POWER TRANSMISSION TOWERS

Towering success

Edelweiss
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Priyanko Panja
+91-22-2286 4300
priyanko.panja@edelcap.com

Misal Singh
+91-22-2286 4316
misal.singh@edelcap.com

Strong growth momentum continues

The power transmission towers industry posted revenues of ~INR 30 bn in FY06, registering a ~39% CAGR over the FY04-06 period. We expect this growth momentum to sustain with a planned increase in the inter regional transmission capacity from ~11,500 MW currently to ~37,150 MW by the end of the eleventh plan, entailing additional ~96,000 ckm of transmission lines. We expect an addressable domestic spend of ~INR 380 bn over the eleventh plan period for the power transmission tower companies. With international operations contributing to ~20-25% of domestic players' revenues, we believe that the medium-term growth story remains strong.

Upgradation of power transmission infrastructure offers huge opportunity

India's inter regional power transmission capacity is likely to increase from ~11,500 MW currently to ~16,450 MW at the end of the tenth plan (FY07-end) and to ~37,150 MW at the end of the eleventh plan (FY12-end). Progress on planned power T&D infrastructure upgradation is driving the current phase of growth. In FY06, the actual capacity addition was way ahead of the planned capacity addition in the transmission space. We expect an investment of ~INR 2,475 bn for the expansion of the transmission infrastructure during the eleventh plan. Consequently, the addressable market for the power transmission tower industry from this opportunity is likely to be ~INR 250 bn over the eleventh plan period.

Rural electrification and APDRP programme : Enhancing visibility

Rural electrification projects form a substantial chunk of order book backlog for transmission tower companies. For Jyoti Structures (Jyoti) and Kalpataru Power (Kalpataru), these projects formed ~30% of the order book backlog, while for KEC International (KEC) they formed ~16%. We expect rural electrification projects to contribute to a substantial chunk of revenues, going forward. Based on the projects that have been sanctioned under the Accelerated Power Development and Reform Program (APDRP), the current unutilised portion of APDRP is ~INR 304 bn. Assuming that transmission tower manufacturers would address ~50% of the value of these contracts, we expect orders worth ~INR 152 bn from APDRP projects in the near future.

Valuation expansion likely in the backdrop of continued strong growth

Power transmission tower companies have been one of the best performing stocks in the power T&D space. Kalpataru gave ~134% return on the stock (TTM basis), while Jyoti yielded ~117%. We believe that although sector valuations have expanded over the past twelve months, the sector still offers potential upside. We expect the stock performance to track earnings growth over the medium term. In the backdrop of an encouraging investment environment, we remain positive on the power tower segment on the back of both maintenance-led upgradation programs and new T&D network roll-outs. Our favorite picks in the sector are Kalpataru and Jyoti. Kalpataru trades at a P/E of 14.8x and 11.1x FY08E and FY09E earnings, respectively, while Jyoti trades at a P/E of 11.3x and 8.4x FY08E and FY09E earnings, respectively.

Companies covered

Jyoti Structures

Kalpataru Transmission

KEC International

RPG Transmission

AT A GLANCE

Power Transmission Towers - at a glance

				Revenues		EBITDA		PAT		RoAE (%)		RoACE(%)		EPS		PE		Current Order	MktCap Order
Year to March	Reco	CMP	Mkt. Cap	2007E	2008E	2007E	2008E	2007E	2008E	2007E	2008E	2007E	2008E	2007E	2008E	2007E	2008E	book	book
Kalpataru Power	Buy	1,043	27,632	14,090	19,035	2,261	2,715	1,356	1,861	22.2	24.7	25.4	30.9	51.2	70.2	20.4	14.8	21,000	1.3
Jyoti Structures	Buy	140	10,789	10,540	14,210	1,245	1,709	587	1,001	39.7	46.2	34.0	34.0	7.5	12.3	18.5	11.3	14,000	0.8
KEC International	Buy	356	13,420	20,799	26,025	2,399	3,061	1,152	1,612	48.3	44.7	36.6	39.0	30.6	42.8	11.7	8.3	30,300	0.4
RPG transmission	Buy	201	3,132	4,061	5,412	356	509	196	299	41.6	43.5	27.1	32.9	12.5	19.1	16.0	10.5	4,500	0.7

