

RESULT UPDATE

SMALL CAP

Share Data

Reuters code	EMCO.BO
Bloomberg code	EMCO IN
Market cap. (US\$ mn)	80
6M avg. daily turnover (US\$ mn)	0.6
Issued shares (mn)	57
Target price (Rs)	62

Performance (%)	1M	3M	12M
Absolute	(4)	(16)	(39)
Relative	(5)	(25)	(49)

Valuation Ratios

Yr to 31 Mar	FY11E	FY12E
EPS (Rs)	(7.5)	6.2
+/- (%)	(209.2)	NA
PER (x)	NA	10.0
PBV (x)	0.7	0.7
Dividend/Yield (%)	1.1	3.2
EV/Sales (x)	0.4	0.4
EV/EBITDA (x)	(78.2)	3.3

Major shareholders (%)

Promoters	37
FII's	4
MF's	10
BFSI's	1
Public & Others	48

Financial highlights

(Rs mn)	2QFY10	2QFY11	YoY(%)	1HFY10	1HFY11	YoY(%)	FY09	FY10	YoY(%)	FY11E	YoY(%)	FY12E	YoY(%)
Net Revenue	2,014	2,902	44.1	3,941	4,089	3.8	9,963	9,786	(1.8)	11,055	13.0	12,316	11.4
EBITDA	260	(274)	(205.3)	512	(529)	(203.2)	1,463	1,104	(24.5)	(56)	(105.1)	1,312	-
Margin (%)	12.9	(9.4)	-	13.0	(12.9)	-	14.7	11.3	-	(0.5)	-	10.7	-
Other Income	3	-	-	4	-	-	(23)	58	-	45	(22.8)	20	(55.6)
Depreciation	44	46	2.9	88	92	4.7	164	179	9.2	198	10.5	233	17.7
Interest	78	112	44.0	165	203	23.3	471	423	(10.3)	491	16.1	518	5.6
PBT and EoI	141	(431)	(405.1)	264	(823)	(412.2)	805	561	(30.3)	(699)	(224.7)	581	-
Tax	48	(145)	(405.2)	89	(278)	(412.8)	273	206	(24.3)	(238)	(215.2)	198	-
EoI	-	-	-	-	-	-	-	985	-	-	-	-	-
Reported PAT	1,079	(286)	(126.5)	1,160	(545)	(147.0)	531	1,338	152.0	(461)	(134.5)	384	-
Adjusted PAT	1,079	(286)	(126.5)	1,160	(545)	(147.0)	532	354	(33.4)	(461)	(230.2)	384	-
EPS (Rs)	1.6	(4.6)	(389.9)	3.0	(8.8)	(396.3)	9.0	6.8	(24.5)	(7.5)	(209.2)	6.2	-

EMCO

Maintain Underperformer

Price: Rs 62

BSE Index: 20,221

27 October 2010

2QFY11 Result – Sales pick-up, but projects continues to bleed

While EMCO reported a healthy pick up in sales, led by 188% growth in project sales, the losses in project business continued to erode earnings growth. With most old (substation) projects now in advance stage of completion, the management has provided for anticipated losses in the current quarter itself. This implies some recovery in operating profits in 2HFY11 against a loss of Rs 529 mn in 1HFY11.

While we expect Rs 473 mn of operating profits in 2H, EMCO is likely to report a net loss of Rs 460 mn in FY11. Further, muted order book of Rs 10 bn impairs growth visibility for FY12. We have lowered our FY12 earnings by 6%. With strong order pipeline for T&D projects in 2HFY11, we believe order book will improve. However, continuance of stiff competitive pressures and lower utilization levels will keep profitability lower for EMCO. Poor confidence in the earnings visibility will keep valuations muted in near term. Strong order flows with reasonable profitability will provide re-rating catalysts for EMCO.

- Revenue growth pulled back in 2Q with 44% YoY growth, slightly better than expected led by 188% growth in project business (56% of sales), as some large substation projects were completed. Transformers sales (40% of sales) picked up QoQ at 2600 MVA (800 MVA in 1Q), however, volumes were lower by 16% YoY, resulting in 15% lower sales.
- While transformer margins were ~8% and 14% in meters, project segment reported loss of ~Rs 383 mn. These losses are attributable to cost overruns, significant material quantity variations and firm input prices on projects completed in 2Q (as in 1QFY11) and provisions for similar cost variations for projects in the unexecuted order book. Post this, operating profitability in 2H is likely to be positive.
- Order book at Rs 10 bn (1x FY10 sales) is 37% lower YoY (17% lower QoQ) providing poor visibility for FY12. This consists of 32% from transformers (8,100 MVA) and 67% from projects.

