

January 27, 2011

Reco	Previous Reco
Reduce	Reduce
CMP	Target Price
Rs66	Rs60
EPS change FY11E/12E (%)	-5 / -10
Target Price change (%)	NA
Nifty	5,604
Sensex	18,684

Price Performance

(%)	1M	3M	6M	12M
Absolute	5	9	(3)	(29)
Rel. to Nifty	13	17	(6)	(38)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Transformer
Bloomberg	EMCO@IN
Equity Capital (Rs mn)	121
Face Value(Rs)	2
No of shares o/s (mn)	61
52 Week H/L	100/57
Market Cap (Rs bn/USD mn)	4/88
Daily Avg Volume (No of sh)	242437
Daily Avg Turnover (US\$m)	0.3

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	39.9	39.9	36.7
FII/NRI	4.0	4.1	4.4
Institutions	7.5	7.5	11.5
Private Corp	22.2	22.4	22.7
Public	26.5	26.3	24.6

Source: Capitaline

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- **Emco reported PAT of Rs55mn, 9% lower than our estimate but more important is that it turned profitable in the quarter – some assurance of cost overruns provisions being over**
- **Revenues were significantly ahead of estimates at Rs3bn led by projects even though EBITDA margins remained muted at 4.7% in the segment**
- **Guides for 0.15mn MT of coal sales in FY11E from Indonesian coal mine (37% stake); the ramp up in this business remains important for FY12E performance as the margin pressures in the core business remain**
- **Reduce FY11E/12E earnings by 5%/10% to Rs.(5.6/Share) and Rs4.1/Share; Trading at 16.1x FY12E earnings and 6.1x FY12E EBITDA - expensive; Maintain Reduce**

Revenues ahead, PAT below

Emco reported revenues of Rs3bn (up 46% yoy), ahead of our estimates of Rs2.6bn. The revenue growth was driven by projects business where it reported 128% yoy growth whereas transformers revenues declined by 8%. The EBITDA margins stood at 8% exactly in line with our estimates. Though the margins in the transformers business was better at 14% but projects business margins stood at muted 4.7%. The EBITDA stood at Rs242mn, down 9% yoy. Led by higher interest cost (higher debt and interest rate) of Rs115mn, it reported a PAT decline of 46% yoy, 9% below our estimates. However, the important highlight of the qtr is that it turned profitable giving some assurance of cost overruns being over.

Margin pressure continues in the core business; tweak FY11E and FY12E earnings by -5% and -10%

Led by lower than estimated PAT due to higher interest cost, we are reducing our FY11E and FY12E earnings by 5% and 10% to Rs.(5.6/Share) and Rs4.1/Share. For FY11E, management has guided for 0.15mn MT of coal sales from Indonesian coal mine (37% stake). We believe the ramp up in this business remains important for FY12E performance as the margin pressures in the core business remain.

Net debt increases to Rs3.8bn; maintain Reduce

Emco had net debt of Rs900mn at the end of FY10 which has increased to Rs2.8bn at the end of Q2FY11 and further to Rs3.8bn at the end of Q3FY11. Though as it looks the cost over runs provisions seems to be over but payment delays/ working capital cycle problems continues with Emco. This is evident from the fact that debtors days currently stands at huge 230days. At CMP of Rs66, the stock is trading at 16.1x FY12E earnings, 0.8x FY12E book value and 6.1x FY12E EBITDA - expensive compared to peers at 3-5x EV/EBITDA. On the back of expensive valuations and unreasonably high collection cycle, we maintain our reduce rating on the stock with a price target of Rs60/share.

Financial Snapshot

	Rs Mn									
YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY09	9,963	1,375	13.8	524	8.9	(19.1)	13.1	7.4	5.3	0.9
FY10	9,786	1,102	11.3	355	5.4	(38.8)	7.1	3.2	6.6	0.7
FY11E	11,494	62	0.5	(364)	(5.6)	(202.6)	(6.4)	(11.8)	116.9	0.8
FY12E	13,972	1,193	8.5	268	4.1	(173.5)	4.8	16.1	6.1	0.8

