

Sensex	15,001
Nifty	4,370

Transmission Towers

Positive

Sector summary

The Transmission Tower sector reported a strong set of numbers driven by volume growth and better margins (YoY). The order book of the companies continued to record growth, providing strong earning visibility for the sector.

Key highlights of the results:

- Net sales of the Transmission tower companies (4 companies) grew by 26% YoY to Rs13bn.
- EBITDA grew by 37.1% YoY to Rs1.7bn. EBITDA margin expanded by 110 bps to 13.6% in Q1FY08 (against 12.5% in Q1FY07).
- Adj. PAT increased by 58.1% YoY to Rs864mn. Adj. PAT margin expanded by 140bps to 6.7% in Q1FY08 (against 5.3% in Q1FY07)

Our top picks are:

- Jyoti Structures.
- KEC International.

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Figure 1: Valuation summary

Company	Price	Rating	Mkt Cap	Sales		EBITDA		Adj PAT		Adj EPS		FY08E		FY09E	
	(Rs)			(Rs mn)	Q1FY08	YoY	Q1FY08	YoY	Q1FY08	YoY	Q1FY08	YoY	Adj EPS	P/E	Adj EPS
				(Rs mn)	(%)	(Rs mn)	(%)	(Rs mn)	(%)	(Rs mn)	(%)	(Rs)	(x)	(Rs)	(x)
Jyoti	204	Buy	15,530	2,967	34.0	368	38.0	161	65.0	1.99	78.2	10.09	19.7	14.30	13.7
Kalpataru	1,520	Accumulate	36,216	3,686	22.0	603	24.0	371	45.0	14.0	24.1	76.60	18.5	93.60	14.5
KEC	580	Buy	22,808	5,116	24.0	639	48.0	253	73.0	6.70	84.8	35.89	17.2	44.80	13.5
RPG	247	Not rated.	4,080	1,013	10.0	126	27	71	46	4.4	46	17.8	14.2	25.9	10.1
Sector				12,927	26	1,756	37	864	58						

Source: Religare Institutional Equity Research, Bloomberg.

Q1FY08 sector summary

Figure 2: Net Sales - up 25.7% YoY

Rs mn	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08	change, YoY, (%)
KEC	4,124	4,677	5,723	6,409	5,116	24.1
Jyoti	2,209	2,426	2,572	3,043	3,112	40.9
Kalpataru	3,026	3,066	3,935	5,222	3,686	21.8
RPG	928	881	905	1,007	1,013	9.2
Sector	10,286	11,050	13,135	15,681	12,927	25.7

Source: Religare Institutional Equity Research, Bloomberg

- **Jyoti saw the highest growth due to a higher proportion of orders for rural electrification and substations which have shorter execution cycles.**

Figure 3: EBITDA - up 37.1% YoY

Rs mn	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08	change, YoY, (%)
KEC	430	571	805	707	639	48.5
Jyoti	267	269	358	389	389	46.0
Kalpataru	485	451	606	947	603	24.3
RPG	99	97	112	119	126	27.3
Sector	1,281	1,388	1,881	2,162	1,756	37.1

Source: Religare Institutional Equity Research, Bloomberg

- **KEC had the highest growth in EBITDA of 48.5% followed by Jyoti.**
- **Kalpatri's performance was disappointing because of only 11% YoY growth in revenue of T&D division which constitutes 83% of revenue.**

Figure 4: EBITDA margin - Up 110 bps YoY .

%	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08	change, YoY (%)
KEC	10.4	12.2	14.1	11.0	12.5	210
Jyoti	12.1	11.1	13.9	12.8	12.5	40
Kalpataru	16.0	14.7	15.4	18.1	16.4	40
RPG	10.7	11.0	12.4	11.8	12.4	180
Sector	12.5	12.6	14.3	13.8	13.6	110

Source: Religare Institutional Equity Research, Bloomberg

- **KEC saw highest improvement in EBITDA margin YoY due to execution of higher margin orders in the quarter.**

- **PAT growth was faster than EBITDA growth because of interest and depreciation remained constant as a % of sales.**

Figure 5: Adj. PAT – up 58.2% YoY

Rs mn	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08	change, YoY, (%)
KEC	146	217	382	302	253	73.8
Jyoti	97	115	174	159	169	74.1
Kalpataru	255	272	388	645	371	45.5
RPG	48	50	59	74	71	46.7
Sector	546	653	1,003	1,180	864	58.2

