



Research



RESEARCH:: TRANSFORMERS & RECTIFIERS LIMITED

09th Sept 2010

Long Term Buy

CMP	Rs 408
Target price	Rs 519
Estimated EPS	Rs 47
Projected PE	11-12
Investment period	6-9 months

Stock Info (TTM Basis)

Sector	Power-T & D
Market cap (Rs Cr)	529.22
Face value	10
Book value	221.85
EPS	38.07
Cash EPS	40.90
Dividend	50%
Sales Growth	21%
Debt to equity	0.24%
52 week H/L	472.7/270.3
Avg. Daily Vol (2wk)	10216
Managing Director	J Mamtora
Listed At	NSE/BSE
Equity capital	12.92
Promoters Holding	76.82%
FII's/ M.F.	1.63/6.66%

Why to Invest in Shares of TRILPage3

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With its engineering capabilities, Transformers & Rectifiers Limited (TRIL) has established its position in Indian transformer industry, thus enhancing infrastructure development in the country.

Key Investment Rationale:

Increased Focus of GOI On Power Sector- A Big Boost:

With Government of India's increased focus on providing "Power for All" by 2010, the installed power generation capacity of the country is expected to reach 200,000MW by 2012. This will boost the demand for Transmission & Distribution equipments.

Higher Value Chain:

The company has increased its engineering capabilities up to 400KV. This will be further raised to 765KV. High voltage transformer will boost the top line of the company.

Robust Order Book

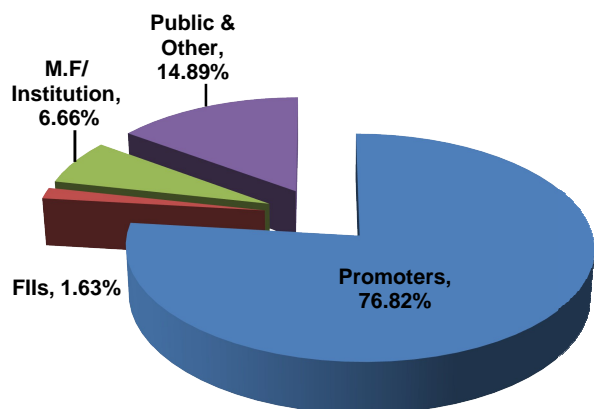
TRIL has a robust order book position of over 372.55cr. The order book of the company is well diversified and provides good earning visibility for next 2-3 quarters.

Future Valuation:

At the current price of 408, the stock is trading at just 8.62 times of our estimated FY11 earnings. We thus recommend a 'BUY' with a Price target of 519.

Particulars (Rs Cr)	2008-09	2009-10	2010-11E
Net Sales	486.78	559.25	615.18
% change YoY	38.64	14.89	10.00
PBIDT	81.9	91.14	104.87
% change YoY	21.8	11.28	15.06
Net Profit	45.8	51.34	61.15
% change YoY	30.04	12.10	19.11
EPS	35.45	39.74	47.33
Cash EPS	37.62	43.42	51.98
Operating Profit Margins	14.49	14.67	15.42
Net Profit margins	9.41	9.18	9.94

COMPANY PROFILE



Transformers & Rectifiers India Ltd (TRIL) business comprises manufacturing and selling of various kinds of transformers such as power, distribution, furnace and rectifier and specialized transformers. They design and manufacture distribution transformers, power transformers up to 765 kV. TRIL has manufacturing facilities at Moraiya, Changodar and Odhav in Ahmedabad with a total capacity to produce upto 23200 MVA.

The Product Profile of TRIL:

Classification	Rage	Types of Transformers
Power Transformer	up to 745 KV	Generator Transformers, Unit Auxiliary Transformers, Step up and step down transformers auto transformers, track side transformers for railways and Metros.
Distribution Transformers	up to 33KV	For Earthing, step up step down transformers etc
Furnace Transformers	up to 105 KA	Arc Furnace, induction furnace, submerged arc furnace transformers
Rectifiers Transformers	Up to 160KA DC	Railway tractions, metros , Bridge Connection

Clientele:

TRIL's profound knowledge of products, technologies, implementation skills coupled with understanding of market, will help it to reap its share of benefits from the industry's growth. The company caters to wide variety of users in various fields such as Petrochemicals, Steel, Oil & Gas, Power, Mining etc. 90% of business of the company is driven from Power Utilities & Transmission companies.

