

# BUY

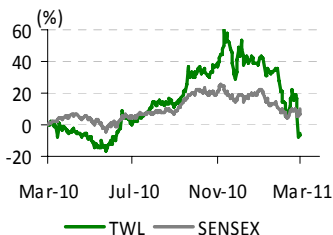
## Company update

### Analyst

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**Price** Rs329  
**Target** Rs733  
**BSE Index** 18,489

### Historical Chart



Performance	1m	3m	6m
Absolute (%)	-23.1	-33.2	-15.2
Relative (%)	-23.7	-27.7	-17.8

### Stock Information

Ticker code	TWL IN
Market cap (US\$m)	137
52-week high (Rs)	606
52-week low (Rs)	297
Shares issued (m)	18.8
6m avg d.vol (US\$m)	2.7
Free float (%)	50.5
Major shareholders (%)	49.5
Chowdhary family	

### Statutory Auditor

S. R. Batliboi & Co.

### Key Indicator (FY12F)

ROE (%)	16.3
Net gearing (%)	24.2
Interest cover (x)	17.5

# Titagarh Wagons Ltd (TWL)

## Backlog, new orders to support strong EPS, Maintain BUY

Disappointed with unchanged budget for wagons by the Indian Railways (IR), investors sold TWL shares last week. We think a 20% sell off is unwarranted as unchanged budget of 18k wagons is big enough to increase TWL's backlog by 40% and secure our FY12/13F earnings. Note that IR is yet to release orders for 6k wagons from last year's budget. TWL is now trading at low PER of 6.2x FY12F - very cheap given FY12 earnings growth of 35% and strong B/S.

### Current backlog of Rs5bn secures Q4 revenue growth of 70% Y/Y

In M9, TWL recorded 60% of our FY11F sales volume of 3,000 wagons. Since then, TWL's order book has doubled as it secured new orders from IR in last 3 months providing confidence that it will meet our FY11 revenue of Rs7.1bn (+30%).

### 40% rise in budgeted spending assures new orders won't be delayed

Last week, IR increased FY12 budgeted spending by 40% to Rs576bn – to be funded 40% by gov't receipts and balance from internal CF/debt. With more funds at its disposal, IR would issue wagon orders for FY12 (18k) and carried forward from previous year (6k). Wagons are key drivers for freight revenue which IR targets to rise by 7% to 990m tones in FY12.

### New order of 2,200 wagons in H1FY12F

Based on TWL's past market share of 12%, we forecast new orders of 2,200 wagons if IR uses its full FY12 budget allocation. This is key to our FY12F sales volume of 3,680 wagons (+25%). IR accounts for 80% of revenue, balance comes from private sector. TWL has current backlog of 2,500 wagons – including FY11 IR orders of 2,200.

### High-margin IR orders helping GM rise 300bp to 24%

IR work offers GM of 25% vs 15% from the private sector. Increased proportion of work from IR raised GM to 23% in 9M (FY10 GM was 20.8%). We expect GM to rise to 25% in Q4 (100% sales from IR).

### FY11F EPS +23%, FY12F +35%

There is 10% potential upside to our FY12F EPS from possible larger contribution from subsidiary, Cimco Birla. It will sell 1,700 wagons to IR in FY12. Our share TP of Rs733 is based on PER of 14x FY12F – its currently trading at low PER of 6.2x FY12F.

Year End March 31	FY09	FY10	FY11F	FY12F	FY13F
Revenue (Rsm)	6,859	5,542	7,161	10,203	13,027
Net profit (Rsm)	641	602	783	1,067	1,464
EPS (Rs)	34.7	32.0	39.5	53.2	73.0
EPS growth (%)	-6.2	-7.9	23.4	34.6	37.2
D/E (x)	0.0	0.1	0.1	0.2	0.2
PER (x)	9.5	10.3	8.3	6.2	4.5
P/BV (x)	1.6	1.4	1.2	1.0	0.8

SEE APPENDIX I FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

**FY12F EPS rises 8% on additional sale of 400 wagons**

### Sensitivity analysis

Sensitivity matrix (FY12F)	Change in EPS (%)
<b>Sales (base case - Rs10.2bn)</b>	
Impact of 5% price change	11
Impact of additional 400 wagons (base case - 3,680 wagons)	8
<b>Gross margin (base case - 23.9%)</b>	
Impact of 100bp change	7

*Source: Company data*

**Secured GM on price escalation clause**

Rising steel/aluminum costs will not hurt TWL's GM as its work has pass through clause. According to our sensitivity analysis, a 5% change in selling price affects EPS by 11%.