Source: Religare Institutional Equity Research, Bloomberg

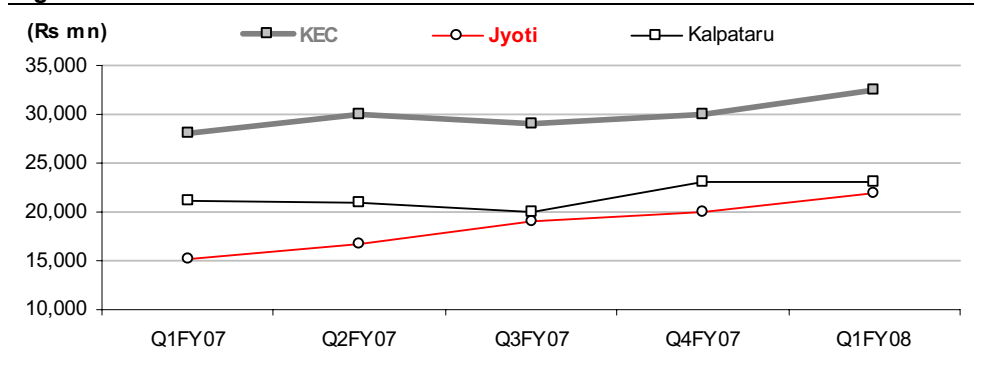
- **PAT margins expanded for all the companies YoY, although the QoQ improvement was mixed.**

Figure 6: Adj. PAT margin – up 140bps YoY

%	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08	change, YoY
KEC	3.5	4.6	6.7	4.7	4.9	140
Jyoti	4.4	4.7	6.8	5.2	5.4	100
Kalpataru	8.4	8.9	9.9	12.3	10.1	160
RPG	5.2	5.6	6.5	7.3	7.0	180
Sector	5.3	5.9	7.6	7.5	6.7	140

Source: Religare Institutional Equity Research, Bloomberg

- **The order book of the companies continued to grow. The order book of the 3 companies excluding RPG grew by 21% YoY. Kalpataru's order book grew the slowest because of its selectiveness in picking projects.**

Figure 7: Sector – order book


Source: Religare Institutional Equity Research, Bloomberg

Trends in the quarterly performance

- **Sales have grow by 85% in the last nine quarters due to robust spending in the T&D space.**

Figure 8: Sector - Net Sales, Rs mn

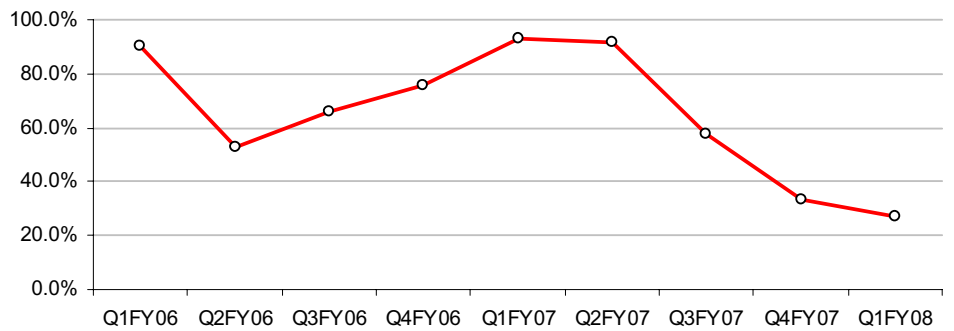
	Q1FY06	Q2FY06	Q3FY06	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08
KEC	3,786	4,127	4,575	4,784	4,124	4,677	5,723	6,409	5,116
Jyoti	1,446	1,585	1,986	2,364	2,209	2,426	2,572	3,043	3,112
Kalpataru	1,317	1,344	2,129	3,614	3,026	3,066	3,935	5,222	3,686
RPG	425	401	578	969	928	881	905	1,007	1,013
Sector	6,975	7,457	9,268	11,730	10,286	11,050	13,135	15,681	12,927

Source: Religare Institutional Equity Research, Bloomberg

Figure 9: Sector - Net Sales Growth %*

%	Q1FY06	Q2FY06	Q3FY06	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08
Jyoti	104.7	93.4	92.2	28.7	53	53	29	29	41
Kalpataru	35.9	9.9	32.6	109.8	130	128	85	44	22
RPG	NA	194.9	207.6	142.3	118.4	119.8	56.5	3.9	9.2
Sector	90.3	52.9	66.0	75.4	93	91	58	33	27

Source: Religare Institutional Equity Research, Bloomberg. * KEC figures not included as FY05 figures not comparable.

Figure 10: Sector - Net Sales Growth YoY %


Source: Religare Institutional Equity Research

- **The sales growth has slowed down because of a higher base effect . Going forward sales growth will be 25-30%.**

- **EBIDTA for the sector has been growing on the back of margin expansion witnessed by players in the industry.**

Figure 11: Sector – EBIDTA, Rs mn

	Q1FY06	Q2FY06	Q3FY06	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08
KEC	341	389	441	452	430	571	805	707	639
Jyoti	136	155	209	250	267	269	358	389	389
Kalpataru	166	181	296	501	485	451	606	947	603
RPG	28	36	51	108	99	97	112	119	126
Sector	670	761	996	1,311	1,281	1,388	1,881	2,162	1,756

