

RESULT UPDATE

SMALL CAP

Share Data

Reuters code	TITW.BO
Bloomberg code	TWLIN
Market cap. (US\$ mn)	167
6M avg. daily turnover (US\$ mn)	1.8
Issued shares (mn)	19
Target price (Rs)	427

Performance (%) 1M 3M 12M

Absolute	(17)	(21)	4
Relative	(10)	(8)	(8)

Valuation Ratios

Yr to 31 Mar	FY11E	FY12E
EPS (Rs)	37.3	38.8
+/- (%)	5.8	4.0
PER (x)	10.9	10.4
PBV (x)	1.5	1.4
Dividend/Yield (%)	1.5	1.5
EV/Sales (x)	1.3	1.1
EV/EBITDA (x)	7.5	7.2

Major shareholders (%)

Promoters	50
FII's	12
BFSI's	1
Public & Others	37

Financial highlights

(Rs mn)	3QFY10	3QFY11	YoY (%)	9MFY10	9MFY11	YoY (%)	FY10	FY11E	YoY (%)	FY12E	YoY (%)
Net sales	1,373	1,280	(6.8)	3,793	4,424	16.6	5,542	5,854	5.6	6,628	13.2
EBITDA	201	235	16.6	550	779	41.7	858	1,002	16.7	1,048	4.6
EBITDA margin (%)	14.7	18.3	-	14.5	17.6	-	15.5	17.1	-	15.8	-
Other income	-	-	-	-	1	90.2	246	110	(55.3)	115	4.5
Interest	(28)	(40)	43.4	(81)	(90)	11.2	72	-	(100.0)	-	-
Depreciation	11	22	101.9	39	45	16.0	44	64	44.8	74	15.3
PBT before EoI	218	253	16.0	593	825	39.3	988	1,047	6.0	1,089	4.0
EoI	-	-	-	-	1	-	-	-	-	-	-
Tax	64	94	47.9	198	284	43.3	335	346	3.3	359	4.0
Adjusted PAT	155	159	2.8	394	541	37.2	654	702	7.4	730	4.0
EPS (Rs)	8.4	8.6	2.3	21.4	29.2	36.5	35.3	37.3	5.8	38.8	4.0

Titagarh Wagons

Maintain Outperformer

Price: Rs 405

BSE Index: 18,037

08 February 2011

3QFY11 Result – Muted order inflows

Titagarh Wagons Limited (TWL) 3QFY11 results came below expectations, the net sales stood at Rs 1,280 mn, decline of 6.8% YoY and 33% below estimates majorly due to the lower capacity utilisation for ~1.5 months due to lack of order confirmation from Indian Railways. The EBITDA margin of the company witnessed an expansion by 360 bps at 18.3%, as TWL executed only Indian Railways (IR) order for which the company is protected in terms of major raw materials as they are supplied by the railways, resulting in a decline of raw material composition by 500 bps at 55% of net sales. Better cash management has resulted in growth in net interest by 43.4% YoY, TWL had a cash book of Rs 1 bn with Rs 300 mn of debt. The improved performance in the profitability front has helped the company to post a net profit of Rs 159 mn (up 2.8% YoY).

The order inflow remains muted with meagre order intake from non-IR segment, the plant had to operate at very low capacity for ~1.5 months due to delay in confirmation of IR wagon orders. The current order book stood at ~ Rs 5.5 bn of which ~ Rs 3.5 bn is constituted by IR wagon orders while the rest is from non-IR wagons, defence, EMU rakes, Bailey bridges and castings.

Outlook and valuation

Going forward, we expect the EBITDA margins to improve in the near term due to the execution of more IR wagon orders, whereas the revenue growth traction to taper downwards. We have downward revised our revenue and EPS estimates, revenue estimates by 21.5% and 23.6% at Rs 5,854 mn and Rs 6,628 mn and EPS estimates by 6.5% and 15.5% at Rs 37.3 and Rs 38.8 for FY11E and FY12E, respectively. At the current market price, the stock is trading at 10.9x FY11E EPS and 10.4x FY12E EPS, we continue to maintain our Outperformer rating on the stock with a target price of Rs 427 (11x FY12E EPS).

