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Sameer Ranade

sameerr@pinc.co.in

Tel: +91-22-6618 6381

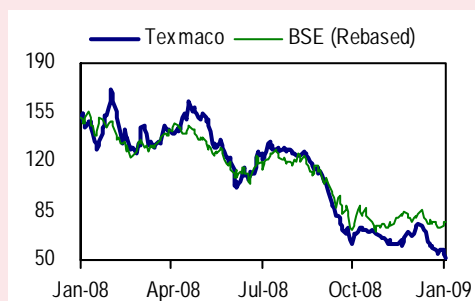
**STOCK DATA**

Market Cap	Rs2.8bn
Book Value per share	Rs44
Eq Shares O/S (F.V. Rs.2)	55.4mn
Median Vol (12 mths)	5,695 (BSE + NSE)
52 Week High/Low	Rs171/50
Bloomberg Code	TXM@ IN
Reuters Code	TEXM.BO

**STOCK PERFORMANCE (%)**

	1M	3M	12M
Absolute	(30.8)	(27.4)	(66.4)
Relative	(28.6)	(30.3)	(36.8)

**STOCK PRICE PERFORMANCE**



**Texmaco's Q3FY09 results were in line with expectations as net sales rose by 3.6% YoY due to the benefit of excise reduction to Rs1.6bn. The growth was led by the Heavy Engineering segment (wagons, process and hydromechanical equipment) which grew 13% to Rs1.8bn. OPM expanded by 215bps to 16.1% following lower material costs. Sharp increase in interest costs capped the growth in net profits at 5.7% to Rs154mn.**

● **Heavy Engineering segment the mainstay**

The HE segment revenues grew by 13% to Rs1.8bn while those of the Steel Foundry declined 2% to Rs378mn. Bulk of the HE segment's revenues are accounted for by railway wagons contributing ~50%.

● **Lower raw material prices to aid profitability**

Most of Texmaco's orders are with price variation clauses and as a result, margins in the wagons segment are reasonably insulated. Raw material prices have declined significantly, which should help boost profitability in its other segments. Margin improvement was a result of a 31% reduction in other expenses (site expenses etc).

● **IR wagon orders awarded, boost to order book**

Of the original quantity of ~15,000 vehicular units, Indian Railways has awarded orders for 11,187 VUs in Jan'09. Of the above, Texmaco has been awarded orders for 2,408 VUs and will enable Texmaco to sustain revenues in FY10. The IR order will be due for commencement from Apr'10 onwards. Orders from private sector logistics operators have slackened and as a result, we have not accounted for any order inflow from the sector in FY10.

● **JV with United Group for locomotives**

Texmaco's 50:50 JV with United Group (Australia) is due for commissioning around Dec'09-Jan'10 and will manufacture locomotives. Texmaco's share of investment is ~Rs200mn.

**VALUATIONS AND RECOMMENDATION**

*The CMP of Rs52 discounts FY10E EPS of Rs16.5 by 3.2x. Its current order book and the recent orders by IR should enable Texmaco to sustain revenues. Ordering by IR is expected to be reasonably stable with bulk of wagons being procured for power sector while ordering by private sector logistics operators is expected to be subdued. A key risk is the timeliness of the ordering by IR. We maintain our 'BUY' recommendation with a 12-month price target of Rs65.*

KEY FINANCIALS (STANDALONE)					
Rs mn	Yr Ended (March)				
	2007	2008	2009E	2010E	2011E
Net Sales	3,740	6,935	8,450	8,227	8,057
Growth (%)	20.1	85.4	21.9	(2.6)	(2.1)
Op. Profits	480	1,063	1,399	1,451	1,397
Op. Marg (%)	12.8	15.3	16.5	17.6	17.3
Net Profits	285	691	868	913	845
Eq Capital	103	111	111	111	111

KEY RATIOS					
	Yr Ended (March)				
	2007	2008	2009E	2010E	2011E
Dil. EPS (Rs)	5.1	12.5	15.7	16.5	15.2
ROCE (%)	22.8	40.9	44.3	38.6	28.4
RONW (%)	18.8	34.0	30.6	24.8	18.6
P/E (x)	10.1	4.2	3.3	3.2	3.4
EV/Sales (x)	0.7	0.4	0.3	0.3	0.3
EV/EBDIT (x)	6.5	3.0	2.1	2.1	2.1

