

### Market Movement

	Close	Diff	% Chg
BSE 100	7,051.1	-11.6	-0.2%
CNX Nifty Jr	7,125.9	-51.2	-0.7%
Dow Jones	12,309.3	-22.4	-0.2%
Nasdaq	2,445.9	-6.5	-0.3%

### Turnover

	Rs mn		% Chg
BSE	45,640	↓	-4.5%
NSE	87,020	↓	-1.1%

### Advances/Declines (%)

	Advances	Declines
BSE	34.6%	63.0%
NSE	26.8%	70.5%

### Nifty Delivered Statistics

	Delivered Quantity	% Daily Quantity*
<b>Most Delivered</b>		
Matrix Labs	454,276	82.3
SCI	61,973	81.3
UTI Bank	837,362	77.9
Patni	291,847	70.9
<b>Least Delivered</b>		
Tata Steel	867,609	14.6
SBI	168,777	14.6
Jet Airways	53,622	10.4
Titan	47,056	9.9

\* to trade quantity.

### Institutional Activity

5 December 2006	Cash (Rs mn)	F&O (Rs mn)
<b>FII's</b>		
Buy	25,527	12,389
Sell	53,665	10,716
Net	-28,138	1,673
<b>Mutual Funds</b>		
Buy	5,042	-
Sell	4,537	-
Net	505	-

### Key Statistics

	Close	Change
R\$/US\$	44.76	0.06
R\$/Euro	59.42	0.03
10 yr G-Sec (%)	7.40	0.01
Call rate (%)	6.10	-
Brent-spot (US\$/bbl)	63.58	0.20
WTI-spot (US\$/bbl)	62.19	-0.24
Aluminium (LME, US\$/t)	2,775	-89.00
Copper (LME, US\$/t)	6,935	-113.00
Zinc (LME, US\$/t)	4,515	-85.00
Steel (US\$/t)	600	0.00

## Inside

### □ Indo Tech Transformers: Good long-term bet

We met with the management of Indo Tech Transformers. The company has strong customer base in South India with State Electricity Boards (SEBs) of Tamil Nadu, Kerala and Andhra Pradesh being its prime customers. It also caters to EPC contractors like L&T, ABB and Reliance Energy. Outlook for the next two-three years seems to be good, due to large demand supply gap. As a result the company is ramping up its capacity to 7,450 MVA in September 2007 from 3350 MVA currently. We believe that at a PE of 11.4x FY08E earnings, the stock could be considered from medium to long-term perspective given its new capacity coming on stream, efforts to enter the higher end transformers and industrial segments (where margins are better), strong order book and good quality of its management.

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**Sector: Power**

Market caps	Rs2.7 bn/US\$60.0 mn
52-week range	Rs263/118
Shares in issue (mn)	10.6
6-mon avg daily vol (no of shares)	135,991
6-mon avg daily vol (mn)	Rs34.4/US\$0.8
Bloomberg	INDT IN
BSE Sensex	13949
Website	www.indo-tech.com

**Shareholding Pattern (%)**

Promoters	60.3
FIs	2.6
MFs/FIs/Banks	13.7
Public	16.4
Others	7.1

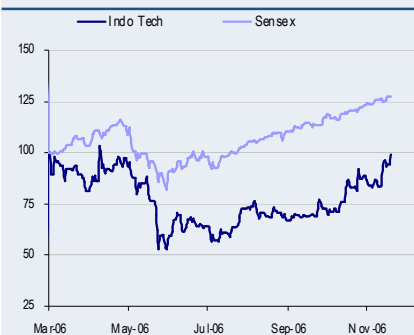
(As of 30 September 2006)

**Price Performance (%)**

	1M	3M	12M
Absolute	30.4	49.8	-
Relative*	24.4	32.1	-

\*To the BSE Sensex

**Relative Performance**



(As of 6 December 2006)