Transmission Corporation of Andhra Pradesh, Maharashtra State Electricity Transimission Company Ltd, Gujarat Energy Transmission Corporation Ltd, Rohit Ferro Tech Ltd, Monnet Ispat Ltd, NTPC, Power Grid etc. are the big names they serve.

Designing Capabilities:

TRIL possesses the in house designing & Engineering capabilities that enables it to have a competitive edge over its peers. TRIL has two subsidiaries:

[Tranweld Mechanical Engineering Works Ltd](#) a wholly owned subsidiary of TRIL, which manufactures tanks and core channel used in transformers.
[Tarnspares Ltd](#), a 51% subsidiary, is into the manufacturing of steel radiators for transformers.

TRIL also has an associate Company, [Savas Engineering Company Pvt Ltd](#) which is leader in the process vacuum equipments.

Transformers & Rectifiers poses a wide spread client base.

Investment Argument:

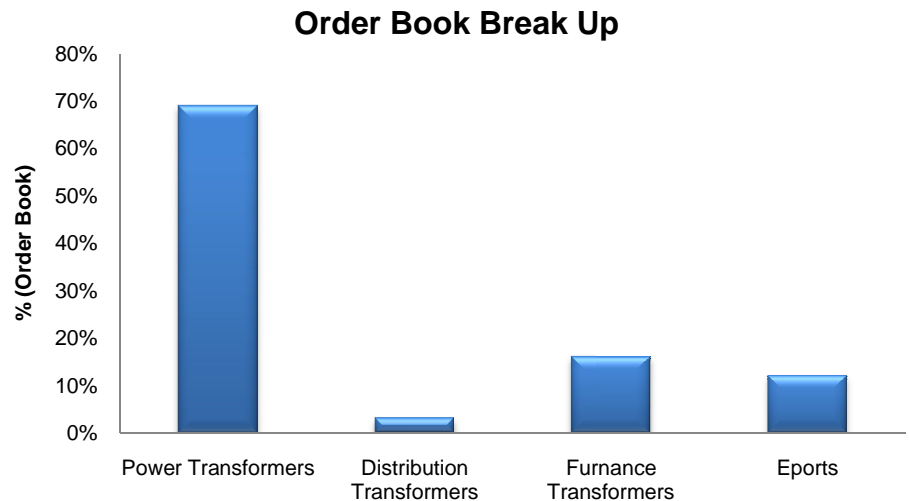
Increased Focus of GOI on Power Sector- A Big Boost

The Government of India has an ambitious mission of “Power for All By 2012”. This mission would require the installed generation capacity to be at least 2,00,000 MW by 2012. The Government of India has stated its objective of achieving large scale capacity addition in power in the 11th plan (78,700 MWs) and 12th plan (revised upwards to 100,000 MW) and accordingly it has numerous large private sector capacity additions in the pipeline. This mission of Government of India will provide a boost to Power transmission business and to Power Equipment manufacturers in which Transformers & Rectifiers Limited is a major player.

Robust Order Book Position of the company:

The current order book position of the company stands at Rs 372.55cr, up by 68% as against last year. The order back log provides earning visibility for next 2-3 quarters. The large portion of order book comprises power transformers (for 200 KV and Above). TRIL has enriched its capacity up to 400 kV which will improve its order book in the near future.

The company’s order book stands at 372.55cr providing earning visibility for next 2-3 quarters.



The company has established itself as an emerging player in Indian Transformer Industry.

Replacement Demand:

The demand through replacement route is expected to remain robust, as the transmission and distribution infrastructure installed during late 1980s is expected to be replaced since the expected life of these is 20-25 years, creating a demand to the tune of 18000-20000MVA per annum.

Higher Value Chain:

The company has commissioned its green field expansion at Moriya, Gujarat with additional 16000 MVA capacities of transformers. With the commissioning of this facility, it has raised its capabilities up to 400kv. The company is also planning to enhance its manufacturing facilities up to 765KV and above. Till now, the company has delivered two 400KV transformers to Lanco.