Investment Rationale

Strong growth continues

The industry posted revenues of ~INR 30 bn in FY06, registering a CAGR of ~39% over the FY04-06 period. We expect this growth momentum to sustain with a planned increase in the interregional transmission capacity from ~11,500 MW currently to ~37,150 MW by the end of the eleventh plan, entailing additional ~96,000 ckt of transmission lines. We expect an addressable domestic spend of ~INR 380 bn over the eleventh plan period for the power transmission tower companies. With international operations contributing to ~20-25% of domestic players' revenues, we believe that the medium-term growth story remains strong.

Table 1: Industry snapshot

March YE (INR mn)	2006	2007E	2008E	2009E
Revenues	29,614	45,963	59,455	76,071
EBITDA	3,449	5,059	6,556	8,730
Net profit	1,440	2,632	4,261	5,672
EBITDA margins (%)	11.6	11.0	11.0	11.5
Net profit margins (%)	4.9	5.7	7.2	7.5

Source: Edelweiss research *Note: Includes four companies covered in the report*

Upgradation of power transmission infrastructure

Addressable market to be INR 250 bn over eleventh plan period from upgradation of transmission network alone

India's interregional power transmission capacity is likely to increase from ~11,500 MW currently to ~16,450 MW at the end of the tenth plan (FY07-end) and to ~37,150 MW at the end of the eleventh plan (FY12-end). Progress on planned power T&D infrastructure upgradation is driving the current phase of growth. In FY06, the actual capacity addition was way ahead of the planned capacity addition in the transmission space. We expect an investment of ~INR 2,475 bn for expansion of the transmission infrastructure during the eleventh plan. Consequently, the addressable market for the power transmission tower industry from this opportunity is likely to be ~INR 250 bn over the eleventh plan period.

In terms of electrical power transmission network, India is divided into five regions: northern, western, southern, eastern, and north-eastern. Power generation capacities are concentrated in the eastern and north-eastern regions, where power fuel (coal and hydro power) supply is abundant. However, power demand emanates from the northern and western regions which are economically more developed compared with other parts of the country. The northern and western regions had ~18% and ~20% power deficit, respectively, in FY06. As projected in the 16th Electrical Power Survey (EPS), the situation does not get better for the northern and western regions, as they are projected to have ~20% and ~11% power deficit, respectively, in FY12. On the contrary, the eastern region had ~26% power surplus, while the north eastern region had ~5% power surplus in FY06. The future projections for eastern and north-eastern regions, however, paint a brighter picture with the likelihood of these regions achieving ~95% and ~113% power surplus, respectively, in FY12. To change the situation, additional power generation capacities can be set up in the power deficit regions or alternatively, power can be transmitted from power surplus regions to power deficit regions. Since it is cheaper to transmit power than to transport fuel for power generation (coal), the latter alternative was chosen in the National Electricity Policy – 2005. The numbers above indicate the necessity of ensuring adequate availability of power across the country, irrespective of power generation capacities, and a robust and state-of-the-art power transmission network.

- **Transmission tower manufacturers: Exciting times ahead**

  The scope of work for power transmission tower manufacturers in the power transmission infrastructure set-up is limited to the manufacture of transmission towers and tower components, laying the towers, and stringing the conductor cables. The capital cost of a transmission line depends on voltage level, mode of transmission (AC or HVDC), and other parameters. While the capital costs for transmission projects can vary significantly, the average estimated cost for different configurations are given in the table below.