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**Good long-term bet**

**We met with the management of Indo Tech Transformers. The company has strong customer base in South India with State Electricity Boards (SEBs) of Tamil Nadu, Kerala and Andhra Pradesh being its prime customers. It also caters to EPC contractors like L&T, ABB and Reliance Energy. Outlook for the next two-three years seems to be good, due to large demand supply gap. As a result the company is ramping up its capacity to 7,450 MVA in September 2007 from 3350 MVA currently. We believe that at a PE of 11.4x FY08E earnings, the stock could be considered from medium to long-term perspective given its new capacity coming on stream, efforts to enter the higher end transformers and industrial segments (where margins are better), strong order book and good quality of its management.**

**Highlights**

- **Transformers industry to grow at CAGR of 25%:** The management sounded positive on the growth prospects of the industry and expects it to grow at a CAGR of 25% for the next three years. The optimism was based on the fact that the demand for transformers in the next couple of years would continue to outstrip the supply. Total demand for transformers would be in the range of about 110,000 MVA p.a. (75,000 MVA incremental demand + 20,000 MVA replacement demand and 20,000 MVA exports), whereas the supply at full capacity would be around 85,000-90,000 MVA. Thereby creating a demand supply gap of around 20,000 MVA.
- **Strong order book position:** The company is comfortably sitting on an order book of around Rs1.72 bn as on 30 November 2006, out of which almost Rs1.4 bn is from SEBs and rest is from industrials. However, going forward, the company is striving hard to reduce its dependence on SEBs from the current levels of 75%. We understand that they are targeting to change this mix to 60:40 by FY08, as margins on industrials are better.

**Exhibit 1: Key financials**

(Rs mn)

Y/E March	FY05	FY06	FY07E	FY08E
Net sales	709	973	1244	2024
EBITDA	117	173	230	375
EBITDA (%)	16.5	17.8	18.5	18.5
Net Profit (Adj)	78	110	148	235
EPS (Rs)	27.8	10.4	14.0	22.1
EPS Growth (%)	90.8	(62.6)	34.8	58.1
ROCE (%)	46.8	33.5	28.6	37.8
ROE (%)	35.5	22.3	18.7	24.8
PE (x)	9.1	24.3	18.1	11.4
Book Value (x)	91.3	68.7	80.3	98.6
EV/EBITDA (x)	4.6	10.9	9.3	6.0

Source: Company, ASK-Raymond James. Note: Valuations as of 6 December 2006.

- **Entering the dry type transformers market:** Indo Tech is installing a 100 MVA/annum capacity dry type transformer plant in collaboration with Dupont, USA that will be operational in January 2007. Dry type transformers fetch better margins than oil filled transformers and are increasingly being used in malls, multiplexes, hotels and residential buildings especially in urban areas.
- **Ramping up capacity to 7,450 MVA:** The company has completed the relocation and modernization of its Saidapet plant, expanding capacity to 750 MVA (from earlier 450 MVA). Further, the company has also ramped up its transformer plant at Thirumazhisai from 1,800 MVA to 2,400 MVA and is also setting up a greenfield power transformer plant with the capability of manufacturing 400 kv class transformers. As a result, the annual capacity would go up to around 7,450 MVA by September 2007 from 3350 MVA currently.
- **Capex plans of Rs607 mn:** On back of the new greenfield facility at Kancheepuram, overall capex plans have been revised from Rs427 mn to Rs607 mn over the next two years. The company intends to fund this total capex through its IPO proceeds and internal accruals; hence no further equity dilution is on cards.
- **Strong earnings growth expected:** We expect the company to report revenue of Rs1.24 bn in FY07E and around Rs2.03 bn in FY08E. We believe that with full capacity going operational in FY09, strong growth of 50% could be witnessed during that fiscal. We expect EBIDTA margins to stabilize at around 18.5% level from the levels of 19.5% witnessed in 1H FY06. We expect the company to report an EPS of around Rs14 for FY07E and Rs22 for FY08E.
- **Good medium to long-term bet:** At a PE of 11.4x, we believe that the stock could be considered from medium to long-term perspective given the additional capacity, efforts to enter higher end transformers and industrial segments (where margins are better), strong order book and good quality of its management.

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