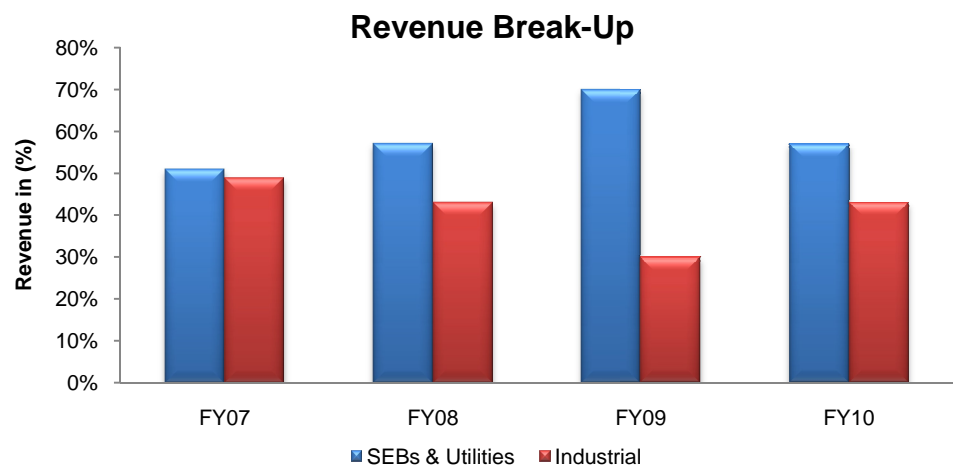
Location	Capacity (MVA)	Capability
Moriya	16000	Production & Testing up to 765KV
Changodar	7000	Production & Testing up to 245KV
Odhav	1200	Production & Testing up to 66KV

The company has also signed an MoU with Power Grid to develop and manufacture 1200KV class of Transformers, which is expected to be ready by Q1 of FY13.

Timely Execution:

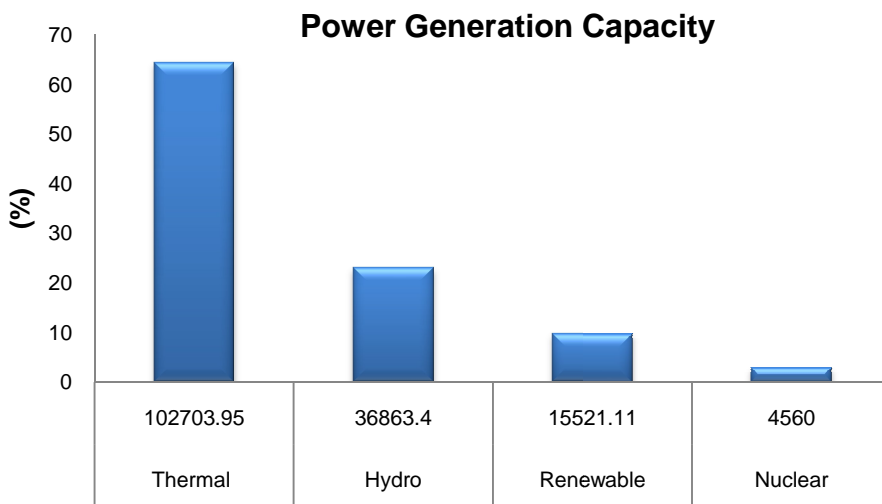
The company has been able to secure orders repeatedly from its customers, as it has created its brand value by timely delivery of orders to its customers. TRIL has been able to secure large portion of its revenues from SEBs.

The company has repeatedly bagged orders from SEBs due to its disciplined delivery of orders



