



Capital Benefits

04 June 2010

COMPANY
REPORT

Emco Limited - Result Update >>>> ACCUMULATE

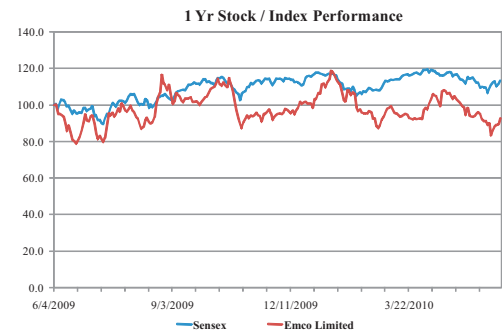


Industry: Power Equipment and Power T&D

Price Target	98
% Upside	17%
Risk	Medium

Last Traded Price	84
BSE Sensex	16970

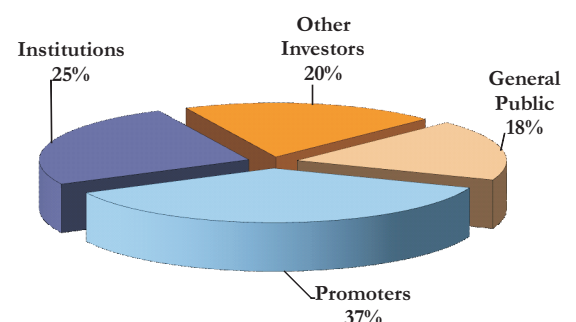
Market Price	84
Market Cap (Cr.)	520
Reuters Code	EMCO.BO
BSE Scrip Code	504008
NSE Scrip Code	EMCO
52 Week High	109
52 Week Low	67
FV/Share	2
Book Value/Share	93



Company	FY 09	FY 10	FY 11E	FY 12E
Net Revenue	996.3	978.6	1146.8	1395.1
Operating Exp.	857.9	868.5	1015.1	1226.6
EBITDA	138.3	110.1	131.7	168.5
Profit after Tax	53.1	35.4	45.8	66.7
EPS	9.0	5.7	7.4	10.8

* EPS based on Fully Diluted Equity Share Capital

Share Holding Pattern as on Mar 31, 2010



Initial Recommendation	Accumulate
Current Recommendation	Accumulate

We recommended Emco Ltd. in May, 10 at Rs 85 for a Target of Rs 110. Recently, the company came out with its Q4,10 and FY 10 Results; which were better on Top-line front while higher Operative expenses imputed Margins and Bottom-line. We are modifying our FY 11, and FY 12 Estimates for the company .

Considering the improving outlook in the Transformer segment and Large-scale investment in the Power sector in India, we maintain our “Accumulate” rating on the stock with a Reduced Target price of Rs 98 in Twelve months.

The Company:

Emco Limited or “Emco” is engaged in the Transmission and Distribution (T&D) segment within the Power sector and ranks amongst the largest Transformer manufacturing companies in India. Over the years, Emco has stepped up the value chain in the T&D segment and currently works along the length and breadth of the segment through its business divisions, namely the Transformer division, Electronic Meters and Metering Solutions division, Projects Division and the International division.

Quarterly Financial performance below Expectation

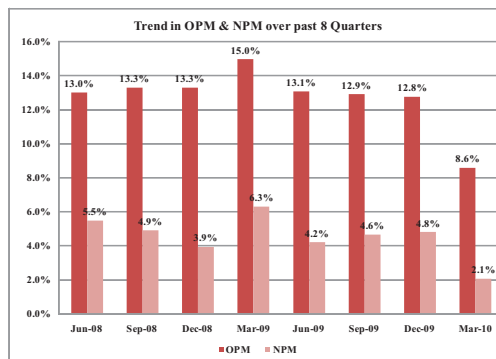
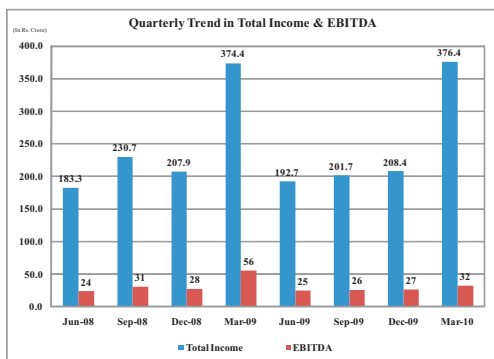
During the last quarter of FY 2010, Emco's financial performance was hampered by higher than normal Operating expenses, specifically on the Raw materials front. Though the Net Sales performance was flat on YoY basis, its growth was higher than expected and came in at Rs 376 Crore (Q4, 10) as compared to Rs 374 Crore (Q4, 09). On the QoQ basis the Net sales accelerated by more than 80% from Rs 208 Crore (Q3, 10). Growth in Sales was higher due to strong upsurge in Transformer volumes; however the Realizations continue to slip.