**Estimate Changes**

Rs mn	FY09			FY10		
	Previous	Revised	% Ch.	Previous	Revised	% Ch.
Net Sales	10,671	8,450	(20.8)	16,561	8,227	(50.3)
Op. Profit	1,762	1,399	(20.6)	2,704	1,451	(46.3)
Net Profit	1,147	868	(24.3)	1,788	913	(49.0)
Dil EPS (Rs)	20.7	15.7	(24.3)	32.3	16.5	(49.0)

**Financial Results for the quarter & nine months ended 31 December 2008 (Standalone)**

Particulars (Rs mn)	Quarter Ended			Nine Months Ended			Year Ended
	31/12/08	31/12/07	Gr %	31/12/08	31/12/07	Gr %	31/03/08
<b>Gross Sales</b>	<b>1,837</b>	<b>1,817</b>	<b>1.1</b>	<b>6,363</b>	<b>5,419</b>	<b>17.4</b>	<b>8,037</b>
Less: Excise duty	173	211		679	610		1,102
<b>Net Sales</b>	<b>1,664</b>	<b>1,605</b>	<b>3.6</b>	<b>5,684</b>	<b>4,809</b>	<b>18.2</b>	<b>6,935</b>
<b>Total Expenditure</b>	<b>1,395</b>	<b>1,381</b>	<b>1.0</b>	<b>4,756</b>	<b>4,197</b>	<b>13.3</b>	<b>5,872</b>
(Inc.)/dec.in stock-in-trade	(114)	14		(258)	(50)		(61)
Materials	1,311	1,139	3.8	4,349	3,649	13.7	5,096
Staff Cost	71	75	(4.5)	242	227	6.4	312
Power & fuel	60	55	7.9	196	159	23.3	210
Other expenditure	67	98	(31.0)	227	212	7.2	315
<b>Operating profit</b>	<b>269</b>	<b>225</b>	<b>19.6</b>	<b>928</b>	<b>612</b>	<b>51.6</b>	<b>1,063</b>
Other Income	6	20	(69.0)	35	38	(5.6)	123
<b>PBDIT</b>	<b>275</b>	<b>244</b>	<b>12.4</b>	<b>964</b>	<b>650</b>	<b>48.3</b>	<b>1,186</b>
Interest	27	12	124.9	57	28	104.0	91
Depreciation	26	17	55.4	72	48	48.5	89
<b>PBT &amp; extraordinary items</b>	<b>221</b>	<b>215</b>	<b>2.7</b>	<b>835</b>	<b>574</b>	<b>45.6</b>	<b>1,007</b>
Ext. Ord. Exp.	1	2		3	5		6
<b>PBT after extraordinary items</b>	<b>220</b>	<b>214</b>	<b>2.8</b>	<b>832</b>	<b>569</b>	<b>46.2</b>	<b>1,001</b>
Provision for current tax	57	65		236	181		310
Provision for deferred tax	9	3		12	2		-
<b>Net Profit</b>	<b>154</b>	<b>146</b>	<b>5.7</b>	<b>584</b>	<b>386</b>	<b>51.3</b>	<b>691</b>
<b>Equity Capital (F.V. Rs 2)</b>	<b>111</b>	<b>103</b>		<b>111</b>	<b>103</b>		<b>111</b>
Reserves (excl. rev. res.)	-	-		-	-		-
<b>EPS for the period (Rs)</b>	<b>13.9</b>	<b>13.2</b>		<b>52.7</b>	<b>37.4</b>		<b>62.4</b>
<b>Book Value (Rs)</b>	<b>-</b>	<b>-</b>		<b>-</b>	<b>-</b>		<b>-</b>
<b>OPM (%)</b>	<b>16.1</b>	<b>14.0</b>		<b>16.3</b>	<b>12.7</b>		<b>15.3</b>
<b>NPM (%)</b>	<b>9.3</b>	<b>9.1</b>		<b>35.1</b>	<b>24.0</b>		<b>10.0</b>
<b>Expend. (% of net sales)</b>							
Materials	71.9	71.8		72.0	74.8		72.6
Staff Cost	4.3	4.7		4.3	4.7		4.5
Power & Fuel	3.6	3.4		3.4	3.3		3.0
Other expenditure	4.1	6.1		4.0	4.4		4.5