Quarterly Results

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	9mFY10	9mFY11	YoY (%)
Revenue	2,081	3,764	1,188	2,902	3,037	46.0	4.7	6,021	7,128	18.4
Expenditure	-1,815	-3,441	-1,444	-3,176	-2,795	54.0	-12.0	-5,244	-7,416	41.4
<i>as % of sales</i>	<i>-87.2%</i>	<i>-91.4%</i>	<i>-121.5%</i>	<i>-109.4%</i>	<i>-92.0%</i>			<i>-87.1%</i>	<i>-104.0%</i>	
Consumption of RM	-1,537	-3,045	-1,109	-2,784	-2,447	59.2	-12.1	-4,403	-6,340	44.0
<i>as % of sales</i>	<i>-73.9%</i>	<i>-80.9%</i>	<i>-93.4%</i>	<i>-95.9%</i>	<i>-80.6%</i>			<i>-73.1%</i>	<i>-89.0%</i>	
Power and Fuel	0	0	0	0	0			0	0	
<i>as % of sales</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>			<i>0</i>	<i>0</i>	
Other Mfg Expenses	0	0	0	0	0			0	0	
<i>as % of sales</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>			<i>0</i>	<i>0</i>	
Employee Cost	-117	-170	-156	-148	-118	0.4	-20.8	-365	-422	15.7
<i>as % of sales</i>	<i>-5.6%</i>	<i>-4.5%</i>	<i>-13.1%</i>	<i>-5.1%</i>	<i>-3.9%</i>			<i>-6.1%</i>	<i>-5.9%</i>	
Other expenditure	-161	-226	-179	-244	-231	43.5	-5.2	-476	-654	37.2
<i>as % of sales</i>	<i>-7.7%</i>	<i>-6.0%</i>	<i>-15.1%</i>	<i>-8.4%</i>	<i>-7.6%</i>			<i>-7.9%</i>	<i>-9.2%</i>	
EBITDA	266	323	-256	-274	242	-8.9	-188.3	778	-288	-137.0
Depreciation	-46	-45	-46	-46	-45	-2.3	-1.3	-134	-137	2.3
EBIT	220	278	-302	-320	197	-248.0	-161.6	644	-425	-166.0
Other Income	0	0	0	0	0			0	0	#DIV/0!
Interest	-75	-125	-91	-112	-114	52.0	2.1	-236	-316	34.1
PBT	145	153	-393	-431	83	-42.7	-119.2	408	-741	-281.8
Total Tax	-44	-74	133	145	-28	-35.9	-119.5	-133	249	-287.7
Adjusted PAT	101	79	-261	-286	55	-45.6	-119.1	275	-492	-279.0
Extra ordinary items	0	-1	0	0	0			985	0	
Reported PAT	101	78	-261	-286	55	-45.6	-119.1	1260	-492	-139.0
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			0	0	#DIV/0!
PAT after MI	101	78	-261	-286	55	-45.6	-119.1	1260	-492	-139.0
Reported EPS	1.5	1.2	-4.0	-4.4	1.0	-38.3	-121.7	4.2	-7.4	-276.3

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	12.8	8.6	-21.5	-9.4	8.0	-480	1741	12.9	-4.0	-1695
EBIT	10.6	7.4	-25.5	-11.0	6.5	-407	1749	10.7	-6.0	-1665
EBT	6.9	4.0	-33.1	-14.9	2.7	-422	1759	6.8	-10.4	-1717
PAT	4.8	2.1	-21.9	-9.9	1.8	-303	1165	20.9	-6.9	-2783
Effective Tax rate	30.5	48.6	33.7	33.7	11.8	-1866	-2184	32.6	33.6	106

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Net Sales	9,963	9,786	11,494	13,972
<i>Growth (%)</i>	5.5	-1.8	17.5	21.6
Expenditure	8,587	8,684	11,432	12,779
Raw Materials	7,386	7,448	9,902	11,030
Construction Exp	519	510	599	658
Employee Cost	419	534	625	722
Other Exp	264	192	307	370
EBITDA	1,375	1,102	62	1,193
<i>Growth (%)</i>	6.9	-19.9	-94.4	1,816.9
EBITDA margin (%)	13.8	11.3	0.5	8.5
Depreciation	164	179	191	202
EBIT	1,212	923	-129	991
EBIT margin (%)	12.2	9.4	-1.1	7.1
Other Income	0	7	10	10
Interest expenses	415	368	433	595
PBT	797	561	-552	406
Tax	273	206	-188	138
<i>Effective tax rate (%)</i>	34.3	13.4	34.0	34.0
Adjusted PAT	524	355	-364	268
(Profit)/loss from JV's/Ass/MI	0	0	0	0
Adjusted PAT after MI	524	355	-364	268
<i>Growth (%)</i>	-19.1	-32.2	-202.6	-173.5
Net Margin (%)	5.3	3.6	-3.2	1.9
E/O items	-1	984	0	0
Reported PAT	523	1,339	-364	268
<i>Growth (%)</i>	-18.8	156.1	-127.2	-173.5

