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Price Band Rs425-Rs465
Issue Opens 7th Dec, 2007
Issue Closes 12th Dec, 2007

Stock Details

Sector	Power Equipment
Issue Size (Rs bn)	1.27-1.39
Issue Size (no of shares)	2.995 mn
Post Issue Capital (Rs mn)	129
Face Value (Rs/sh)	10
Market Cap (Rs mn) at Rs465	6,010

Promoter holding 76.82%
(Post issue)

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Transformers & Rectifiers

IPO note

IPO Note

Company background

- TRIL is one of the major players in the Indian transformer market manufacturing with a wide range of products ranging from power generation, transmission and distribution transformers, industrial transformers. It also engaged in the manufacture of specialty transformers. The company does not have any technical collaboration or tie-up and has developed its products based on their in-house design and engineering capabilities.
- The company manufactures transformers upto 220 kV class, and has an installed capacity of 7,200 MVA. TRIL presently has two manufacturing units, at Changodar and Odhav near Ahmedabad.
- TRIL was formed to take over the business of M/s. Transformers and Rectifiers (India), a proprietorship concern owned by Mr. Jitendra U. Mamtara, the promoter of TRIL. This firm was engaged in the business of manufacturing transformers. TRIL has also acquired stakes in Transweld Mechanical Engineering Works Limited and Transpares Limited, other promoter group companies. Transweld Mechanical Engineering Works Limited manufactures transformer tanks and core channels mainly TRIL's transformers. Transpares Limited is engaged in the business of pressed steel radiators, one of the components in transformer manufacturing.

Business Profile

- The company is focused on manufacturing transformers of various types, the details of which are given below:

Classification	Range	Types
Power Transformers	From 5MVA to 160 MVA, 245kV class	Generator transformers, Unit auxiliary transformers, Step-up and Step down transformers, interconnecting auto transformers, dual voltage primary or secondary transformers
Distribution transformers	160kVA and above, upto 33kV class	Earthing transformers, step-up and step-down transformers, dual voltage primary or secondary transformers
Furnace Transformers	105 kA and above	Arc furnace, induction furnace, ladle arc furnace and submerged arc furnace transformers
Rectifier Transformers	Upto 160 kA DC	For DC power sources

- The company has regularly increased its manufacturing capacity from 4,000MVA in FY05, to 5,400MVA in FY06 and further to 7,200MVA in FY07.
- The company intends to set up a greenfield manufacturing facility with a capacity of 16,000MVA. Once this facility is commissioned in FY09 the capacity would increase to 23,200MVA. This capacity expansion would catapult TRIL to one of the largest in the industry.

The issue

TRIL is issuing 2,995,000 shares of Rs10 each constituting 23.2% of the post issue paid-up capital. 150,000 shares have been reserved for employees; and the net issue to public will be of 2,845,000 shares. At the price band for the issue is Rs 425 – 465 per share, size of the issue works out to Rs1.27-1.39 bn.

Objects of the Issue (Rs mn)

Particulars	Amount
Setting up greenfield transformer manufacturing facility	607.52
To part-finance incremental working capital requirements	354.00
General Corporate Expenses & Issue Expenses	311-431
Total	1,273-1,393
Total issue	2,995,000
Of which:	
Employee Reservation Portion	150,000
Net Issue	2,845,000
Of which:	
Reserved for QIB's	60% 17,070,000
Reserved for HNI's	10% 2,845,000
Reserved for Retail	30% 8,535,000

Key Positives

170,000MVA of estimated transformer demand during the 11th five year plan

Historically, India has never achieved its planned power capacity addition. The 10th five year plan, 2002-2007, achieved only 51% of the planned capacity addition. One of the main reasons for under achievement of the targeted capacity addition in the 10th plan was late order placement from state utilities. The government and the utilities are taking active steps to ensure that this poor performance is not repeated. A case in the point is that of the 78,577MW of planned power generation capacity addition during the 11th five year plan 62% is already under construction and BTG orders for the another 37% are expected to be placed by the end of the current fiscal year (FY08).