**Earnings upgrades to follow on additional orders**

If TWL secures more-than-expected IR orders, there will be earnings upgrades from analysts. We estimate that sale of additional 400 wagons has a +ve impact of 8% on TWL's EPS.

<b>COMPANY ONLY QUARTERLY FINANCIALS (Yr to Mar)</b>					
<b>PROFIT &amp; LOSS (Rsm)</b>	<b>Q3FY10</b>	<b>Q4FY10</b>	<b>Q1FY11</b>	<b>Q2FY11</b>	<b>Q3FY11</b>
Revenue	1,373	1,844	1,519	1,625	1,280
Cost of sales, ex depr	-1,076	-1,344	-1,144	-1,162	-962
Depreciation	-11	-6	-13	-102	-22
Selling, Admn. expenses	-96	-96	-82	-87	-83
<b>Operating profit</b>	<b>191</b>	<b>399</b>	<b>280</b>	<b>274</b>	<b>214</b>
Other income / expense	0	10	0	0	0
Interest expensed	28	-12	0	27	40
<b>Profit before tax</b>	<b>219</b>	<b>396</b>	<b>280</b>	<b>301</b>	<b>253</b>
Tax	-64	-136	-98	-92	-94
Minorities	0	0	0	0	0
<b>Net Profit before extra.</b>	<b>155</b>	<b>260</b>	<b>183</b>	<b>209</b>	<b>159</b>
Extraordinary gain	0	0	23	-33	0
<b>Net Profit after extra</b>	<b>155</b>	<b>260</b>	<b>206</b>	<b>176</b>	<b>159</b>
EPS (Rs)	8.2	13.8	10.9	9.4	8.5
Recurring EPS (Rs)	8.2	13.8	9.7	11.1	8.5
Fully diluted no. of share (m)	19	19	19	19	19
<b>Ratios (%)</b>	<b>Q3FY10</b>	<b>Q4FY10</b>	<b>Q1FY11</b>	<b>Q2FY11</b>	<b>Q3FY11</b>
Gross margin	20.9	26.8	23.8	22.2	23.2
Operating margin	13.9	21.6	18.5	16.8	16.7
Net margin	11.3	14.1	12.0	12.9	12.4
SG&A / Sales	7.0	5.2	5.4	5.4	6.5
Effective Tax rate	29.1	34.4	34.9	30.6	37.2
<i>Source: Company data</i>					