Segmentwise results for the quarter & nine months ended 31 December 2008 (Standalone)

Particulars (Rs mn)	Quarter Ended			Nine Months Ended			Year Ended
	31/12/08	31/12/07	Gr %	31/12/08	31/12/07	Gr %	31/03/08
<b>Segment Revenue</b>							
Heavy Engineering	1,820	1,614	12.8	5,846	4,639	26.0	6,770
Steel Foundry	378	385	(1.9)	1,507	1,050	43.4	1,490
Others	30	0	-	99	5	-	10
<b>Gross Total</b>	<b>2,229</b>	<b>1,999</b>	<b>11.5</b>	<b>7,452</b>	<b>5,694</b>	<b>30.9</b>	<b>8,270</b>
(less): Intersegment Revenue	565	394	43.4	1,768	885		1,335
<b>Net Sales (Rs in Mn.)</b>	<b>1,664</b>	<b>1,605</b>	<b>3.6</b>	<b>5,684</b>	<b>4,809</b>	<b>18.2</b>	<b>6,935</b>
<b>Segment Results</b>							
Heavy Engineering	174	161	8.2	619	410	51.0	822
Steel Foundry	56	63	(11.1)	203	184	10.4	246
Others	17	1	-	66	3	-	30
<b>Total PBIT</b>	<b>247</b>	<b>226</b>	<b>9.5</b>	<b>888</b>	<b>597</b>	<b>48.9</b>	<b>1,098</b>
Less: Interest	27	12	124.8	57	28	104.0	91
<b>PBT</b>	<b>220</b>	<b>214</b>	<b>2.9</b>	<b>832</b>	<b>569</b>	<b>46.2</b>	<b>1,001</b>
<b>Capital Employed</b>							
Heavy Engineering	905	1,036	(12.7)	905	1,036	(12.7)	360
Steel Foundry	533	318	67.8	533	318	67.8	301
Others	1,270	411	208.9	1,270	411	208.9	1,266
<b>Total</b>	<b>2,708</b>	<b>1,765</b>	<b>53.4</b>	<b>2,708</b>	<b>1,765</b>	<b>53.4</b>	<b>1,928</b>
<b>ROCE (annualised %)</b>							
Heavy Engineering	77.1	62.2		91.3	52.8		228.1
Steel Foundry	42.3	79.8		50.7	77.1		81.7
Others	5.3	1.4		6.9	0.9		2.4
<b>Total</b>	<b>36.6</b>	<b>51.2</b>		<b>43.7</b>	<b>45.1</b>		<b>56.9</b>
<b>PBIT Margins (%)</b>							
Heavy Engineering	9.6	10.0		10.6	8.8		12.1
Steel Foundry	14.9	16.5		13.5	17.5		16.5
Others	55.5	859.0		66.7	52.0		295.0
<b>Total</b>	<b>14.9</b>	<b>14.1</b>		<b>15.6</b>	<b>12.4</b>		<b>15.8</b>
<b>Sales mix (%)</b>							
Heavy Engineering	81.7	80.7		78.4	81.5		81.9
Steel Foundry	17.0	19.3		20.2	18.4		18.0
Others	1.4	-		1.3	0.1		0.1
<b>PBIT mix (%)</b>							
Heavy Engineering	70.4	71.3		69.7	68.8		74.9
Steel Foundry	22.8	28.1		22.8	30.8		22.4
Others	6.8	0.7		7.4	0.5		2.7

