	10,678
Current assets	28,759	35,583	36,825	42,737
Inventories	3,790	4,808	5,252	6,240
Debtors	20,469	26,541	26,842	31,199
Cash & bank	1,325	1,042	1,230	1,138
Other current assets	3,174	3,192	3,501	4,160
Current liabilities & provisions	21,420	25,663	26,610	30,921
Creditors	7,460	9,653	9,219	10,954
Other liabilities	12,861	14,983	16,223	18,691
Provisions	1,099	1,027	1,167	1,276
Net deferred tax assets	100	100	100	100
Miscellaneous exp.	—	—	—	—
Total	16,342	18,987	19,256	20,745

Source: Alchemy Research, Company

Ratios

Yr-end December	CY09A	CY10A	CY11E	CY12E
Percentage of net sales				
Raw material costs	69.6	68.2	68.2	68.2
Employee costs	8.2	8.6	8.9	8.4
Total expenses	88.3	89.1	89.8	88.9
EBIDTA	11.7	10.9	10.2	11.1
PAT	5.4	4.6	4.1	5.1
Asset-based ratios (%)				
RoCE	16.7	13.0	11.7	15.2
RoE	24.1	20.0	16.6	21.6
Turnover ratios (days)				
Debtor days	170	204	218	199
Inventory days	39	39	43	41
Creditor days	85	113	118	106
Working capital days	63	78	86	79
Growth ratios (%)				
Net sales	35.0	12.7	6.3	18.8
EBITDA	(4.6)	5.2	(1.1)	29.5
EPS	(19.8)	(5.0)	(5.0)	47.9
CEPS	(2.8)	10.7	(0.2)	33.4
Per share (Rs)				
EPS	8.2	7.8	7.4	11.0
CEPS	10.6	11.7	11.7	15.6
BV	36.2	41.9	47.3	54.3
DPS	1.8	1.8	1.8	1.8
Valuations (x)				
P/E	32.7	37.0	37.7	25.5
P/CEPS	25.4	24.6	23.9	17.9
P/BV	7.4	6.9	5.9	5.1
Yield (%)	0.7	0.6	0.6	0.6
EV/EBITDA	16.9	17.5	16.9	13.0
EV/sales	2.0	1.9	1.7	1.4
Solvency ratios				
Current ratio	1.3	1.4	1.4	1.4
Quick ratio	0.1	—	—	—
D/E ratio	0.9	0.9	0.7	0.6
Interest coverage ratio	4.1	3.5	3.2	4.8

Cash flow statement

Yr-end December (₹ mn)	CY09A	CY10A	CY11E	CY12E
PAT	1,921	1,867	1,773	2,623
Add: Depreciation	611	936	1,026	1,112
Add: Interest expense	579	657	698	629
Less: Other income	(16)	(2)	(10)	(10)
Change in working capital	(1,380)	(2,864)	(107)	(1,692)
Others	—	—	—	—
Cash flow from operations	1,715	594	3,379	2,661
Change in fixed assets	(3,044)	(1,000)	(1,000)	(1,000)
Change in investments	—	—	—	—
Other income	16	2	10	10
Others	—	—	—	—
Cash flow from investing activities	(3,028)	(998)	(990)	(990)
Change in debt	2,984	1,281	(1,000)	(200)
Dividend & dividend tax	(504)	(504)	(504)	(934)
Change in equity & share premium	—	—	—	—
Interest paid	(579)	(657)	(698)	(629)
Other adjustments	287	—	—	—
Cash flow from financing activities	2,188	121	(2,201)	(1,763)
Change in cash & cash equivalents	876	(284)	188	(92)
Opening cash & cash equivalents	451	1,325	1,042	1,230
Closing cash & cash equivalents	1,327	1,042	1,230	1,138

Source: Alchemy Research, Company

The ratings are based on the absolute upside of our target price from the current price.

Upside >25%	Strong Buy	Sector relative call		Sector weight
Upside between 15% and 25%	Buy	Outperform	>5% upside to sector benchmark	Overweight
Upside up to 15%	Accumulate	Marketperform	+5% to -5% of sector benchmark	Equal weight
Downside up to 15%	Reduce	Underperform	>5% downside to sector benchmark	Underweight
Downside >15%	Sell			

Sales

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Trade execution

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