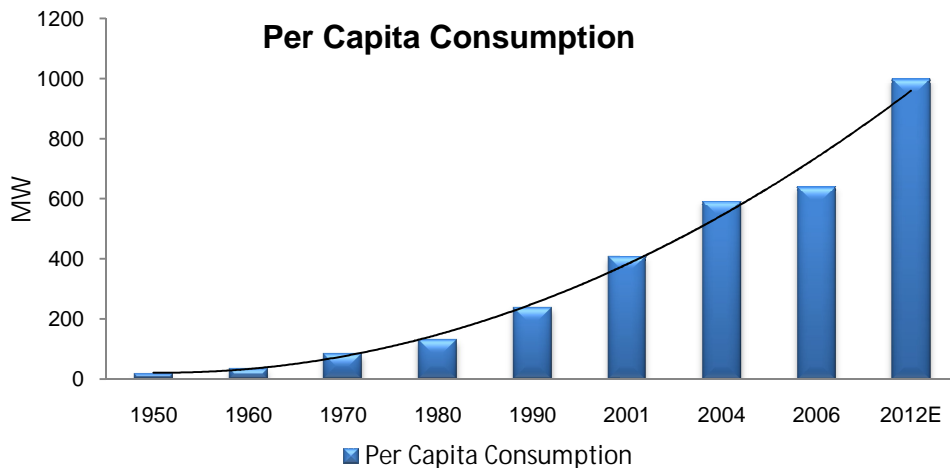
As the Indian economy continues to surge ahead, its power sector has been expanding concurrently in order to support the growth rate. The demand for power is growing exponentially and the scope for growth in this sector is monumental. India's total installed capacity of electricity generation has expanded from 1,05,045.96 MW at the end of 2001-02 to approx. 1,59,648.46 MW currently. In fact, India ranks sixth globally in terms of total electricity generation. This capacity is likely to grow to more than 3,00,000 MW by the end of 12th five year plan ending 2017.

The Ultra mega power projects (UMPPs) are expected to bring huge private investments.



Source-wise, thermal power plants account for an overwhelming 64 per cent of the total installed capacity, producing 102703.95MW. Hydel power plants come next with an installed capacity of 36863.4MW, accounting for 23 per cent of the total installed electricity generation capacity. Besides these, renewable energy sources contribute 9.7 per cent to the total power generation in the country producing 15521.11MW. Nuclear energy makes up the balance 3 per cent contributing 4560MW. Emerging trend is one of larger share of renewable power in the total installed capacity mix.

In India the Per Capita Power Consumption is expected to rise up to 1000MW by FY12, this will provide a huge opportunity for companies like Transformers & Rectifiers Ltd.



Peer Comparison:

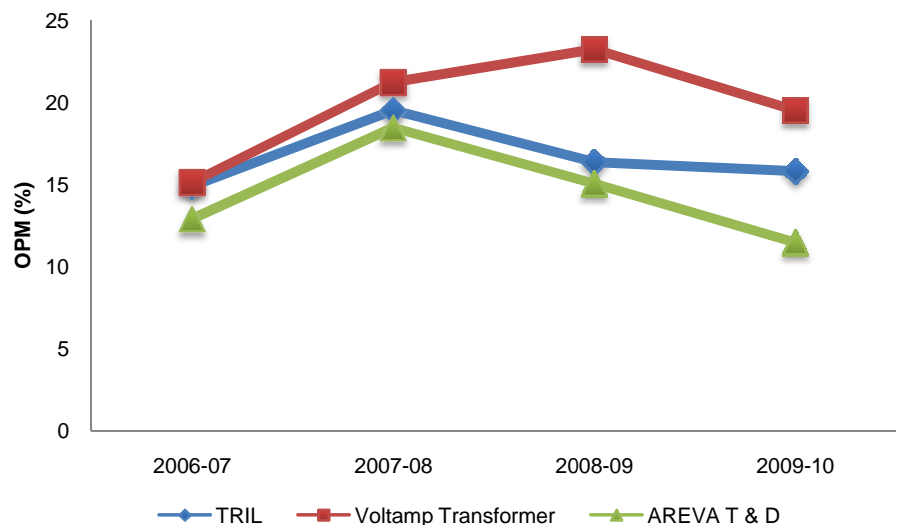
Particulars(Cr)	TRIL	Areva T & D	Voltamp Transformer	Crompton Greaves
Market Cap	529.22	6969.88	1011.71	19806.05
Sales	522.27	3561.88	557.10	9505.14
PBIDT	81.45	326.62	102.58	1326.64
Net Profit	49.18	122.84	78.39	855.16
EPS	38.07	5.14	77.46	13.33
P/E	10.76	55.21	12.91	30.72
EV/PBIDT	5.65	22.98	9.16	13.27
P/BV	1.84	7.94	2.84	9.70
Dividend (%)	50%	90%	125.00%	70%

With Robust Order Book, TRIL is well positioned to reap high dividends from the stable outlook for Indian Economy, largely on account of gap in domestic demand-supply situation. However, the company has to face competition from larger players in the industry.

