

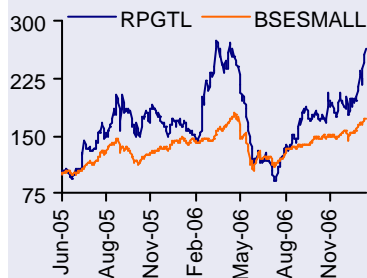
RPG Transmission Ltd (Q3FY07)-Investment Update

Recommendation	HOLD
CMP	Rs228
Target Price	Rs259
Upside	14%
52 Week H/L	Rs243/75
Average Vol. (6m)	119,838
Market Cap	Rs3.6bn
Face Value	Rs10
BSE Code	590029
NSE Code	RPGTLTD
Reuters	RPGT.BO
Bloomberg	SAE@IN

Share holding pattern

Sep '06	(%)
Foreign	0.6
Institutions	11.7
Non Promoter Corp. Hold.	20.7
Promoters	37.5
Public & Others	29.5

Share price chart



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RPG Transmission Ltd (RPGTL) is a player in power transmission, railway electrification and telecommunication tower constructing and erecting space. The company is engaged in design, construction and erection of high voltage AC and DC transmission lines. RPGTL turned around in FY06 and has successfully been posting healthy set of numbers. RPGTL in Q3FY07 registered a bottomline growth of 136.7% to Rs59mn against Rs25mn in the corresponding period last year. RPGTL currently trades at a P/E of 16.8x FY07E earnings of Rs13.6 and 12.3x FY08E earnings of Rs18.5. We recommend HOLD with a price target of Rs259 over the next 12 months.

Financial highlights

Period	12/06	12/05	Growth	12/06	12/05	Growth
Rs mn	(3)	(3)	(%)	(9)	(9)	(%)
Sales	905	580	56.1	2715	1407	93.0
Expenditure	(793)	(528)	50.2	(2407)	(1416)	70.0
Operating profit	112	52	116.2	308	(9)	3411.8
Other income	3	0	0	5	10	(53.8)
Interest	(19)	(21)	(11.3)	(57)	(46)	25.1
Depreciation	(5)	(5)	(6.1)	(14)	(15)	(7.2)
PBT	91	25	257.3	241	(60)	502.2
Tax	(32)	(1)	4528.6	(85)	112	(175.7)
PAT	59	25	136.7	156	52	199.6
OPM (%)	12.4	8.9	3.4	11.3	(1)	12.0
Equity	156	156		156	156	
EPS (Rs) Annualized	15.0	6.4		13.4	4.5	
NPM (%)	6.5	4.3		5.8	3.0	

Source: Company

Faster execution improves topline by 56.1% in Q3FY07

During the quarter the company registered a 56.1% growth in its topline to Rs905mn against Rs580mn in the corresponding period last year. For 9MFY07 it registered a 93% growth in topline to Rs2.7bn from Rs1.4bn in 9MFY06. This growth was due to faster execution of various projects. Also during the quarter the company undertook more of erection work as compared to supplies work done in the preceding quarter.

Operating margins expansion

With higher execution of erection related work, which is less capital intensive as compared to supplies of material, RPGTL experienced a decline in raw material cost. Raw material cost declined by 1080bps to 44.1% of net sales during Q3FY07 against 54.8% last year. Total savings of 1380bps in cost was negated by 470bps rise in erection and fabrication costs and 560bps rise in administrative and other expenses. Most of these orders executed during the quarter had better margins. Operating margin expanded to 12.4 % during Q3FY07 against 8.9% in the corresponding period last year. All costs are pass through and hence a rise in prices of raw material will be passed to the clients.

Cost break up

Period	12/06	12/05	Growth	12/06	12/05	Growth
As % of net sales	(3)	(3)	(%)	(9)	(9)	(%)
Raw Material	44.1	54.8	(10.8)	53.6	48.8	4.8
Erection and fabrication	17.7	13.0	4.7	13.3	12.5	0.8
Staff cost	7.1	10.1	(3.0)	6.7	12.2	(5.5)
Adm, sell & other exp	18.7	13.2	5.6	15.1	27.2	(12.1)
Total	87.6	91.1	(3.4)	88.7	100.7	(12.0)

Source: Company

Healthy net margins to sustain

Interest cost during 9MFY06 was lower at Rs46mn as it represents an adjusted figure. During this period last year it had undergone CDR, which includes interest write off of Rs15mn. After adjusting this, interest for 9MFY07 would be lower by 5.8%. This was due to repayment of debt to the extent of Rs30mn during this period. However marginal increase of interest rates has capped the reduction in interest. As a result of this the company registered bottomline jump of 136.7% for Q3FY07 and 199.6% for 9MFY07. The company's profit stands at Rs59mn for Q3FY07 and Rs156mn for 9MFY07. Nine month annualized EPS stands at Rs13.4.