Segmental highlights

(Rs mn)	3QFY10	3QFY11	YoY (%)	9MFY10	9MFY11	YoY (%)	FY10
Revenues							
Wagons & Coaches	1,216	1,060	(12.8)	3,292	3,998	21.4	5,055
HEMM	67	39	(42.5)	192	79	(59.0)	260
Steel Castings	610	273	(55.3)	908	681	(25.0)	1,130
Others	34	106	210.1	126	163	29.2	74
Total	1,927	1,478	(23.3)	4,519	4,921	8.9	6,518
Less: Inter-segment	565	208	(63.2)	787	540	(31.3)	976
Total	1,362	1,269	(6.8)	3,732	4,381	17.4	5,542
PBIT							
Wagons & Coaches	170	194	13.5	478	747	56.3	895
HEMM	6	10	54.9	11	12	8.8	18
Steel Castings	48	33	(30.5)	98	88	(10.2)	115
Others	7	22	208.2	14	45	221.4	31
Total	232	259	11.5	601	892	48.4	1,058
Less:							
Interest	(28)	(40)	43.4	(81)	(90)	11.2	(69)
Un-allocable	41	45	9.9	90	157	74.8	139
PBT	218	253	15.9	593	825	39.2	988
PBIT margin (%)							
Wagons & Coaches	14.0	18.2	–	14.5	18.6	–	17.7
HEMM	9.3	25.0	–	5.5	14.7	–	6.8
Steel Castings	7.9	12.2	–	10.8	13.0	–	10.2
Others	21.1	21.0	–	11.1	27.6	–	41.1
Total	12.0	17.5	–	13.3	18.1	–	16.2
Capital employed							
Wagons & Coaches	867	934	7.7	867	934	7.7	1,545
HEMM	155	110	(29.4)	155	110	(29.4)	121
Steel Castings	794	733	(7.7)	794	733	(7.7)	851
Others	370	235	(36.5)	370	235	(36.5)	165
Unallocated	2,217	3,223	45.4	2,217	3,223	45.4	1,904
Total	4,403	5,234	18.9	4,403	5,234	18.9	4,585

Comments on segmental

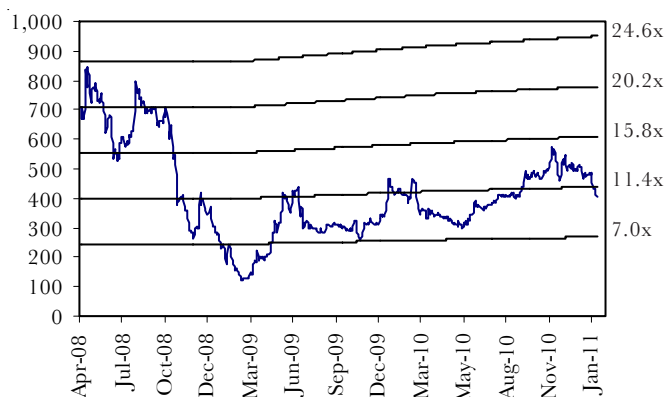
- The steel castings segment witnessed a 55.3% YoY decline in revenues due to the lower execution of non-IR orders as it makes sense in terms of economies of scale to manufacture castings when the captive demand from non-IR wagon orders are high.
- The HEMM segment is also under strain in the near term but is poised see growth traction during FY12.

Change in estimates

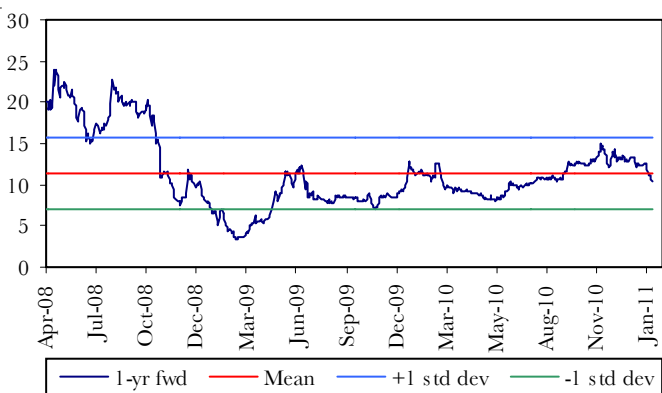
(Rs mn)	New		Old	
	FY11E	FY12E	FY11E	FY12E
Revenue	5,854	6,628	7,113	8,195
EBITDA	1,002	1,048	1,148	1,333
EBITDA margin (%)	17.1	15.8	16.1	16.3
Net profit	702	730	750	863
EPS (Rs)	37.3	38.8	39.9	45.9

The increase in the share of IR business and the muted order inflows has prompted us to relook at our revenue estimates. With the increased execution of IR orders, we expect the EBITDA margins to expand in FY11 but remain skeptical regarding the earnings growth due to the downward revision in the order book projections. The better than expected performance of Cimmco Birla (subsidiary) shall result in earnings upside on a consolidated basis.