On both EV/EBITDA and Price/Book value the stock is available at a relative cheaper value as compared to its peers. With improved profitability and higher execution of the orders, TRIL will remain a value pick.

TRIL has been able to maintain its Operating margins near 15%, inspite of excess capacity addition in industry due to which margins of other players have dented by 200-300bps.

Operating Profit Margins



QUARTERLY ANALYSIS:

Particulars (Rs Cr)	Jun-10	Jun-09	VAR (%) Y-o-Y	Mar-10	VAR (%) Q-o-Q
Net Sales	85.56	85.94	-0.44	216.72	-60.52
Other Income	0	0.51	-100.00	0.3	-100.00
Total Income	85.56	86.45	-1.03	217.02	-60.58
Total Expenditure	70.83	71.41	-0.81	182.47	-61.18
PBIDT	14.73	15.04	-2.06	34.55	-57.37
Interest	0.74	1.06	-30.19	1.87	-60.43
PBDT	13.99	13.98	0.07	32.68	-57.19
Depreciation	1.42	0.85	67.06	1.35	5.19
Tax	4.07	4.3	-5.35	11.38	-64.24
Reported Profit After Tax	8.5	8.83	-3.74	19.95	-57.39
EPS	6.58	6.84	-3.80	15.44	-57.38
CEPS	7.68	7.49	2.48	16.49	-53.43
OPM (%)	17.22	16.91	-	15.80	-
NPM (%)	9.93	10.27	-	9.21	-

During the quarter ended 30th June, 2010, the total revenue of the company remains flat at Rs 216.72cr as against Rs 134.19cr during the corresponding quarter last year, primarily due to flat sales volume which stood at 1591MVA. The realization stood at Rs 0.052cr per MVA on back of higher industrial order.

The operating profit margin of company during the quarter improved at 17.22% as against 16.91% during the corresponding quarter last year, mainly due to lower other expenses and staff cost. The realization remains flat to Rs 5.20 lakhs/MVA from 5.18lakhs/MVA last year. However, on sequential basis the OPM has improved by 142bps.

For the quarter ended 30th June 2010, TRIL has reported a net profit of Rs 8.5cr as against 8.83cr during the corresponding quarter last year, registering a de-growth of 3.8%, on stable interest and Depreciation cost.

PAST PERFORMANCE (Yearly)

Particulars (Rs Cr)	FY2009-10	FY 2008-09	VAR [%]	FY 2007-08	FY 2006-07
Net Sales	522.65	431.49	21.1	301.86	218
Other Operating Income	0	0	0	3.7	0
Other Income	1.17	4.53	-74.2	2.07	0.86
Total Income	523.82	436.02	20.1	307.63	218.86
Total Expenditure	440.09	360.93	21.9	246.67	185.55
PBIDT	83.73	75.09	11.5	60.96	33.31
Interest	4.7	6.92	-32.1	7.66	5.25
PBDT	79.03	68.17	15.9	53.3	28.06
Depreciation	4.41	2.52	75	1.96	1.59
Tax	25.11	20.7	21.3	17.75	9.81
Fringe Benefit Tax	0	0.25	0	0.19	0
Deferred Tax	0	0.58	0	0.3	0
Reported Profit After Tax	49.51	44.12	12.2	33.1	16.66
Extra-ordinary Items	0	0	0	0	-1.21
Adjusted Profit After Extra-ordinary item	49.51	44.12	12.2	33.1	17.87
EPS	38.31	34.14	12.2	30.9	18.23
CEPS	41.73	36.10	12.2	27.14	25.74
OPM (%)	15.80	16.35	-	19.51	14.89
NPM (%)	9.47	10.23	-	10.97	7.64

During FY10 TRIL reported revenues of Rs.522.65cr (up 21% YoY), operating margin of 15.8% (down 55 bps) and PAT of Rs.49.51cr (up 12.2% YoY) thereby translating into FY10 EPS of Rs.38.31 and CEPS of Rs.41.73.

During FY10 the operating profit grew marginally by 11.5% to Rs 83.73cr as against Rs 75.09cr during last year, largely on account of higher top-line reported by it. OPM contracted by 55bps at 15.8% due to cost control measures applied by the management particularly on site expenses. Site operating expenses as a percentage of revenues have reduced from 38.2% in FY09 to 34.1% in FY10 on account of work completion on few sites. However both raw material and staff costs have gone up by 44% and 26.7% respectively. The business mix of the company include 30% of order with materials while rest 70% order are without materials which is a high margin business for the company.