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	795	1,538	-562	396
Depreciation	164	179	191	202
Interest Provided	415	368	433	595
Other Non-Cash items	0	0	0	0
Chg in working cap	-984	15	-1,722	-1,886
Tax paid	-273	-203	203	-113
Operating Cashflow	117	1,897	-1,457	-806
Capital expenditure	-394	-270	-300	-300
Free Cash Flow	-276	1,627	-1,757	-1,106
Other income	0	7	10	10
Investments	-110	122	0	0
Investing Cashflow	-503	-141	-290	-290
Equity Capital Raised	0	13	0	0
Loans Taken / (Repaid)	673	-1,196	1,800	1,200
Interest Paid	-415	-368	-433	-595
Dividend paid (incl tax)	-82	-88	0	-40
Income from investments	51	363	-12	-16
Others	0	0	12	8
Financing Cashflow	227	-1,276	1,367	556
Net chg in cash	-159	480	-379	-540
Opening cash position	1,445	1,286	1,766	1,387
Closing cash position	1,287	1,766	1,387	847

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	118	131	131	131
Reserves & surplus	4,082	5,696	5,332	5,553
Net worth	4,200	5,827	5,462	5,683
Minority Interest	0	0	0	0
Secured Loans	3,757	2,561	4,361	5,561
Unsecured Loans	0	0	0	0
Loan Funds	3,757	2,561	4,361	5,561
Net deferred tax liability	200	200	200	200
Total Liabilities	8,157	8,587	10,023	11,444
Gross Block	2,633	2,948	3,274	3,565
Less: Depreciation	807	986	1,178	1,379
Net block	1,826	1,961	2,096	2,186
Capital work in progress	234	190	164	172
Investment	122	0	0	0
Current Assets	10,190	9,986	12,861	14,795
Inventories	1,756	1,530	2,402	2,920
Sundry debtors	4,700	4,770	6,506	7,909
Cash & bank balance	1,286	1,766	1,387	848
Loans & advances	2,447	1,920	2,565	3,118
Other current assets	0	0	0	0
Current lia & Prov	4,215	3,550	5,097	5,709
Current liabilities	4,119	3,450	4,982	5,569
Provisions	96	100	115	140
Net current assets	5,975	6,436	7,764	9,086
Misc. exp & Def. Assets	0	0	0	0
Total Assets	8,157	8,587	10,023	11,444

Key Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	13.8	11.3	0.5	8.5
Net Margin	5.3	3.6	-3.2	1.9
ROCE	15.9	11.0	-1.4	9.2
ROE	13.1	7.1	-6.4	4.8
RoIC	20.4	14.0	-1.7	10.5
Per Share Data (Rs)				
EPS	8.9	5.4	-5.6	4.1
CEPS	11.4	9.8	-3.7	6.2
BVPS	71.4	89.4	83.8	87.2
DPS	1.4	1.4	0.0	0.6
Valuations (x)				
PER	7.4	3.2	-11.8	16.1
P/CEPS	5.8	6.7	-18.1	10.7
P/BV	0.9	0.7	0.8	0.8
EV / Sales	0.6	0.5	0.6	0.6
EV / EBITDA	5.3	6.6	116.9	6.1
Dividend Yield (%)	2.1	2.1	0.0	0.9
Gearing Ratio (x)				
Net Debt/ Equity	0.6	0.1	0.5	0.8
Net Debt/EBIDTA	1.8	0.7	47.8	4.0
Working Cap Cycle (days)	172	174	202	215

Recommendation History: Emco Ltd. – EMCO IN

Date	Reports	Reco	CMP	Target
26/10/2010	Emco Q2FY11 Result Update	Reduce	64	60
30/07/2010	Emco Q1FY11 Result Update	Reduce	67	60
31/05/2010	Emco Q4FY10 Result Update	Reduce	78	82
28/01/2010	Emco Q3FY10 Result Update	Reduce	91	82

Recent Research Reports

Date	Reports	Reco	CMP	Target
25/01/2011	Bharat Bijlee Q3FY11 Result Update	Buy	1,088	1,350
25/01/2011	Power Sector Report: Too many ends to tie			
13/01/2011	Sintex Industries Q3FY11 Result Update	Accumulate	169	215
11/11/2010	GIPCL Q2FY11 Result Update	Accumulate	118	135

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