Table 2: Estimated cost of power transmission lines

Configuration	INR mn/km
220 kV double circuit	2-2.5
400 kV single circuit	3-3.5
400 kV double circuit	5-5.5
765 kV single circuit	7-7.5

Source: CRISINFAC

Table 3: Estimated cost of a power transmission line project

(INR/km)

Cost/km for different configurations	220 kV D/C	400 kV S/C	400 kV D/C	765 kV S/C
Cost heads				
Preliminary works	30,000	52,500	82,500	112,500
Land and compensation	60,000	105,000	165,000	225,000
Civil works	70,000	122,500	192,500	262,500
Equipment cost	1,300,000	2,275,000	3,575,000	4,875,000
Miscellaneous tools and plant	20,000	35,000	55,000	75,000
Maintenance during construction	20,000	35,000	55,000	75,000
Administration	120,000	210,000	330,000	450,000
Losses on stocks	8,000	14,000	22,000	30,000
Contingencies	50,000	87,500	137,500	187,500
Project cost	1,678,000	2,936,500	4,614,500	6,292,500
Interest during construction	320,000	560,000	880,000	1,200,000
Total project cost	1,998,000	3,496,500	5,494,500	7,492,500

Source: CRISINFAC, Edelweiss research

Transmission tower costs are ~5-10% of the equipment cost, depending on the weight of the tower. An average transmission tower weight is ~7-8 tonnes, while the average cost is INR 20,000-25,000 per tonne. Besides transmission towers, these companies also take up turnkey projects for erecting sub-stations. The average cost per sub-station is estimated at INR 300 mn. The main entry barriers in the industry are prequalification norms. Power Grid Corporation of India (PGCI) is the main customer of all the transmission tower makers and it has a select list of vendors from whom they are procured. Vendors who have laid transmission towers in varied terrains are preferred. The core competencies of transmission tower manufacturers are their project management skills, which determine the level of profitability and turnover achieved.

The total installed power generation capacity in India was ~30GW in 1980-81, while its current generation capacity is ~127GW. Even though there has been a rise in capacity addition, there has been a significant shortfall compared with the targets set over the past 15 years. To an extent, this can be attributed to the poor financial health of state electricity boards (SEBs), delay in clearances, and unviable tariffs owing to expensive fuel costs. PGCI and SEBs are the key customers of transmission tower companies. The poor financial health of SEBs and few orders from PGCI have affected transmission tower companies negatively in FY01 and FY02. The losses from SEBs were INR 260 bn, 1.5% of GDP in FY01. The transmission tower industry on the whole made a loss of 5.3% and 7.9% at the PBT level in FY01 and FY02, respectively, implying high level of customer concentration risk which is a characteristic of this industry.

However, post FY03, the industry grew robustly. Currently, the industry derives its revenues mainly from transmission line projects, rural electrification projects, and projects under the APDRP scheme. Rural electrification and APDRP projects fall under the central government, while the transmission projects could potentially fall either under state government or central government.

- **Power transmission: Primary source of growth**

Power transmission capacity addition in FY06 was ahead of planned capacity addition

Inter-regional transmission and regional grid formation/strengthening is undertaken by PGCI, while sub transmission network infrastructure falls under the purview of SEBs. Currently, India's inter-regional power transmission capacity is ~11,500 MW, it is expected to be ~16,450 MW at the end of the tenth plan (FY07-end) and ~37,150 MW at the end of the eleventh plan (FY12-end). The robust performance of the industry can be tracked down to the fast pace of capacity expansion in transmission infrastructure. In FY06, the actual capacity addition was way ahead of the planned capacity addition in the transmission space, as opposed to the historical phenomenon of planned capacity addition exceeding actual capacity addition on the ground.