Income Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Net sales	9,963	9,786	11,055	12,316
<i>Growth (%)</i>	<i>5.5</i>	<i>(1.8)</i>	<i>13.0</i>	<i>11.4</i>
Operating expenses	(8,500)	(8,682)	(11,111)	(11,004)
Operating profit	1,463	1,104	(56)	1,312
EBITDA	1,463	1,104	(56)	1,312
<i>Growth (%)</i>	<i>13.2</i>	<i>(24.5)</i>	<i>(105.1)</i>	<i>NA</i>
Depreciation	(164)	(179)	(198)	(233)
Other income	(23)	58	45	20
EBIT	1,276	983	(208)	1,100
Interest paid	(471)	(423)	(491)	(518)
Pre-tax profit	805	561	(699)	581
(before non-recurring items)				
Non-recurring items	(1)	984	0	0
Pre-tax profit	804	1,544	(699)	581
(after non-recurring items)				
Tax (current + deferred)	(273)	(206)	238	(198)
Net profit	531	1,338	(461)	384
Adjusted net profit	532	354	(461)	384
<i>Growth (%)</i>	<i>(18.1)</i>	<i>(33.4)</i>	<i>(230.2)</i>	<i>NA</i>
Net income	531	1,338	(461)	384

Balance Sheet

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Current assets	10,190	10,021	12,256	13,109
Investments	122	103	103	103
Net fixed assets	2,060	2,153	2,162	2,159
Other non-current assets	74	44	0	0
Total assets	12,445	12,321	14,521	15,371
Current liabilities	4,215	3,556	4,943	4,973
Total debt	3,561	2,599	4,216	4,795
Other non-current liabilities	273	293	0	0
Total liabilities	8,050	6,448	9,159	9,768
Share capital	313	174	174	174
Reserves & surplus	4,082	5,700	5,188	5,429
Shareholders' funds	4,396	5,873	5,361	5,603
Total equity & liabilities	12,445	12,321	14,521	15,371
Capital employed	8,230	8,765	9,578	10,398

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Pre-tax profit	804	1,544	(699)	581
Depreciation	162	115	198	233
Chg in working capital	(743)	(7)	(926)	(765)
Total tax paid	(216)	(158)	(10)	(198)
Cash flow from oper. (a)	7	1,495	(1,438)	(149)
Capital expenditure	(392)	(208)	(206)	(230)
Chg in investments	13	18	0	0
Cash flow from inv. (b)	(379)	(189)	(206)	(230)
Free cash flow (a+b)	(372)	1,305	(1,645)	(379)
Equity raised/(repaid)	0	46	0	0
Debt raised/(repaid)	478	(962)	1,617	578
Dividend (incl. tax)	(96)	(96)	(101)	(51)
Other financing activities	0	196	0	0
Cash flow from fin. (c)	381	(817)	1,516	528
Net chg in cash (a+b+c)	9	488	(129)	149

Key Ratios

Yr end 31 Mar (%)	FY09	FY10	FY11E	FY12E
EPS (Rs)	9.0	6.8	(7.5)	6.2
EPS growth	(18.1)	(24.5)	(209.2)	NA
EBITDA margin	14.7	11.3	(0.5)	10.7
EBIT margin	12.8	10.0	(1.9)	8.9
RoCE	16.5	11.6	(2.3)	11.0
Net debt/Equity	51.8	14.0	47.9	53.5

Valuations

Yr end 31 Mar (x)	FY09	FY10	FY11E	FY12E
PER	6.8	9.0	NA	10.0
PCE	5.2	6.0	NA	6.2
Price/Book	0.8	0.5	0.7	0.7
Yield (%)	2.3	2.7	1.1	3.2
EV/Net sales	0.4	0.4	0.4	0.4
EV/EBITDA	3.0	4.0	(78.2)	3.3

Du Pont Analysis – ROE

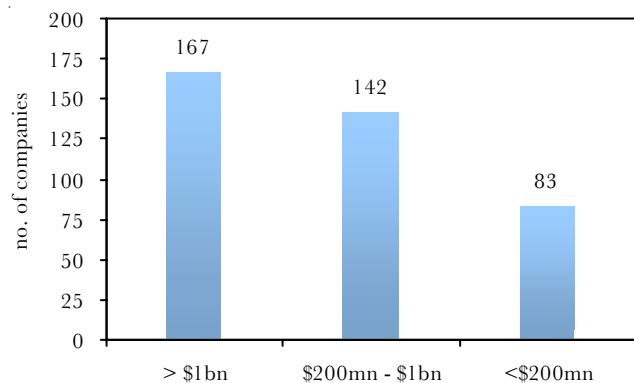
Yr end 31 Mar (x)	FY09	FY10	FY11E	FY12E
Net margin (%)	5.3	3.6	(4.2)	3.1
Asset turnover	0.9	0.8	0.8	0.8
Leverage factor	2.8	2.4	2.4	2.7
Return on equity (%)	12.7	6.9	(8.2)	7.0

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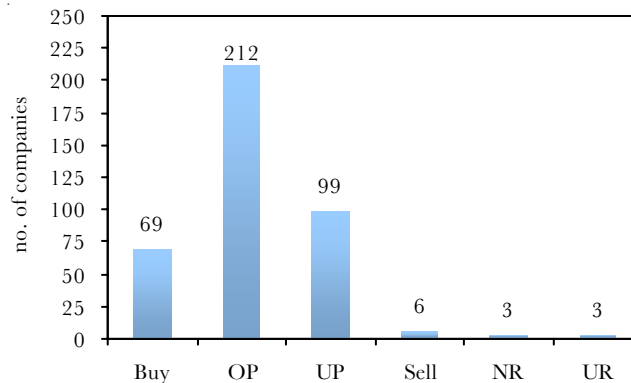
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B&K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings:

1. **BUY:** Potential upside of > +25% (absolute returns)
2. **OUTPERFORMER:** 0 to +25%
3. **UNDERPERFORMER:** 0 to -25%
4. **SELL:** Potential downside of < -25% (absolute returns)

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