<b>Income Statement</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
<b>Revenues</b>	<b>3,115</b>	<b>3,740</b>	<b>6,935</b>	<b>8,450</b>	<b>8,227</b>	<b>8,057</b>
<i>Growth (%)</i>	<i>29.7</i>	<i>20.1</i>	<i>85.4</i>	<i>21.9</i>	<i>(2.6)</i>	<i>(2.1)</i>
<b>Total Expenditure</b>	<b>2,788</b>	<b>3,259</b>	<b>5,872</b>	<b>7,052</b>	<b>6,775</b>	<b>6,660</b>
<b>Operating Profit</b>	<b>327</b>	<b>480</b>	<b>1,063</b>	<b>1,399</b>	<b>1,451</b>	<b>1,397</b>
OPM (%)	10.5	12.8	15.3	16.5	17.6	17.3
<i>Growth (%)</i>	<i>28.8</i>	<i>47.0</i>	<i>121.5</i>	<i>31.5</i>	<i>3.8</i>	<i>(3.8)</i>
Interest & dividend income	26	32	123	123	68	62
<b>EBIDT</b>	<b>352</b>	<b>512</b>	<b>1,186</b>	<b>1,521</b>	<b>1,519</b>	<b>1,459</b>
(-) Interest	23	29	91	127	55	67
(-) Depreciation	43	52	89	117	134	161
<b>PBT &amp; E/O items</b>	<b>287</b>	<b>431</b>	<b>1,007</b>	<b>1,277</b>	<b>1,330</b>	<b>1,231</b>
(-) Tax provision & e/o items	97	147	316	409	417	387
<b>Net Profits</b>	<b>190</b>	<b>285</b>	<b>691</b>	<b>868</b>	<b>913</b>	<b>845</b>
<i>Growth (%)</i>	<i>21.1</i>	<i>50.1</i>	<i>142.6</i>	<i>25.7</i>	<i>5.1</i>	<i>(7.5)</i>
Fully diluted Eq. sh. O/s (mn no)	10.3	10.3	11.1	55.4	55.4	55.4
Book Value (Rs)	25.3	29.5	44.0	58.6	74.5	89.2
Basic EPS (Rs)	18.4	27.6	62.4	15.7	16.5	15.2
<b>Diluted EPS (Rs)</b>	<b>3.4</b>	<b>5.1</b>	<b>12.5</b>	<b>15.7</b>	<b>16.5</b>	<b>15.2</b>

<b>Balance Sheet</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
<i>Equity Share Capital</i>	103	103	111	111	111	111
<i>Reserves &amp; Surplus</i>	1,298	1,528	2,297	3,134	4,016	4,829
<b>Net worth</b>	<b>1,402</b>	<b>1,631</b>	<b>2,436</b>	<b>3,245</b>	<b>4,127</b>	<b>4,940</b>
Term Debt	256	454	661	340	303	303
Working capital	361	79	64	50	50	50
Deferred Tax liability	16	22	23	28	33	38
<b>Capital Employed</b>	<b>2,033</b>	<b>2,187</b>	<b>3,184</b>	<b>3,663</b>	<b>4,513</b>	<b>5,331</b>
Fixed Assets	930	1,191	2,242	2,875	3,491	3,780
Net current assets	532	447	(7)	259	493	1,022
Investments	550	531	937	529	529	529
Misc exp.	21	18	12	-	-	-
<b>Total Assets</b>	<b>2,033</b>	<b>2,187</b>	<b>3,184</b>	<b>3,663</b>	<b>4,513</b>	<b>5,331</b>