Quarterly Financials - Emco Limited

Units: in Rs Crore	Mar 10	% Growth	Mar 09	% Growth	Dec 09
Net Sales	376.4	0.6%	374.3	80.9%	208.1
Other Income	0.0	-22.7%	0.0	-92.3%	0.3
Total Income	376.4	0.6%	374.4	80.6%	208.4
Raw Materials	304.6	7.6%	283.0	98.1%	153.7
% of Sales	80.9%	-	75.6%	-	73.9%
Employees Cost	17.0	64.0%	10.3	44.9%	11.7
Other Expenditure	22.6	-9.4%	24.9	40.4%	16.1
Operating Exp	344.1	8.1%	318.2	89.6%	181.5
EBITDA	32.3	-42.4%	56.1	21.5%	26.6
Depreciation	4.5	-6.1%	4.8	-2.6%	4.6
Interest	12.6	-9.8%	13.9	61.5%	7.8
Tax expense	7.4	-46.5%	13.7	66.7%	4.4
% of Tax	48.6%	-	36.8%	-	30.5%
Net Profit	7.8	-67.0%	23.6	-22.7%	10.0

The EBITDA of the company registered a sharp fall by over 40% on YoY comparison while on a sequential basis it rose by nearly 21%. EBITDA in the current quarter came in at Rs 32 Crore (Q4, 10) as against Rs 56 Crore (Q4, 09) and Rs 27 Crore (Q3, 10). EBITDA performance was mainly imputed by the jump in Total Raw Materials costs which as a % of Sales moved up to 80.9% (Q4, 10) against 75.6% (Q4, 09). This was coupled with acute rise in Employee expenses by 64% to Rs 17 Crore (Q4, 10) from Rs 10 Crore (Q4, 09) whereas the rise in the same on QoQ basis was 45% from Rs 12 Crore (Q3, 10).

No doubt, the Operating margins fell steeply by more than 600 bps on YoY scenario and more than 400 bps on QoQ basis to 8.6% (Q4, 10).



Source: Company Data, JRG Research

The depreciation and Interest expenses did provided some respite after an acute drop in EBITDA; higher Tax outgo severely impacted the Bottom-line performance of the company. The Net profit slumped by more than 67% to Rs 8 Crore (Q4, 10) from Rs 24 Crore (Q4, 09) and dipped by over 22% from Rs 10 Crore (Q3, 10).

FY 10 Operating performance disappoints due to higher Raw materials costs

After muted performance by the company over the past many quarters, we were anticipating firm financial and operating performance by Emco in the last quarter of 2010. For FY 10, we already factored nearly 4% drop in Net Sales as equated to FY 09 while expected around 10% drop in the Bottom-line.