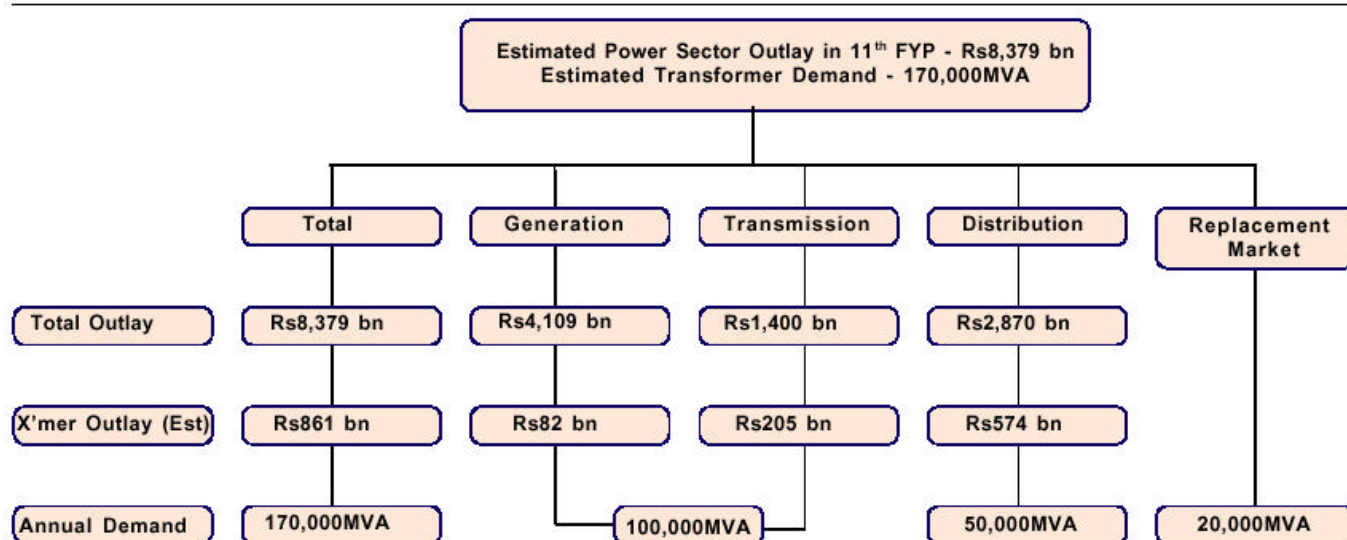
Transmission and distribution equipment orders are usually placed with a lag of about 12 – 18 months to the orders placed for generation equipment. This is on account of the lower construction time required for this segment of the power industry. Thus, we believe that this would fructify into orders from FY09 onwards and that this would be beneficial to all the players in the industry.

We expect the volumes of transformer manufacturers are likely to increase on account of the robust demand scenario in the country, while realisations could improve due to the expected demand supply gap in the transformer industry. Even with all the major players expanding operations and increasing capacities, the anticipated shortage in transformers is expected to benefit all the players in the industry. Moreover, with the tendering process protecting the transformer companies from raw material price vagaries, margins are likely to be maintained. The transformer companies under our coverage have increased capacity at their existing facilities, thereby ensuring better economies of scale. As a result of this overall growth (volumes, realisations and margins), the transformer companies under our coverage are likely to outperform the industry.

Estimated Demand for Transformers (next five years)

	Unit	Total	XI five year plan	UMPPs
Period of Implementation			5 years	10 years
Planned Generating Capacity	MW	110,577	78,577	32,000
Expected Achievement	%	NA	80%	NA
	MW	67,900	62,900	5,000
Transformer Requirement	MVA per MW	NA	7	7
	Total MVA	NA	440,300	35,000
Annual Requirement (Rounded)	MVA	100,000	90,000	10,000
				<i>In FY10-12E</i>
Replacement Demand	MVA	20,000		
Demand from New Initiatives	MVA	50,000		
Total Demand	MVA	170,000		

Source: MoP, Emkay Research



Source: CEA, Ministry of Power, Emkay Research

Notes: (1) Outlay and estimated outlay on transformers is for a 5 year period; (2) MVA Demand is annualised

In-house design and engineering for all products

TRIL has developed its full range of transformers by utilizing the strengths of its in-house design and engineering team. The company is already manufactures transformers upto 220kV class, and is now venturing into the 400kV class of transformers. This has also helped the company deliver customized special-use transformers for its clients, especially the furnace and rectifier transformers.

Strong Order book position gives revenue visibility

TRIL, on its present capacity of 7,200MVA, has an order book of Rs3,600 mn. This is 1.4x its FY07 revenues. This order book is likely to be executed over the next 9-12 months. We expect that this order book would substantially increase once its new 16,000MVA manufacturing facility is commissioned.

56% earnings growth over FY07-09E

The strong order book and high demand for transformers is likely to ensure that the company is able to grow its revenues at 52% CAGR over the next two years, that is FY07-09E. Our quick estimates indicate that the revenue growth also translates in a 56% CAGR growth in EPS over FY07-09E.

Quick Estimates

(Rs mn)	FY05	FY06	FY07	FY08E	FY09E
Total Income	758	1,296	2,191	3,022	5,031
EBIDTA	66	147	336	477	822
EBITDA %	8.7%	11.4%	15.4%	15.8%	16.3%
Adj PAT	35	81	185	246	450

Key Valuations

At the upper end of the price band of Rs425-Rs465 per share the company would quote at 14.3x our estimated FY09 earnings, in line with its peers. At the upper end of the price band the valuations do not seem to be cheap but are justified by the high revenue and earnings growth expected over the next two years on account of a strong order book position as well as a significant ramp up in capacity from 7,200MVA in FY08 to 23,200MVA in FY09.

	FY05	FY06	FY07	FY08E	FY09E
Fully Diluted EPS (Rs)	2.7	6.3	14.3	19.0	34.8
PER (Lower band)	155.6	67.6	29.7	22.3	12.2
PER (Higher band)	170.2	73.9	32.5	24.4	13.4
EV/EBITDA (Lower band)	31.8	20.4	9.4	11.7	6.6
EV/EBITDA (Upper band)	34.7	22.3	10.2	12.8	7.2
RONW %	30%	47%	60%	46%	51%

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