<b>Cash Flow Statement</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
<b>PBT &amp; extra-ordinary items</b>	<b>287</b>	<b>431</b>	<b>1,007</b>	<b>1,266</b>	<b>1,330</b>	<b>1,231</b>
Depreciation	43	52	89	117	134	161
Interest & dividend inc.	(33)	(24)	(58)	(123)	(68)	(62)
Interest paid	38	40	91	127	55	67
Tax paid	(80)	(166)	(288)	(380)	(412)	(382)
(Inc/Dec in working capital	(194)	(8)	145	(214)	(234)	(529)
<b>Cash from operations</b>	<b>61</b>	<b>326</b>	<b>986</b>	<b>792</b>	<b>806</b>	<b>486</b>
Net capital expenditure	(216)	(319)	(203)	(762)	(750)	(450)
Net investments	(80)	19	(327)	408	-	-
Interest recd	32	22	27	123	68	62
<b>Cash from investing activities</b>	<b>(265)</b>	<b>(278)</b>	<b>(503)</b>	<b>(231)</b>	<b>(682)</b>	<b>(388)</b>
Issue of eq. shares	-	-	-	-	-	-
Share premum	-	-	-	-	-	-
Change in debt	123	(83)	(375)	(335)	(37)	-
Dividend paid	(21)	(31)	(48)	(31)	(31)	(31)
Interest paid	(38)	(40)	(91)	(127)	(55)	(67)
<b>Cash from financing activities</b>	<b>64</b>	<b>(154)</b>	<b>(513)</b>	<b>(493)</b>	<b>(123)</b>	<b>(98)</b>
<b>Inc/Dec. in cash</b>	<b>(139)</b>	<b>(106)</b>	<b>(31)</b>	<b>67</b>	<b>(0)</b>	<b>(0)</b>

<b>Key Ratios</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
OPM (%)	10.5	12.8	15.3	16.5	17.6	17.3
ROACE (%)	17.1	22.8	40.9	44.3	38.6	28.4
ROANW (%)	14.3	18.8	34.0	30.6	24.8	18.6
Sales/Total Assets (x)	1.9	2.2	2.9	2.8	2.2	1.8
Debt:Equity (x)	0.4	0.3	0.3	0.1	0.1	0.1
Current Ratio (x)	1.3	1.2	1.0	1.1	1.1	1.3
Debtors (days)	58.4	92.4	53.0	90.0	90.0	90.0
Inventory (days)	46.6	101.6	67.1	68.4	68.4	68.4
Net working capital (days)	48.9	33.8	(0.3)	9.2	17.5	37.9
EV/Sales (x)	0.8	0.7	0.4	0.3	0.3	0.3
EV/EBIDT (x)	9.4	6.5	3.0	2.1	2.1	2.1
P/E (x)	15.2	10.1	4.2	3.3	3.2	3.4
P/BV (x)	2.1	1.8	1.2	0.9	0.7	0.6

## T E A M

### EQUITY DESK

Gealgeo V. Alankara	Head - Institutional Sales	<i>alankara@pinc.co.in</i>	<i>91-22-6618 6466</i>
Sailav Kaji	Head Derivatives & Strategist	<i>sailavk@pinc.co.in</i>	<i>91-22-6618 6344</i>

### SALES

Anil Chaurasia	<i>anil.chaurasia@pinc.co.in</i>	<i>91-22-6618 6483</i>
Alok Doshi	<i>adoshi@pinc.co.in</i>	<i>91-22-6618 6484</i>
Sundeep Bhat	<i>sundeepb@pinc.co.in</i>	<i>91-22-6618 6486</i>
Gagan Borana	<i>gagan.borana@pinc.co.in</i>	<i>91-22-6618 6485</i>

### DEALING

Chandrakant Ware	<i>chandrakantw@pinc.co.in</i>	<i>91-22-6618 6327</i>
Ashok Savla	<i>ashok.savla@pinc.co.in</i>	<i>91-22-6618 6400</i>
Raju Bhavsar	<i>rajub@pinc.co.in</i>	<i>91-22-6618 6301</i>
Manoj Parmar	<i>manojp@pinc.co.in</i>	<i>91-22-6618 6326</i>
Hasmukh D. Prajapati	<i>hasmukhp@pinc.co.in</i>	<i>91-22-6618 6325</i>
Pratiksha Shah	<i>pratikshas@pinc.co.in</i>	<i>91-22-6618 6329</i>

### DIRECTORS

Gaurang Gandhi	<i>gaurangg@pinc.co.in</i>	<i>91-22-6618 6400</i>
Hemang Gandhi	<i>hemangg@pinc.co.in</i>	<i>91-22-6618 6400</i>
Ketan Gandhi	<i>ketang@pinc.co.in</i>	<i>91-22-6618 6400</i>

### COMPLIANCE

Rakesh Bhatia	Head Compliance	<i>rakeshb@pinc.co.in</i>	<i>91-22-6618 6400</i>
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