

BUZZING

STOCK

Indo Tech Transformers Ltd.

CMP – Rs.275

Analyst

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Key Stock Data

Sensex	13072
Nifty	3822
Sector	Electric - Equipment
Bloomberg	INDT.IN
Reuters	INTTT.BO
No. of shares (m)	11
Market Cap (Rs m)	2,807
Market Cap (US\$ m)	64
52-week H/L	Rs.320/118

Shareholding Pattern (%)

Promoters	60.25
Mutual Funds	9.43
FII's	3.7
Corporate Bodies	10.8
Pubic & Others	15.83

Overview

Indotech Transformers Ltd (ITTL) is one of the leading transformer companies from South. It manufactures both power and distribution transformers with an installed capacity of 3,350MVA. Out of which power transformer capacity stands at 2,400MVA. Currently it has two manufacturing facilities in Tamilnadu, one at Thirumazhisai, mainly having capacity for power transformers and the other one at Pallakad for distribution transformers. Recently the company moved its Saidapet distribution transformer facility to Thirumazhisai and set total capacity of 750MVA for this facility there with a total capital cost of Rs 37m.

Capacity Addition: Moving up in the value chain

Nearly 75% of ITL revenue comes from power transformers and rest from distribution transformers. However the topline is still dominated by the sale of transformers, ranging from 11KV to 132KV class. Now the company is planning to move upwards in the value chain by manufacturing transformers of up to 400KV class. For this the company is currently setting up a facility at Kanchipuram with a planned capacity of 4,100MVA with an estimated Capex of Rs.490m. Here the company plans to manufacturer conventional Transformers (with capacity of 4,000MVA) ranging from 132KV class to 400KV class and also dry type transformers (100MVA) for industrial and commercial use. We expect with this the company may see good improvement of margin in FY08. The company plans to commission this facility by the end of Q2FY08.

Capacity planned in 11th Plan

Region	MW
Tamilnadu	6152
Andhra Pradesh	5443
Karnataka	2300
Kerla	403
Rest of India	62162
Total	76460

Source: MoP

Better working Capital Efficiency

The transformer industry is working capital intensive. Further due to unimpressive financial of the state electricity boards (SEBs), companies with significant exposure to the SEBs face the pressure on working capital as fund get tied up with SEBs for long periods. Indotech derives nearly 70% of its turnover from SEBs. Despite that the company has been managing its working capital well as compared to other manufacturers with considerable exposure to SEBs. We expect the company will maintain the same performance going forward.

Snapshot of Working Capital parameters of Transformer companies

Company	IMP Power		EMCO		RTS Power		Bharat Bijlee		Indotech		* Voltamp	
	FY05	FY06	FY05	FY06	FY05	FY06	FY05	FY06	FY05	FY06	FY05	FY06
Debtor Days	160	165	127	141	95	103	88	89	88	74	88	56
Creditor Days	64	57	110	127	109	103	60	45	169	188	86	53

Source: IDBI Capital Estimate

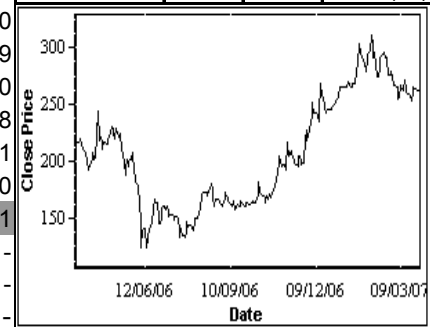
Valuation

During the nine-month ending December 2007, the company has reported 62% rise in its net sales to Rs 989.3m as compared to the corresponding period last year. The net profit increased by 96% to Rs 151m. The OPM has advanced by 300 basis points. We expect Rs.1,900m sales and Rs.245m net profit in FY07. At current market price the stock is trading at 11x to our FY07E EPS of Rs 23.1.

* less exposure to SEBs

Financial Snapshot

Indo Tech Transformers Ltd.							Rs.m				Ratios (%)		
	Q3 FY07	Q3 FY06	Chg. (%)	FY06	FY05	Chg. (%)		FY06	FY05	Chg. (%)			
Financial Year End: March													
Net Sales	450	196	130	927	675	38	Debt -Equity	0.0	0.1	(67)			
Other Income	7	1	527	8	6	29	PBIDTM	16	15	7			
Total Income	457	197	132	935	681	37	PBDTM	16	14	8			
Total Expenditure	332	149	123	762	558	37	RoCE	35	51	(31)			
PBIDT	126	48	162	174	123	42	RoNW	23	39	(41)			
Interest	2	0	0	0	7	0							
PBDT	123	48	157	174	116	49							
Depreciation	3	3	8	9	9	-10							
Tax	48	18	166	56	28	98							
Reported Profit After Tax	73	27	166	111	79	41							
Extra -ordinary Items	0	0	0	0	0	0							
Adj. Profit After Extra-ordinary item	73	27	166	111	79	41							
No. of shares (m)	11	11	-	11	11	-							
EPS (annualised.) (Rs.)	27.4	14.3	-	10	26	-							
P/E	10.0	19.2	-	26.4	10.7	-							



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