Table 4: Transmission lines capacity additions

All figures in ckm	Programme FY06	Achievement FY06(2)	Achievement ahead of programme (%) FY06	Achivement FY05 (4)	Growth 2 over 4 (%)
765 kV lines	105	287	173	45	538
500 kV lines	0	0	NA	0	NA
400 kV lines	3,850	6,260	63	5,366	17
220 kV lines	2,738	2,871	5	2,808	2

Source: CEA

Table 5: Substations capacity additions

All figures in MVA	Programme FY06	Achievement FY06(2)	Achievement ahead of programme (%) FY06	Achivement FY05 (4)	Growth 2 over 4 (%)
500 kV HVDC	0	0	NA	0	NA
HVDC B/B S/S	0	0	NA	500	NA
400 kV S/S	7,455	10,265	38	2,705	279
220 kV S/S	7,760	7,505	(3)	9,162	(8)

Source: CEA

This trend is likely to continue in FY07E and during the eleventh plan. As per the transmission expansion plan, transmission lines and sub-stations of 765 kV, 400 kV, 220kV, and 132kV and below are to be added to the existing power grid during the eleventh and twelveth plans. According to the Central Electricity Authority (CEA), ~96,000ckm of transmission lines will be laid (across line voltages) during the eleventh plan. In terms of tower manufacturing, the current annual capacity of the industry is 305,000 MT/p.a. The annual required capacity for the planned expansion in the transmission infrastructure is ~375,000 MT/p.a. which is ~23% higher than the current capacity. While setting up the additional capacity requires low investment and has a quick turnaround in this industry, these numbers provide us comfort in addressing the growth and visibility aspects for the industry.

Table 6: Transmission infrastructure expansion in eleventh plan

S.No.	Line voltage (kV)	Norms for weight of steel for towers (MT/km)	ckt. km.	Total all India (11th plan) Total weight of steel for towers (MT)
1	765	65	3,200	208,000
2	500 HVDC	38.3	5,400	206,820
3	400	23.5	44,440	1,044,340
4	220	10.1	23,000	232,300
5	132	9.1	20,000	182,000
Total				**1,873,460**

Source: CEA, Edelweiss research

Additionally, ~11,000 sub-stations are planned during the eleventh plan. The investment required for expansion in the sub-station infrastructure during this plan is ~INR 2,475 bn.

Table 7: Transmission infrastructure expansion in eleventh plan: Sub-stations

S.No.	Voltage level	No. of bays 11th plan	Total	Average cost /sub station (INR mn()	Total cost for sub-stations (INR mn)
1	765 kV	62	124	350	21,700
2	400kV	774	1548	300	232,200
3	220kV	3060	6120	250	765,000
4	132kV	7280	14560	200	1,456,000
Total					**2,474,900**

Source: CEA, Edelweiss research

Huge rural electrification and ARDRP contracts expected

Contracts worth INR 55 bn need to be awarded under RGGVY scheme over next three-four years

Rural electrification under Rajiv Gandhi Grameen Vidyutikaran Yojna (RGGVY), introduced in April 2005, aims at providing electricity in all villages and habitations in four years. The outlay for the scheme was INR 150 bn. Rural electrification projects form a substantial chunk of order book backlog for transmission tower companies. For Jyoti and Kalpataru it formed ~30% of the order book backlog, while for KEC it was ~16%. We believe rural electrification is likely to contribute substantial chunk of revenues going forward. As of November 2006, ~INR 95 bn worth of contracts were awarded under the RGGVY scheme. Consequently, contracts worth ~INR 55 bn need to awarded over the next trhee-four years. Assuming that transmission tower manufacturers would address ~20% of the value of these contracts, we expect orders of ~INR 14 bn from RGGVY for transmission tower companies over a period of three-four years.