For the FY10 the net profit the company has doubled during the year to Rs 23.46cr as against 10.3cr reported during FY09, the increment in net profit can be attributed to higher Top-Line number and improved operating performance of the company.

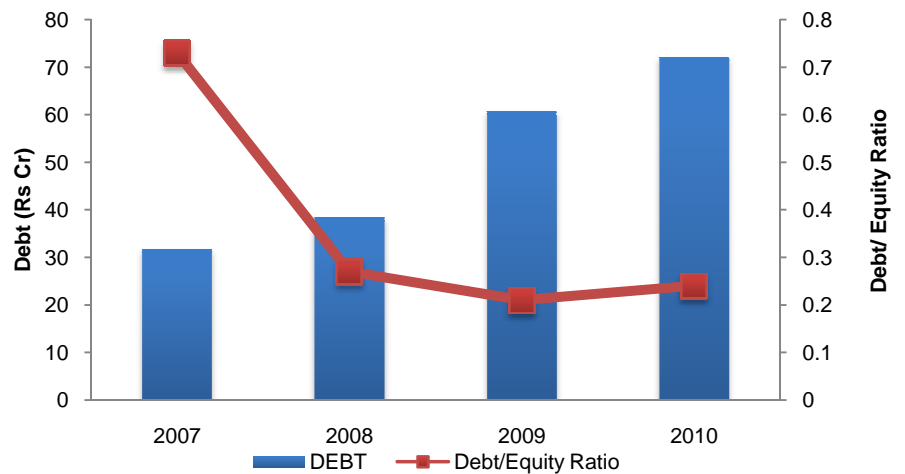
BALANCE SHEET: Transformers & Rectifiers Limited (Rs Cr)

	Mar-10	Mar-09	Mar-08
Net Worth	292.48	248.41	209.25
Minority Interest	3.26	2.81	2.46
Loans- Term	2.24	4.05	7.13
Loans - Working Capital	69.92	56.84	31.29
Deferred Tax Liability	-5.22	-0.96	-0.21
Total	373.12	313.07	250.34
Net Block Including WIP	107.41	86.42	43.07
Investments	1.32	76.65	76.09
Net Working Capital	264.39	149.99	131.17
Deferred Revenue Expenses	0	0.01	0.01
Total	373.12	313.07	250.34

The latest debt in books is about Rs 72.16cr, while the Reserves & Surplus of TRIL stand at Rs 279.56cr. The company has healthy cash balance of Rs 133.75cr.

Debt/Equity Ratio:

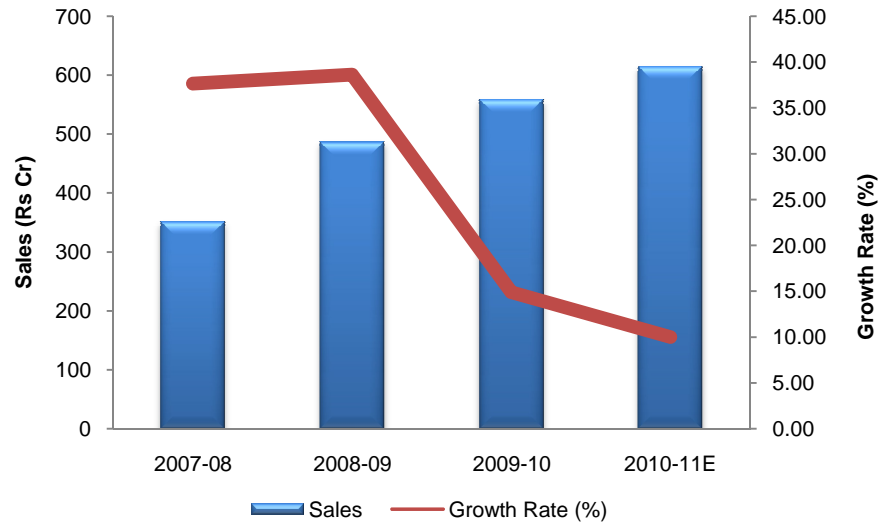
Debt/Equity Ratio



The Debt to Equity ratio of the company stands at 0.24%, as against the industry average of .67%. With improved profitability, the company's ability to service its debt will improve.

