

INITIATING COVERAGE

ALSTOM Projects India Limited

HOLD

Share Data

Market Cap	Rs. 50.8 bn
Price	Rs. 758
BSE Sensex	14487.72
Reuters	ABBP.BO
Bloomberg	ABBAP.IN
Avg. Volume (52 Week)	0.23 mn
52-Week High/Low	Rs. 758/201
Shares Outstanding	67.02 mn

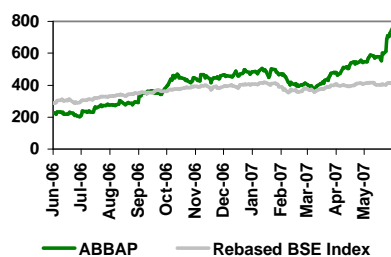
Valuation Ratios

Year to 31 March	2008E	2009E
EPS (Rs.)	20.4	24.9
+/- (%)	22.6%	21.9%
PER (x)	37.2x	30.5x
EV/ Sales (x)	3.3x	2.8x
EV/ EBITDA (x)	32.0x	25.4x

Shareholding Pattern (%)

Promoters	67
FII's	1
Institutions	14
Public & Others	18

Relative Performance



Impressive new order intake

ALSTOM Projects India Limited (APIL) a majority owned subsidiary of ALSTOM SA France – the global leader in power generation and rail infrastructure has presence in 6 engineering centers and 4 manufacturing units across India. ALSTOM has recently won contracts worth over Rs. 12.5 bn of which APIL will execute over one-third. These contracts are in addition to the Rs. 18.5 bn of contracts booked by the company during FY07.

With strong momentum in order intake, coupled with new capacity expansion, effective project management and cost control measures the company is expected to perform fairly. However with the recent price surge we are initiating the coverage with a Hold rating.

Key Figures

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data) (FY07-09E)						
Net Sales	8,260	9,456	12,215	14,412	17,294	19.0%
EBITDA	364	452	1,209	1,499	1,885	24.9%
Net Profit	510	479	1,115	1,366	1,666	
Margins(%)						
EBITDA	4.4%	4.8%	9.9%	10.4%	10.9%	
NPM	4.4%	5.0%	9.1%	9.5%	9.6%	
Per Share Data (Rs.)						
Adj EPS	5.4	7.0	16.6	20.4	24.9	22.2%
PER (x)	140.8x	107.7x	45.6x	37.2x	30.5x	
Cash EPS	7.6	9.3	19.1	23.4	28.5	
P/CEPS (x)	99.6x	81.3x	39.7x	32.4x	26.6x	

- Driven by an impressive order backlog, we estimate revenues to grow at a FY07-09E CAGR of 19%. EBITDA margins are expected to improve further, with the benefit trickling down to EPS which is estimated to reach Rs. 20.4 for FY08E.
- APIL's stock has seen a sharp increase in the past few days. At the current price of Rs. 758, the stock is trading at an all time high. We expect modest upside growth from the current levels and initiate coverage of APIL with a Hold rating.

Rationale

Sound order book position of Rs. 24.7 bn at March 07 end

Sound order backlog

ALSTOM ended FY07 with an order backlog of Rs. 24.7 bn which translates to about twenty-four months of revenues. Order backlog position has increased almost 2.7x over FY05 order backlog, where it stood at Rs. 9.2B.

The sound order backlog reinforces our view on continued revenue generation.

Facility expansion at Vadodara factory completed during FY07

Expanding capacity

During the year ALSTOM completed the expansion of the hydroelectric equipment manufacturing facility at its factory at Vadodara. ALSTOM has invested Rs. 1,350 mn in this facility, which is its third largest unit after the units in Brazil and China. The company is strengthening its capabilities in power services sector and is even open to acquisitions to expand its Indian business. Recently ALSTOM laid the foundation stone for the expansion of the factory workshop which would double the handling capacity for repairs of turbines, boilers and other major equipments.

Revenues up 29%, EBITDA margins double

Good financial performance will continue

The net sales of the company grew 29.2% y-o-y driven by a solid increase in revenues from overseas markets. EBITDA margins more than doubled to reach 9.9% as compared to 4.8% last year as a result of effective project management and cost control measures.

The strong momentum in order intake would translate to higher revenues in the next few years and given the benefits flowing through in the form of operating efficiencies and higher capacity, we are optimistic on ALSTOM's long-term business prospects.

Power segment to get impetus in the next five-year plan

Growth in power segment

During the first nine months of 2006-2007, electricity generation recorded a growth rate of 7.5%. A target of 68 GW of new capacity addition is now set up by the Central Government for the XIth five-year plan ending in 2012. Given the sound order backlog and the expansion of the new manufacturing unit completed at Vadodara, the power segment is expected to generate double-digit revenue growth.

Growth in transport infrastructure

Although Transport segment revenues declined y-o-y from Rs. 358 mn to Rs. 211 mn in FY07, new schemes planned for Urban Mass Transit in cities like Mumbai, Bangalore and Hyderabad, in addition to the Delhi Metro Phase II signalling system, bode well for ALSTOM.

Key Risks

Macroeconomic factors

The domestic power sector has not kept pace with the growth in demand for power in the past, resulting in energy shortages. Any derailment of power reforms would be a cause for concern.

Prices of raw materials

Any unprecedented rise in prices of primary raw materials such as steel, copper, and aluminium could significantly impact margins.

Outlook

India's current state of economy, expectation of its GDP growth reaching around 10% and continued investment in infrastructure sectors, offers an excellent opportunity for the company to operate.

A target of 68 GW of new capacity addition is now set up by the Central Government for the XIth five-year plan ending in 2012. With the recent confirmed discoveries of gas in the K G Basin, a revival of gas-based projects is also expected in the next three years.

In addition, the Company has a sound order book position which translates to consistent revenue generation for the next few years.

The company's stock has witnessed a sharp increase in the past few days. Currently the stock trades at a forward PE of 37.2x FY08E and 30.5x FY09E. We expect a modest upside from the current levels and initiate coverage of APIL with a Hold rating.

Growth looks evident given the emphasis on infrastructure

Company Background

ALSTOM Projects India Limited is a publicly owned company with almost 67% of equity being held by the ALSTOM Group. APIL has investments in ALSTOM Power Boilers Services Limited ('APBSL') and ALSTOM Manufacturing India Limited; both of these are wholly owned subsidiaries.

APIL is engaged in providing a range of services related to power generation for utilities and industrial users, and transportation systems. The Company operates through two business segments: Power and Transport.

Power segment: is engaged in the business of engineering, procurement and construction of power plants. It also manufactures steam raising plant, ancillary equipment, pressure vessels and pulverisers. The segment is also in the business of the development and supply of air pollution control systems and equipment for pollution control, resource recovery and conservation of energy.

Transport segment: is engaged in the business of designing, manufacturing, supplying and supporting large scale transportation systems, including train traction, signalling and train control.

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