Table 8: Releases under RGGVY

As of Nov 2006	Cost of projects sanctioned (INR mn)	Cost of projects awarded (INR mn)	Cost of projects pending tenders
Northern region	41,153	48,905	1,997
Western region	13,900	5,034	8,866
Southern region	17,483	6,418	4,868
Eastern region	35,566	34,670	4,110
North eastern region	7,041	-	7,041
Total	**115,142**	**95,026**	**26,881**

Source: CEA

Contracts worth INR 304 bn need to be awarded under APDRP scheme in the near future

The APDRP scheme was launched in FY01 to contain loses of SEBs (1.5% of GDP when the scheme was launched). The scheme's main objective was strengthening and up-gradation of the sub-transmission and distribution networks. APDRP had an outlay of INR 400 bn, divided equally between loans and grants for sanctioned projects. However, the loan component was discontinued after FY06 in accordance with the recommendation of the Twelvth Finance Commission. As on June 2006, the total outflow from APDRP was ~INR 93 bn, inclusive of both loans and grants (see table below). With the loan portion being discontinued (hence remaining funds to be used as grants), the remaining outlay from APDRP is ~INR 304 bn. Assuming that transmission tower manufacturers would address ~40% of the value of these contracts, we expect orders worth ~INR 122 bn from APDRP projects in the near future. Further, as additional projects are sanctioned, the order book backlog from APDRP projects is likely to increase.

Table 9: Releases under APDRP

(INR mn)

As of June-2006	Project outlay	APDRP releases	Utilization	Utilization %
Northern region	60,877	20,063	34,465	57
Western region	46,797	11,769	23,260	50
Southern region	44,566	16,871	28,074	63
Eastern region	23,121	6,340	7,776	34
North eastern region	16,444	8,026	2,511	15
Total	**191,805**	**63,069**	**96,086**	

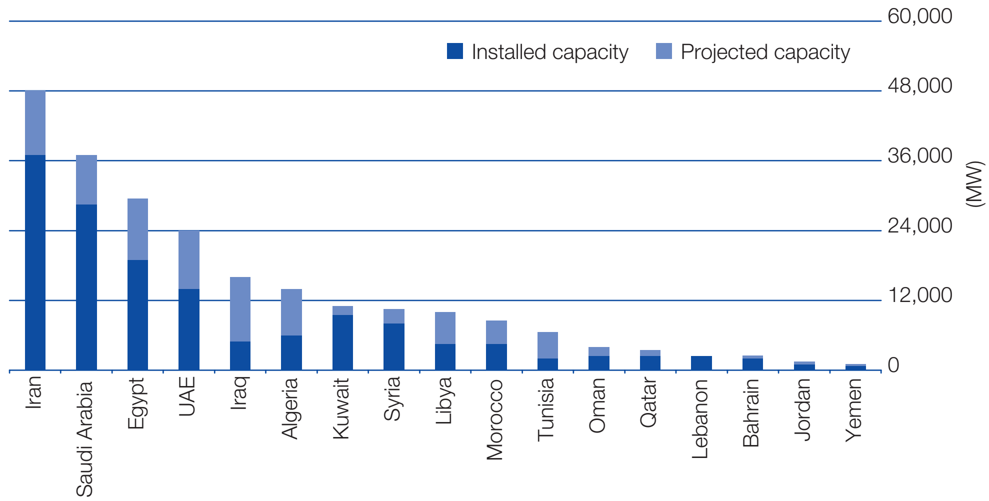
Source: CEA

Based on the above three revenue drivers, the total orders are likely to be close to ~INR 2,816 bn for all the players in the power T&D space.

Overview of the Middle East and North African markets

The Middle East and North Africa (MENA) power sector had an installed power generation capacity of ~151GW in FY05. It is estimated that the regional power demand will grow by 6% annually till 2010, to increase the total installed power generation capacity to ~230GW.

Chart 1: Installed capacity



Source: Economic Intelligence Unit

Gulf Electricity Interconnection Grid to cost INR 53 bn and is expected to be completed by mid- 2008

The six-member Gulf Cooperation Council (GCC) countries are currently working on the first phase of the Gulf Electricity Interconnection Grid, to link the power grids of Kuwait, Saudi Arabia, Bahrain, and Qatar. This project is likely to cost INR 53 bn and is expected to be completed by mid-2008. The second and third phases will link Oman and the UAE. The EPC contracts for the above project were awarded from 2005. This project will link the GCC countries to the Arab Electricity Grid which will link Egypt, Jordan, Syria, Lebanon, Iraq and Turkey at a cost of over ~INR 27 bn.