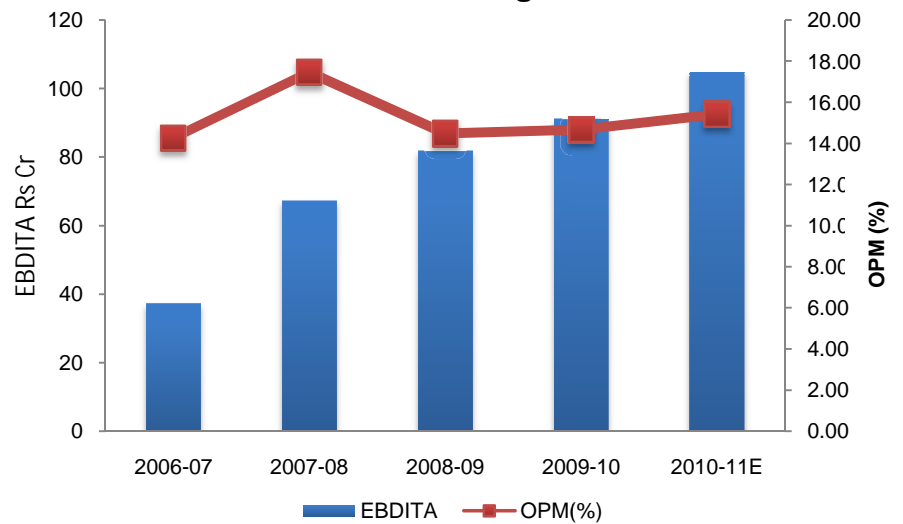
The top-line is expected to grow at a CAGR of 12.5% to Rs 615.18cr, during the period 2008-09 to 2010-11E respectively.

Sales Growth Rate



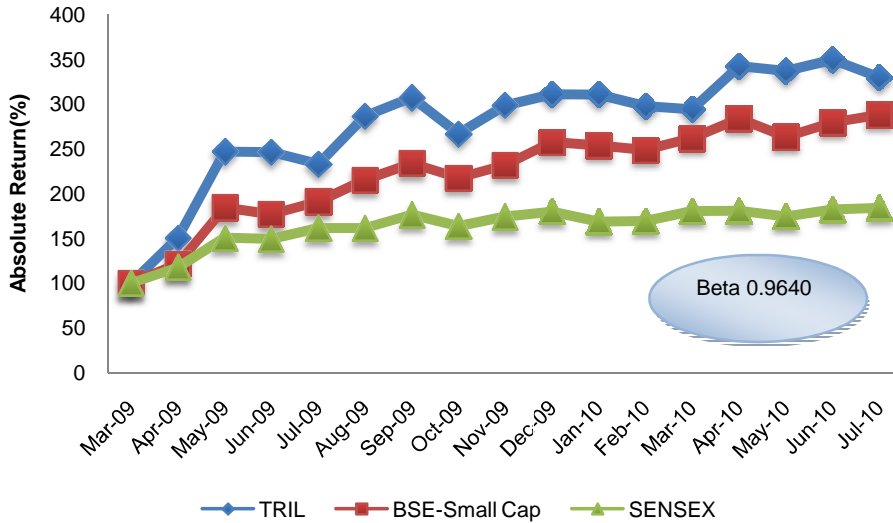
We expect the operating profit margins of TRIL to stabilize near 15% since the company caters to all kinds of transformers.

EBDITA Margin



Stock Performance

Price Performance



The Stock has repeatedly outperformed both the broader market and small cap indexes; we expect the same will continue.

Key Concerns:

Slowdown in Power Generation:

The growth of transformer industry is highly correlated to growth of power generation capacity and expansion of transmission line. Any slowdown in sector could dent the profitability of the company.

Delay in Payment:

TRIL executes a number of contracts for SEBs and State Electricity Generating Companies such as NTPC & Power Grid etc. Any delay in payment may impact the working capital cycle. It may also increase interest outgo.

Higher Raw Material Prices:

The transformer industry is highly raw material intensive. Any volatility in Copper and CRGO Steel prices may have negative impact on the margins of the company.

Notes: Figures are sourced from www.bseindia.com, capital market and annual report

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