Rs4.5bn order book set to grow in future

RPG Transmission has a confirmed order book of Rs4.5bn (1.7x annualized revenues of nine month year ending March 2006). This is to be executed over the next 12-18 months, which provides us with revenue visibility for the forthcoming year. This is expected to continue in future too on the back of accelerated spending by the government for improving the power situation in the country. With an improved balance sheet, RPGTL is expected to garner a greater share of new orders in the sector. With World Bank and Asian Development Bank funding being tied up, tenders to the extent of Rs1.3bn from PGCIL are expected to be announced in the near future. This provides players like RPGTL a chance to enhance their order books.

Government initiatives

The government plans to invest close to Rs3tn in enhancing its generating capacity from the current 126,089MW to 200,000MW by 2012. It is now emphasizing on strengthening the T&D system too with an investment of about Rs4tn for the segment. This focus will lead to a strong demand for transmission lines to transfer power from surplus states to deficient states. Demand will also stem from the enhancing the national grid's carrying capacity to 30,000MW from the current 9,000MW, coupled with rural electrification under Rajiv Gandhi Grameen Vidhyutikaran Yojana.

For creation of such a grid, an investment of Rs705bn is envisaged of which, Rs500bn will be invested by Powergrid and remaining Rs210bn through private sector participation.

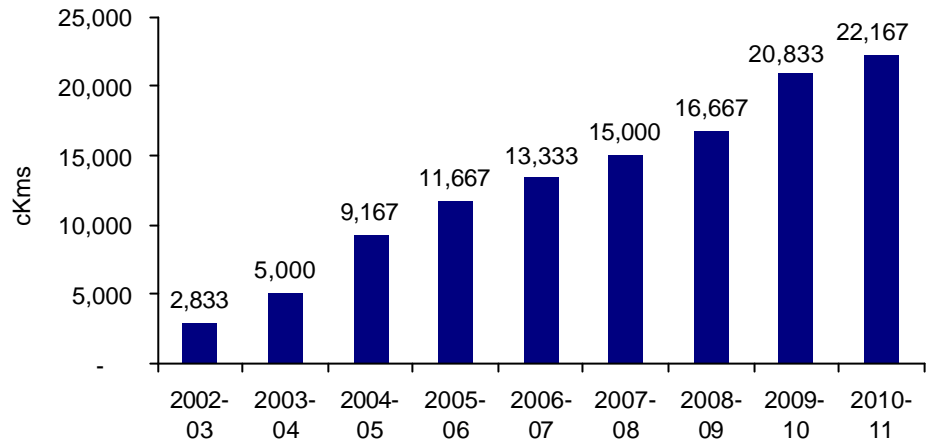
Investment Plan (Rs bn)

	X Plan	XI Plan	Total
Powergrid's Outlay	213.7	282.6	496.3
Private Sector participation	97.1	111.9	209.0
Total Central Sector	310.8	394.4	705.2

Source: Ministry of Power

We expect the company to be one of the beneficiaries of this spending. RPGTL, a player engaged in design, construction and erection of high voltage AC and DC transmission lines, is one of the companies who would be a direct beneficiary of this.

Transmission line under X and XI plan



Source: Company

Valuation

The strong momentum in the sector helped the company turn around and register profits at operational level from FY06. Post successful CDR and continuance of healthy order book, we expect RPGTL’s revenues to register a 29.8% CAGR over FY06-09E and net profit to witness 52.2% CAGR over the same period.

At Rs227.6, RPGTL trades at a P/E of 16.8x FY07E earnings of Rs13.6 and at 12.3x FY08E earnings of Rs18.5. During H1FY07 there was a slow down in orders from PGCIL, which led to a de-rating of the sector with one year forward P/E multiples declining from a high of 20x to about 15x currently. However, we believe with orders expected to flow primarily from PGCIL, there will be significant visibility of revenues not only for RPGTL but for all other companies too, resulting into a re-rating of the sector. We recommend a HOLD rating on the stock with a target price of Rs259 over the next 12 months.