Source: Religare Institutional Equity Research, Bloomberg

Figure 12: Sector – EBIDTA Growth YoY %

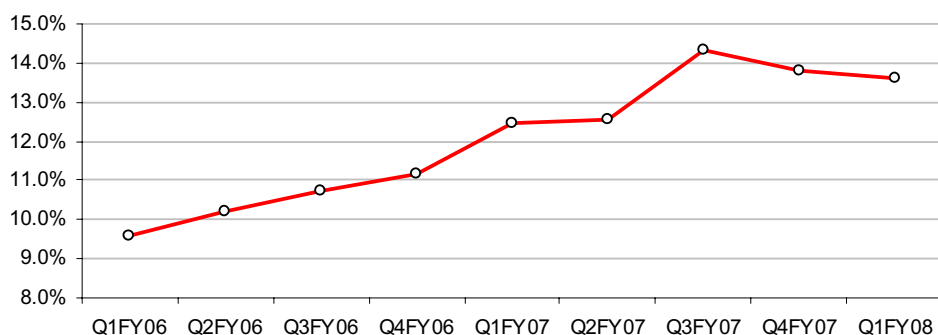
	Q1FY06	Q2FY06	Q3FY06	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08
Jyoti	94.0	68.0	87.0	89.2	97	74	72	56	46
Kalpataru	107.3	60.2	80.0	115.9	192.5	148.3	104.9	89.1	24.3
Sector	101.1	63.7	82.8	106.3	149.4	114.2	91.1	78.0	32.0

Source: Religare Institutional Equity Research, Bloomberg , figures for KEC not included as FY05 figures are not comparable and RPG was loss making in FY05 so YoY not comparable.

Figure 13: Sector - EBITDA margin, %

	Q1FY06	Q2FY06	Q3FY06	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08
KEC	9.0	9.4	9.6	9.4	10.4	12.2	14.1	11.0	12.5
Jyoti	9.4	9.8	10.5	10.6	12.1	11.1	13.9	12.8	12.5
Kalpataru	12.6	13.5	13.9	13.9	16.0	14.7	15.4	18.1	16.4
RPG	6.6	9.0	8.8	11.1	10.7	11.0	12.4	11.8	12.4
Sector	9.6	10.2	10.7	11.2	12.5	12.6	14.3	13.8	13.6

Source: Religare Institutional Equity Research, Bloomberg

Figure 14: Sector - EBITDA margin, %


Source: Religare Institutional Equity Research, Bloomberg

- **Margins have stabilised in the last few quarters and we expect the trend of stable margins to continue.**

- **PAT have been growing at a steady pace.**

Figure 15: Sector – Adj. PAT, Rs mn

	Q1FY06	Q2FY06	Q3FY06	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08
KEC	85	96	164	147	146	217	382	302	253
Jyoti	45	53	75	105	97	115	174	159	169
Kalpataru	62	63	129	265	255	272	388	645	371
RPG	15	13	25	38	48	50	59	100	71
Sector	207	225	393	555	546	653	1,003	1,206	864

Source: Religare Institutional Equity Research, Bloomberg

Figure 16: Sector – Adj PAT Growth %

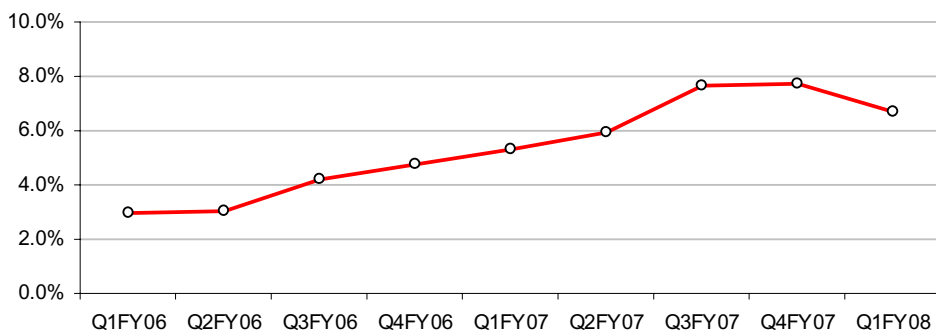
	Q1FY06	Q2FY06	Q3FY06	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08
Jyoti	115.7	256.0	142.6	118.3	114.8	114.9	131.4	52.0	74.1
Kalpataru	86.7	29.3	53.3	118.3	314.1	334.8	200.5	143.2	45.5
Sector	98.0	83.0	77.3	118.3	229.7	233.6	175.1	117.4	53.4

Source: Religare Institutional Equity Research, Bloomberg, figures for KEC not included as FY05 figures are not comparable and RPG was loss making in FY05 so YoY not comparable.

Figure 17: Sector – Adj. PAT margins %

	Q1FY06	Q2FY06	Q3FY06	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08
KEC	2.3	2.3	3.6	3.1	3.5	4.6	6.7	4.7	4.9
Jyoti	3.1	3.4	3.8	4.4	4.4	4.7	6.8	5.2	5.4
Kalpataru	4.7	4.7	6.1	7.3	8.4	8.9	9.9	12.3	10.1
RPG	3.5	3.1	4.3	3.9	5.2	5.6	6.5	10.0	7.0
Sector	3.0	3.0	4.2	4.7	5.3	5.9	7.6	7.7	6.7

Source: Religare Institutional Equity Research, Bloomberg

Figure 18: Sector – Adj. PAT margins %


- **PAT margins are also showing signs of plateauing in line with EBIDTA margins.**

Source: Religare Institutional Equity Research, Bloomberg

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