PER Band



1-year forward PER



Source: B&K Research

Income Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Net sales	6,859	5,542	5,854	6,628
<i>Growth (%)</i>	22.6	(19.2)	5.6	13.2
Operating expenses	(5,987)	(4,684)	(4,852)	(5,580)
Operating profit	871	858	1,002	1,048
EBITDA	871	858	1,002	1,048
<i>Growth (%)</i>	0.8	(1.5)	16.7	4.6
Depreciation	(29)	(44)	(64)	(74)
Other income	190	246	110	115
EBIT	1,033	1,060	1,047	1,089
Interest paid	(55)	(72)	0	0
Pre-tax profit (before non-recurring items)	978	988	1,047	1,089
Pre-tax profit (after non-recurring items)	978	988	1,047	1,089
Tax (current + deferred)	(330)	(335)	(346)	(359)
Net profit	648	654	702	730
Adjusted net profit	648	654	702	730
<i>Growth (%)</i>	7.0	0.9	7.4	4.0
Net income	648	654	702	730

Balance Sheet

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Current assets	4,413	5,383	5,813	6,676
Investments	77	492	492	492
Net fixed assets	796	1,088	957	1,083
Total assets	5,286	6,963	7,262	8,251
Current liabilities	1,245	1,634	1,257	1,599
Total debt	118	743	850	900
Other non-current liabilities	7	1	0	0
Total liabilities	1,371	2,378	2,107	2,499
Share capital	184	188	188	188
Reserves & surplus	3,732	4,397	4,967	5,564
Less: Misc. expenditure	(2)	0	0	0
Shareholders' funds	3,915	4,585	5,155	5,753
Total equity & liabilities	5,286	6,963	7,262	8,251
Capital employed	4,040	5,330	6,005	6,653

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Pre-tax profit	978	988	1,047	1,089
Depreciation	28	371	64	74
Chg in working capital	(1,031)	(502)	(1,076)	(278)
Total tax paid	(339)	(322)	(347)	(359)
Cash flow from oper. (a)	(363)	535	(312)	525
Capital expenditure	(383)	(663)	67	(200)
Chg in investments	(67)	(414)	0	0
Cash flow from inv. (b)	(450)	(1,077)	67	(200)
Free cash flow (a+b)	(813)	(542)	(245)	325
Equity raised/(repaid)	1,115	6	0	0
Debt raised/(repaid)	(427)	625	107	50
Dividend (incl. tax)	(108)	(108)	(110)	(132)
Other financing activities	(1,002)	120	0	0
Cash flow from fin. (c)	(422)	643	(3)	(82)
Net chg in cash (a+b+c)	(1,235)	100	(248)	243

Key Ratios

Yr end 31 Mar (%)	FY09	FY10	FY11E	FY12E
EPS (Rs)(diluted)	35.1	35.3	37.3	38.8
EPS growth	7.0	0.4	5.8	4.0
EBITDA margin	12.7	15.5	17.1	15.8
EBIT margin	15.1	19.1	17.9	16.4
RoCE	26.3	22.6	18.5	17.2
Net debt/Equity	(21.5)	(6.9)	0.7	(2.7)

Valuations

Yr end 31 Mar (x)	FY09	FY10	FY11E	FY12E
PER (x)	11.5	11.5	10.9	10.4
PCE (x)	11.0	10.8	9.9	9.5
Price/Book (x)	1.9	1.7	1.5	1.4
Yield (%)	1.2	1.3	1.5	1.5
EV/Net sales (x)	0.9	1.3	1.3	1.1
EV/EBITDA (x)	7.3	8.2	7.5	7.2

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY09	FY10	FY11E	FY12E
Net margin (%)	9.4	11.8	12.0	11.0
Asset turnover	1.3	0.9	0.8	0.9
Leverage factor	1.5	1.4	1.5	1.4
Return on equity (%)	18.1	15.4	14.4	13.4

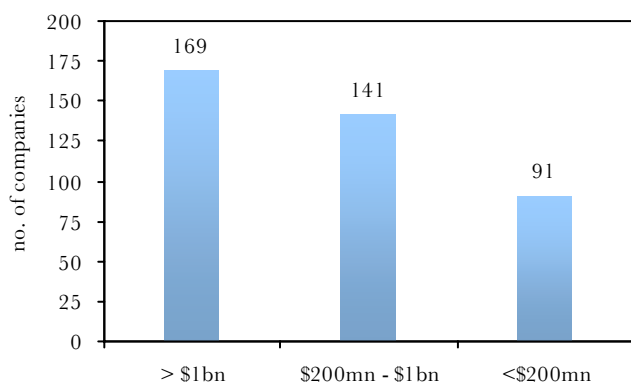
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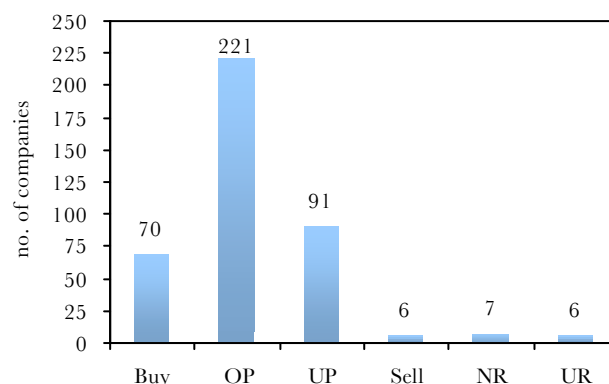
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B&K Universe Profile

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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