

April 28, 2008

Rating	Outperformer
Price	Rs1,764
Target Price	Rs2,294
Implied Upside	30.0%
Sensex	17,016

(Prices as on April 28, 2008)

Trading Data

Market Cap. (Rs bn)	84.4
Shares o/s (m)	47.8
Free Float	27.8%
Avg. Daily Vol ('000)	23.4
Avg. Daily Value (Rs m)	39.5

Major Shareholders

Promoters	72.2%
Foreign	1.8%
Domestic Inst.	11.5%
Public & Others	14.5%

Stock Performance

(%)	1M	6M	12M
Absolute	12.6	(15.5)	49.7
Relative	8.7	(3.9)	27.3

Price Performance (RIC: AREV.BO, BB: ATD IN)



Source: Bloomberg

Areva T&D

Stable growth, High margin

- **Results beat estimates:** Areva T&D reported topline of Rs5.03bn for Q1CY08, a growth of 22.5% YoY. On account of the company's strategy to bid for high margin orders, its EBITDA margin further improved by 40bps to 15.7% YoY. The company reported PAT before extra-ordinary income of Rs458m, an increase of 19% from Rs385m in the previous corresponding quarter. However, PAT margin declined from 9.4% to 9.1% during the same period, mainly due to increased interest cost of Rs29m from Rs9m in Q1CY07.
- **Sale of property:** The company received a one-time profit of Rs83m from sale of property. PAT after extra-ordinary income was Rs541m for Q1CY08.
- **Order book:** Areva's order book stands at Rs31.8bn, which is 32.5% YoY growth. Areva being the market leader in GIS market and its push towards higher margin KV orders provides scope for further improvement of margins and sustainable growth.
- **Valuation:** At the current market price of Rs1,764, the stock trades at 26.8x CY08E and 20.7x CY09E earnings of Rs65.7 and Rs85.4 respectively. We maintain Outperformer rating on the stock with a target price of Rs2,294, an upside of 30%.

Key financials (Y/e Dec)	CY06	CY07	CY08E	CY09E
Revenues (Rs m)	16,058	20,063	28,887	36,816
Growth (%)	84.7	24.9	44.0	27.5
EBITDA (Rs m)	2,098	3,575	5,055	6,590
PAT (Rs m)	1,299	2,168	3,143	4,084
EPS (Rs)	27.2	45.3	65.7	85.4
Growth (%)	427.4	66.9	45.0	29.9
Net DPS (Rs)	6.0	9.0	10.0	11.0

Source: Company Data; PL Research

Profitability & valuation	CY06	CY07	CY08E	CY09E
EBITDA margin (%)	13.1	17.8	17.5	17.9
RoE (%)	59.2	46.5	48.2	47.2
RoCE (%)	61.5	45.9	44.9	45.1
EV / sales (x)	5.2	4.2	2.9	2.2
EV / EBITDA (x)	39.5	23.4	16.3	12.5
PE (x)	64.9	38.9	26.8	20.7
P / BV (x)	22.0	15.4	10.9	8.7
Net dividend yield (%)	0.3	0.5	0.6	0.6

Source: Company Data; PL Research

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Q1CY08 result overview

(Rs m)

Y/e Dec	Q1CY08	Q1CY07	YoY gr. (%)	Q4CY07	QoQ gr. (%)
Net sales	5,029	4,104	22.5	7,332	(31.4)
Expenditure					
Raw material	3,203	2,663	20.3	4,587	(30.2)
<i>% of net sales</i>	<i>63.7</i>	<i>64.9</i>		<i>62.6</i>	
Personnel cost	482	325	48.3	447	7.8
<i>% of net sales</i>	<i>9.6</i>	<i>7.9</i>		<i>6.1</i>	
Others	552	487	13.3	881	(37.3)
<i>% of net sales</i>	<i>11.0</i>	<i>11.9</i>		<i>12.0</i>	
Total expenditure	4,237	3,475	21.9	5,915	(28.4)
EBITDA	792	629	25.9	1,417	(44.1)
<i>Margin (%)</i>	<i>15.7</i>	<i>15.3</i>		<i>19.3</i>	
Other income	35	21	66.7	83	(57.8)
Depreciation	59	51	15.7	66	(10.6)
EBIT	768	599	28.2	1,434	(46.4)
Interest	29	9	222.2	49	(40.8)
PBT	739	590	25.3	1,385	(46.6)
Total taxes	281	205	37.1	546	(48.5)
<i>ETR (%)</i>	<i>38.0</i>	<i>34.7</i>		<i>39.4</i>	
Minority interest	-			13.0	
PAT	458	385	19.0	852	(46.2)
Extra ordinary	83	(6)			
PAT after Ex-Od	541	379	42.7		



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PL's Recommendation Nomenclature

BUY	: > 15% Outperformance to BSE Sensex	Outperformer (OP)	: 5 to 15% Outperformance to Sensex
Market Performer (MP)	: -5 to 5% of Sensex Movement	Underperformer (UP)	: -5 to -15% of Underperformance to Sensex
Sell	: <-15% Relative to Sensex		
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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