Financials

Projected Profit and Loss Statement

Period to (Rs in mn)	FY04 (12)	F6/05 (15)	FY06 (9)	FY07P (12)	FY08P (12)	FY09P (12)
Net Sales	795	1,278	1,951	3,618	4,737	5,684
Operating expenses	(899)	(1,331)	(1,756)	(3,204)	(4,195)	(5,036)
Operating profit	(103)	(52)	196	414	542	648
Other income	6	8	5	6	6	6
PBIDT	(97)	(44)	201	419	548	653
Interest	(143)	(27)	(66)	(73)	(78)	(83)
Depreciation	(33)	(32)	(15)	(21)	(26)	(27)
Amortisation	-	-	-	-	-	-
Profit before tax	(273)	(103)	120	326	444	543
Tax	(1)	114	(45)	(114)	(155)	(190)
Profit after tax (PAT)	(274)	11	75	212	289	353
Extraordinary items	5	36	-	-	-	-
Adjusted profit after tax	(269)	46	75	212	289	353

Projected Balance Sheet

Period to (Rs in mn)	FY04 (12)	F6/05 (15)	FY06 (9)	FY07P (12)	FY08P (12)	FY09P (12)
Sources						
Equity Share Capital	123	129	156	156	156	156
Preference share capital			13	13	13	13
Appl. money pending allotment		233				
Reserves	247	232	424	618	892	1,228
Net Worth	370	593	593	787	1,061	1,397
Loan Funds	1,213	820	692	634	674	719
Total	1,584	1,414	1,285	1,421	1,735	2,116
Uses						
Gross Block	641	627	617	637	647	667
Accd Depreciation	(454)	(469)	(464)	(485)	(511)	(537)
Net Block	187	157	153	152	136	129
Capital WIP	0	2	0	2	2	3
Total Fixed Assets	187	159	153	154	138	132
Investments	329	0	0	0	0	0
Total Current Assets	1,643	2,003	2,266	2,914	3,659	4,383
Total Current Liabilities	(1,043)	(1,338)	(1,547)	(1,838)	(2,245)	(2,573)
Net Working Capital	600	665	720	1,077	1,414	1,810
Profit and Loss A/C	352	295	209	(3)		
Def Tax assets	115	294	203	193	183	173
Total	1,584	1,414	1,285	1,421	1,735	2,116

Key Ratios

Period to	FY04 (12)	F6/05* (15)	FY06* (9)	FY07P (12)	FY08P (12)	FY09P (12)
Per share ratios (Rs)						
EPS	(21.8)	2.9	6.4	13.6	18.5	22.6
Div per share		0.0	0.0	1.0	1.0	1.0
Book value per share	30.0	46.1	38.0	50.4	68.0	89.4
Valuation ratios (x)						
P/E	(10.4)	78.8	35.5	16.8	12.3	10.1
P/BV	7.6	4.9	6.0	4.5	3.3	2.5
EV/sales	5.0	3.4	1.6	1.1	0.9	0.7
EV/EBIDTA	(41.0)	(98.0)	15.5	9.8	7.6	6.4
Profitability ratios (%)						
OPM	(13.0)	(4.1)	10.0	11.4	11.4	11.4
PAT	(33.8)	3.6	3.9	5.9	6.1	6.2
ROCE	(6.1)	(2.5)	20.9	29.5	31.6	30.9
RONW	(72.6)	6.3	16.9	26.9	27.2	25.3
Liquidity ratios						
Current ratio	1.6	1.5	1.5	1.6	1.6	1.7
Debtors days	478.1	416.9	199.4	192.2	192.2	192.2
Inventory days	67.9	101.3	58.5	55.5	55.5	55.5
Creditors days	266.0	337.6	142.2	132.0	132.0	132.0
Leverage ratios						
Debt / Total equity	3.3	1.4	1.2	0.8	0.6	0.5
Component ratios (as a % of net sales)						
Raw material	33.6	51.8	53.2	54.3	54.4	54.5
Erection and fabrication	27.4	13.0	13.7	13.3	13.3	13.3
Staff cost	16.0	18.2	9.3	6.8	6.7	6.6
Purchase of goods traded in	3.4	0.1	1.1	0.0	0.0	0.0
Mnft. & Other expenditure	32.6	21.0	12.7	14.3	14.3	14.3
Total operating expenses	113.0	104.1	90.0	88.6	88.6	88.6

**All ratios are annualized*



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