

RPG Transmission

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Shareholding (%)

Promoters	37.5
FII's	11.8
MFs	10.2
Others	40.5

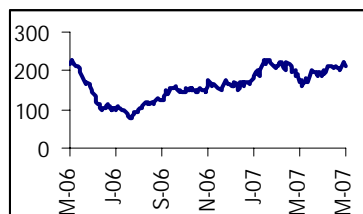
Share price performance

52-week high/low (Rs) 236/75

	-1m	-3m	-12m
Abs (%)	15.6	1.4	-1.2
Rel* (%)	4.0	3.0	-14.0

*to Nifty

Stock chart



Encouraging annual numbers; lower taxes boost Q4FY07 bottomline

RPG Transmission Ltd. (RPGT) posted modest Q4FY07 results, with topline growth of 4% YoY. Lower tax provisions, on account of past accumulated losses, boosted its net profit by 165% YoY. For FY07, RPGT posted spectacular topline and bottomline growth of 46% and 185% respectively. Drastic reduction in working capital cycle has enabled it to improve return ratios. RPGT's financial turnaround in FY06 and strong growth in FY07 indicates its capability to bag large ticket orders through its vast experience in undertaking transmission line EPC contracts. The company has also forayed into the rural electrification space by bagging a project worth Rs100mn during the quarter.

The company's robust order book position of Rs4.8bn and diversification into rural and railway electrification projects would further boost revenue growth over the next two years. RPGT remains one of the cheapest stocks in the sector trading at 12.8x its FY07 EPS.

The key highlights for the quarter were:

- ▲ RPG Transmission's topline grew by a modest 4% during Q4FY07. However, the results should be viewed from an annual perspective, since the order execution cycle and revenue booking for EPC happens over 12-18 months. For FY07, RPGT posted a phenomenal 46% growth in net sales (annualised), driven by 20% volume growth in EPC contracts.
- ▲ For FY07, RPGT's capacity utilisation rate of transmission towers used for EPC contracts increased to about 65% as against 55%, leading to a drop in job work orders executed.
- ▲ As a result, RPGT's operating margin improved drastically by 200bps to 11.5% in FY07. We expect margins to sustain between 12-12.5% going forward.
- ▲ RPGT's tax outgo was low during the year on account of accumulated losses, for which the company had not created a deferred tax asset earlier. This, combined with stable interest and depreciation costs, boosted net profit growth by 165% YoY in Q4FY07 and 185% for FY07.

Working capital intensity of the business has reduced drastically, with debtors and inventory days coming down to 141 days and 32 days in FY07 as compared to 218 days and 63 days in FY06 respectively. With further reduction

**Not
Rated
Rs215**

May 7, 2007

Market cap

Rs bn 3

US\$ mn 82

Avg 3m daily volume

54,599

Avg 3m daily value

Rs mn 11

Shares outstanding (mn)

16

Reuters

RPGT.BO/RPGTLTD.NS

Bloomberg

SAE IN

Sensex

13,934

Nifty

4,117

RPG Transmission

expected on account of lower job works undertaken by the company, return ratios are expected to improve going forward.

- ▲ RPGT has successfully used its vast experience and manufacturing capabilities to bag large EPC contracts from PGCIL and other utilities. RPGT has built-up a strong order book position, which stood at Rs4.8bn as on March 31, 2007. Besides, its diversification into rural and railway electrification contracts would further boost its revenue over the next two years. RPGT has already made a successful foray into this space by bagging a project worth Rs100mn during Q4FY07.
- ▲ RPGT is one of the cheapest in the T&D pack. The company's current valuation doesn't capture its inherent track record in the transmission tower EPC business and its strong growth prospects. The stock trades at 12.8x its FY07 EPS.

Table 1. Quarterly result table

Rs mn	Q4FY07	Q3FY07	QoQ (%)	Q4FY06	YoY (%)
Net sales from operations	1,007.1	905.1	11.3	969.8	3.8
Total Expenses	888.3	793.3	12.0	861.0	3.2
%of net sales	88.2	87.6		88.8	
(Increase)/Decrease in stock	50.4	(19.3)		(48.3)	
Raw material Consumed	440.3	418.4	5.2	622.9	(29.3)
%of net sales	48.7	44.1		59.2	
Employee cost	70.5	64.3	9.6	64.7	9.0
%of net sales	7.0	7.1		6.7	
Other Expenses	327.1	329.9	(0.8)	221.7	47.5
%of net sales	32.5	36.4		22.9	
EBITDA	118.8	111.8	6.3	108.8	9.2
%of net sales	11.8	12.4		11.2	
Depreciation	5.5	4.6	19.6	5.2	5.8
EBIT	113.3	107.2	5.7	103.6	9.4
%of net sales	11.3	11.8		10.7	
Interest	17.7	18.9	(6.3)	25.3	(30.0)
Other Income	0.9	2.8	(67.9)	3.0	(70.0)
PBT	96.5	91.1	5.9	81.3	18.7
Provision for tax (including deferred tax)	3.9	32.4		43.5	
Net Profit	100.4	58.7	71.0	37.8	165.6
NP margin %	10.0	6.5		3.9	
Equity	156.2	156.2		156.2	
EPS	6.4	3.8	71.0	2.4	165.6

Source: IISL research, company

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