<b>CONSOLIDATED YEARLY FINANCIALS (Yr To Mar.)</b>						
<b>PROFIT &amp; LOSS (Rsm)</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11F</b>	<b>FY12F</b>	<b>FY13F</b>
Sales	5,597	6,859	5,542	7,161	10,203	13,027
Cost of sales	-4,488	-5,623	-4,347	-5,399	-7,719	-9,671
Depreciation	-21	-29	-45	-52	-59	-63
Selling and admn expenses	-244	-366	-359	-464	-661	-845
<b>Operating profit</b>	<b>844</b>	<b>841</b>	<b>791</b>	<b>1,246</b>	<b>1,764</b>	<b>2,449</b>
Other income / Expense	115	186	217	0	0	0
Interest expensed	-32	-55	-72	-13	-104	-171
<b>Profit before tax</b>	<b>926</b>	<b>971</b>	<b>937</b>	<b>1,233</b>	<b>1,660</b>	<b>2,277</b>
Tax	-320	-330	-335	-440	-593	-813
Minorities	0	0	0	0	0	0
<b>Recurring net profit</b>	<b>606</b>	<b>641</b>	<b>602</b>	<b>793</b>	<b>1,067</b>	<b>1,464</b>
Exceptional items	0	0	0	-10	0	0
<b>Net profit</b>	<b>606</b>	<b>641</b>	<b>602</b>	<b>783</b>	<b>1,067</b>	<b>1,464</b>
EPS (Rs)	37.0	34.7	32.0	39.0	53.2	73.0
Recurring EPS (Rs)	37.0	34.7	32.0	39.5	53.2	73.0
Fully diluted no. of share (m)	16	18	19	20	20	20
<b>KEY ASSUMPTIONS (Rsm)</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11F</b>	<b>FY12F</b>	<b>FY13F</b>
Sales	5,597	6,859	5,542	7,161	10,203	13,027
Wagons sales	5,994	7,158	5,141	5,688	7,326	9,653
Wagons sales volume (units)	3,466	3,685	2,847	3,000	3,680	4,618
Others sales	409	418	576	1,699	3,200	3,785
Total average debt	448	332	849	1,730	2,380	2,880
Average interest Rate (%)	7.2	10.2	9.0	9.4	9.4	9.4
Total interest	32	55	72	163	224	271
<b>RATIOS (%)</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11F</b>	<b>FY12F</b>	<b>FY13F</b>
Gross margin	19.4	17.6	20.8	23.9	23.8	25.3
Operating margin	15.1	12.3	14.3	17.4	17.3	18.8
Net margin	10.8	9.3	10.9	10.9	10.5	11.2
SG&A / Sales	4.4	5.3	6.5	6.5	6.5	6.5
Effective tax	34.5	34.0	35.7	35.7	35.7	35.7
Book value per share (Rs)	199.4	212.0	241.2	265.7	325.5	392.9
ROA	11.5	12.1	7.7	8.4	8.5	9.8
ROE	18.6	16.4	13.3	14.7	16.3	18.6
Net Debt/ Equity (x)	0.0	0.0	0.1	0.1	0.2	0.2
Dividend payout ratio	15.2	14.4	15.6	12.0	8.8	6.4
<b>CASHFLOW (Rsm)</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11F</b>	<b>FY12F</b>	<b>FY13F</b>
EBITDA	865	870	836	1,298	1,822	2,511
Accounts receivables	-144	61	-401	-282	-387	-269
Inventory	-574	-80	-847	-788	-1,493	-1,526
Working capital	68	-1,074	69	482	567	716
<b>Operating cash flow</b>	<b>216</b>	<b>-224</b>	<b>-343</b>	<b>709</b>	<b>510</b>	<b>1,433</b>
Interest	-32	-55	-72	-13	-104	-171
TAX	-320	-330	-335	-440	-593	-813
<b>Residual cash flow</b>	<b>-137</b>	<b>-609</b>	<b>-749</b>	<b>256</b>	<b>-187</b>	<b>448</b>
Fixed assets	-55	-402	-924	-250	-250	-150
Investments	-3	9	-57	-305	-610	-49
Capital work in progress	-56	19	-119	128	-63	-58
<b>Free cashflow</b>	<b>-250</b>	<b>-984</b>	<b>-1,850</b>	<b>-171</b>	<b>-1,110</b>	<b>192</b>
Capital increase	1,797	111	4	0	363	0
Dividend payments	-92	-92	-94	-94	-94	-94
Others/exceptional items	92	179	647	90	-137	-18
<b>Net change in cashflow</b>	<b>1,546</b>	<b>-785</b>	<b>-1,293</b>	<b>-175</b>	<b>-978</b>	<b>79</b>
Net cash beg	103	1,649	864	-429	-604	-1,582
<b>Net cash end</b>	<b>1,649</b>	<b>864</b>	<b>-429</b>	<b>-604</b>	<b>-1,582</b>	<b>-1,503</b>
<b>BALANCE SHEET (Rsm)</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11F</b>	<b>FY12F</b>	<b>FY13F</b>
Cash & equivalent	2,194	982	1,151	1,276	1,298	1,377
Receivables	627	566	967	1,250	1,636	1,905
Inventories	1,352	1,432	2,280	3,068	4,560	6,086
Other current assets/loans & advances	659	1,501	1,905	1,847	2,316	2,553
Fixed assets (net)	264	638	953	1,151	1,342	1,429
Investments	11	2	59	364	974	1,023
Capital work in progress	177	158	276	148	211	269
Other assets/goodwill	4	4	252	253	253	254
<b>Total assets</b>	<b>5,288</b>	<b>5,284</b>	<b>7,843</b>	<b>9,355</b>	<b>12,590</b>	<b>14,897</b>
Working capital - liabilities	1,479	1,248	1,721	2,144	3,180	4,134
Debt	545	118	1,580	1,880	2,880	2,880
Others	-3	7	6	0	0	0
<b>Shareholders' funds</b>	<b>3,265</b>	<b>3,910</b>	<b>4,536</b>	<b>5,331</b>	<b>6,530</b>	<b>7,882</b>

Source: Company Data, Kim Eng Securities Estimates

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**Recommendation definitions**  
 Our recommendation is based on the following expected price performance within 12 months:

+15% and above: BUY  
 -15% to +15%: HOLD  
 -15% or worse: SELL

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AND  
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