Yearly Financials- Emco Limited				
Units: in Rs Crore	FY 09	FY 10E	FY 10 Actual	% Change
Net Sales	996.3	954.5	978.6	2.5%
Other Income	0.1	0.9	0.7	-26.0%
Total Income	996.3	955.4	979.2	2.5%
Raw Materials	738.6	701.5	744.8	6.2%
% of Net Sales	74.1%	73.5%	76.1%	-
Employee Cost	41.0	52.0	53.4	2.7%
Other Expenses	78.3	77.1	70.2	-8.9%
% of Net Sales	7.9%	8.1%	7.2%	-
Operating Exp	857.9	830.6	868.5	4.6%
EBITDA	138.3	123.9	110.1	-11.1%
OPM	13.9%	13.0%	11.3%	-
Depreciation	16.4	18.5	17.9	-3.3%
Interest	41.5	34.3	36.8	7.3%
Tax Expense	27.3	24.1	20.6	-14.4%
Net Profit	53.1	47.9	35.4	-25.9%
NPM	5.3%	5.0%	3.6%	-
Extra-ordin Items	-	-	-98.5	-
Adjusted Net Profit	53.1	47.9	133.8	179.6%

Note: Raw Materials cost include Stock in Trade & WIP

The company exceeded our estimates on Revenue front, but the Bottom-line performance was obtruded by high Raw materials expenses. The Net Sales grew more than 2.5% to Rs 979 Crore (FY 10) against our expectation of Rs 955 Crore (FY 10E) though, the EBITDA was way lower than estimated.

On the Operating expenses front, a modest drop in Operating expenses tried to arrest the rise in Raw materials costs, it was not enough due its low base. The Operating expenses of the company rose to Rs 869 Crore in FY 10 against expectation of Rs 830 Crore. The Operating margins too sunk to 11% levels versus our expectation of around 13% in FY 10.

The End result, EBITDA drifted lower by 11% to Rs 110 Crore compared to our estimate of Rs 124 Crore in FY 10. Although, Interest and Depreciation costs remained almost in-line with estimates, it was not enough to save the Bottom-line to slip by more than 25% to Rs 35 Crore against our estimate of Rs 48 Crore during the fiscal year.

Financial Valuation and Projections

Post the weak performance in Q4, 10 and FY 10 and fall in Order book of the company to Rs 1200 Crore against around Rs 1500 Crore in Jan 10; we have trimmed our FY 11E and FY 12E financial Estimates on Emco.

Emco Limited - Updated Earnings for FY 11e & FY 12E						
Units: in Rs Crore	FY 11E			FY 12E		
	Old	New	% Change	Old	New	% Change
Total Income	1167.1	1148.0	-1.6%	1490.2	1397.1	-6.3%
Operating Exp	1022.5	1015.1	-0.7%	1304.2	1226.6	-6.0%
EBITDA	143.4	131.7	-8.1%	184.0	168.5	-8.4%
OPM	12.3%	11.5%	-	12.4%	12.1%	-
Depreciation	20.8	20.0	-3.6%	22.8	22.1	-2.9%
Interest	42.8	44.0	2.8%	50.9	48.0	-5.7%
Tax Expense	27.1	23.1	-14.9%	37.6	33.6	-10.7%
Net Profit	53.9	45.8	-14.9%	74.7	66.7	-10.7%
NPM	4.6%	4.0%	-	5.0%	4.8%	-

We have reduced the Revenue estimates for FY 11 and FY 12 by 1.6% and 6.3% respectively while we now anticipate the Operating margins to be around the 11.5% mark in FY 11 and near the 12% level in Fy 12, against earlier expectation of 12.3% (FY 11) and 12.4% (FY 12) respectively.

We have chopped our FY 11 and FY 12 estimates on the Bottom-line front too. The Net profit is now seen lower by around 15% in FY 11 to Rs 46 Crore while for FY 12 it is seen lower by over 11% to Rs 67 Crore.

Recommendation

Though Emco's performance during FY 10 was below our expectation, we continue our positive stance on the overall Transformer and the Power T&D segment. Growth in the aforesaid sectors in the country is driven by the Large-scale investment by GoI in Power Generation, Transmission and Distribution. Moreover, this should help Emco in strengthening its Order book position, the key attribute towards our future financial and operating estimates on the company.

We recommended the stock in May, 10 at Rs 85 for a 15 Months Target price of Rs 110. At the prevailing market price of Rs 84, the stock is trading at 11.4X and 7.8X, FY 11E and FY 12E EPS of Rs 7.4 and Rs 10.8 respectively. **We maintain our "Accumulate" rating on the stock with a reduced Target price of Rs 98 in 12 months.**

JRG



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