

January 21, 2008

Rating	Outperformer
Price	Rs1,332
Target Price	Rs1,693
Implied Upside	27.1%
Sensex	17,605

(Prices as on January 21, 2008)

Trading Data

Market Cap. (Rs bn)	179.2
Shares o/s (m)	13.5
Free Float	54.3%
Avg. Daily Vol ('000)	13.7
Avg. Daily Value (Rs m)	17.8

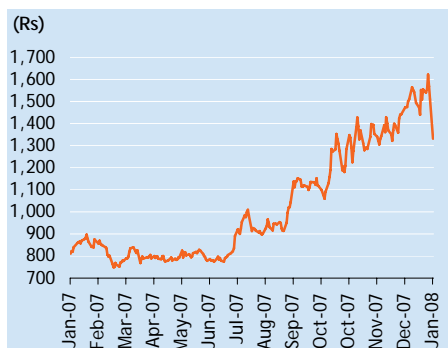
Major Shareholders

Promoters	34.4%
Foreign	9.7%
Domestic Inst.	48.5%
Public & Others	7.4%

Stock Performance

(%)	1M	6M	12M
Absolute	(7.6)	(35.5)	(70.9)
Relative	(0.5)	22.4	46.8

Price Performance (RIC: EMCO.BO, BB: EMCO IN)



Source: Bloomberg

EMCO

Orders continue to flow

- **Robust earnings growth:** EMCO reported topline of Rs2,423m, growth of 49.2% YoY. EBITDA margin was marginally down by 10bps to 13.5%. It reported a PAT growth of 52.6% YoY and 45.9% QoQ to Rs 151m.
- **Robust growth in order book:** EMCO's order book stands at Rs 12bn out of which 61% is towards transformers, 35% towards projects and 4% towards meters. This is an increase of 20% from Q2FY08. The company expects to get orders worth Rs 7bn to Rs 8bn in the next quarter mainly consisting of transmission and substation projects. It also expects to bag its first GIS order during the quarter.
- **Power generation project delayed:** The power generation subsidiary is planning to add 4 x 135Mw (540Mw) instead of 2x 135 (270Mw) as planned earlier. The financial closure for the first 270Mw has already been completed; however there have been some issues with the equipment suppliers which the company is trying to solve. The company has put in application for coal linkage and clearances for the remaining 270Mw. We are valuing only the first 270Mw at Rs 3.2bn, which is 1 x book value.
- **Valuation:** At current market price of Rs 1,331 the stock currently trades at 19.8x FY09E and 13.4x FY10E earnings of Rs 66.6 and Rs 97.0. We value the present business at 15x FY10E earnings and arrive at a value of Rs1486. We maintain Outperformer on the stock with a SOTP target price of Rs 1693, an upside of 27.1%.

Key financials (Y/e March)	FY07	FY08E	FY09E	FY10E
Revenues (Rs m)	6,559	10,165	15,456	21,441
Growth (%)	61.8	55.0	52.0	38.7
EBITDA (Rs m)	866	1,340	2,056	2,876
PAT (Rs m)	406	548	907	1,334
EPS (Rs)	30.2	40.7	66.6	97.0
Growth (%)	60.5	35.0	63.7	45.6
Net DPS (Rs)	2.5	2.5	2.5	2.5

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08E	FY09E	FY10E
EBITDA margin (%)	13.2	13.2	13.3	13.4
RoE (%)	18.8	16.3	21.6	25.3
RoCE (%)	14.6	13.8	16.3	18.5
EV / sales (x)	2.2	1.9	1.3	0.1
EV / EBITDA (x)	16.7	14.6	9.8	1.0
PE (x)	44.1	32.7	19.8	13.4
P / BV (x)	6.0	4.8	3.9	3.0
Net dividend yield (%)	0.2	0.2	0.2	0.2

Source: Company Data; PL Research

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Valuation & outlook

The power generation subsidiary of EMCO now intends to scale the power generation capacity up to 540Mw, from earlier plans of 270Mw. But the financial closure for only 270Mw has been completed, while the company has filed for coal linkage and clearances for the remaining 270MW. For valuation purpose we are considering only 270Mw at 1x book value, putting a value of Rs 3.2bn for the subsidiary.

At current market price of Rs 1,331 the stock currently trades at 19.8x FY09E and 13.4x FY10E earnings of Rs 66.6 and Rs 97.0. . We value the present business at 15x FY10E earnings and arrive at a value of Rs1486. We maintain Outperformer on the stock with a target price of Rs 1,693, an upside of 27.1%.

Q3 FY08 Result Overview

(Rs m)

Y/e March	Q3FY08	Q3FY07	YoY gr. (%)	Q2FY08	9MFY08	9MFY07	YoY gr. (%)
Net Sales	2,434	1,632	49.2	1,842	5,818	4,042	44.0
Expenditure							
Raw Material	1,817	1,249	45.5	1,343	4,327	3,063	41.3
<i>% of Net Sales</i>	<i>74.7</i>	<i>76.5</i>		<i>72.9</i>	<i>74.4</i>	<i>75.8</i>	
Personnel Cost	91	44	108.3	75	239	122	96.5
<i>% of Net Sales</i>	<i>3.8</i>	<i>2.7</i>		<i>4.1</i>	<i>4.1</i>	<i>3.0</i>	
Others	197	118	67.7	173	472	311	52.0
<i>% of Net Sales</i>	<i>8.1</i>	<i>7.2</i>		<i>9.4</i>	<i>8.1</i>	<i>7.7</i>	
Total Expenditure	2,106	1,410	49.3	1,591	5,038	3,495	44.1
EBITDA	328	222	47.9	251	780	547	42.7
<i>Margin (%)</i>	<i>13.5</i>	<i>13.6</i>		<i>13.6</i>	<i>13.4</i>	<i>13.5</i>	
Depreciation	23	15	49.1	18	59	45	31.3
EBIT	305	206	47.8	232	722	502	43.7
Interest	69	44	56.0	74	190	110	72.1
PBT	236	162	45.6	159	532	392	35.8
Total Taxes	85	63	34.5	55	188	131	42.8
<i>ETR (%)</i>	<i>35.9</i>	<i>38.9</i>		<i>34.8</i>	<i>35.2</i>	<i>33.5</i>	
PAT	151	99	52.6	104	345	261	32.2



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PL's Recommendation Nomenclature

BUY	: > 15% Outperformance to BSE Sensex	Outperformer (OP)	: 5 to 15% Outperformance to Sensex
Market Performer (MP)	: -5 to 5% of Sensex Movement	Underperformer (UP)	: -5 to -15% of Underperformance to Sensex
Sell	: <-15% Relative to Sensex		
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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