We view the MENA power T&D upgradation in positive light for our coverage universe. Although Kalpataru and Jyoti have ventured into this market by securing important orders from utility companies of the UAE and Africa, KEC is the most active player in the MENA market in our coverage universe. The recent key orders obtained by the above companies are listed in the table below:

Table 10: International orders

Sr.No	Agency	Brief details	Order value (INR mn)	Company	Country
1	Sharjah Electricity & Water Authority	Supply and construction of 220 kV overhead transmission lines, 39.5 ckms		KEC	Sharjah, UAE
2	Abu Dhabi Water & Water Authority	Supply and construction of 400 kV overhead transmission lines, 7 ckms	1,060	KEC	Abu Dhabi, UAE
3	Abu Dhabi Water & Electricity Authority	Replacement of OPGW, 278 kms		KEC	Abu Dhabi, UAE
4	Volta River Authority	Construction of 330 kV overhead transmission lines, 215 ckms	450	KEC	Ghana
5	Dubai Electricity & Water Authority	Supply, installation, testing and commissioning of 400kV D/C overhead transmission lines	1,803	Jyoti	Dubai, UAE
6	Zesco Ltd, Zambia	Construction of 330 kV, overhead transmission lines, 72 ckms contract	405	Kalpataru	Zambia

Source: Edelweiss research

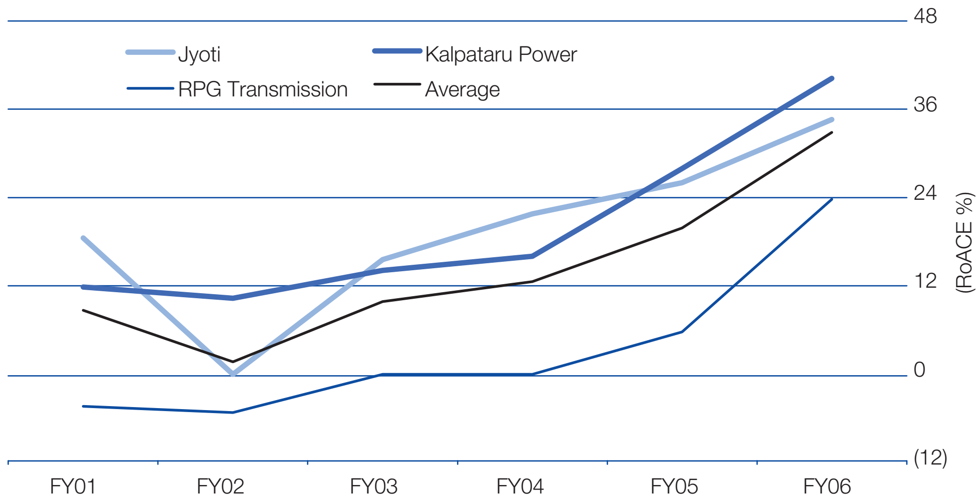
The industry has grown robustly in FY06 and H1FY07 on back of expansion in power transmission capacity, rural electrification initiatives, and distribution reforms. On considering the performance of the four major listed players, the industry sales have grown from ~INR 15 bn in FY04 to ~INR 30 bn in FY06, a CAGR of ~39%. Further, we expect the industry to grow strongly in the current fiscal with sales likely to touch ~INR 46 bn, a ~55% Y-o-Y growth. We expect Kalpataru, Jyoti, and RPG Transmission (RPGT) to show the strongest growth, as they are the main players in the domestic market. Although KEC is one of the key players in the domestic market, almost ~75% of its revenues come from international markets.

Margins have improved for the industry as a whole with the completion of old contracts. The contracts that are being tendered by PGCI and SEBs are now resulting in greater realisations for the industry. Besides, as capacity utilisations increase and operating leverage kicks in, margins are likely to improve. Kalpataru's margins are by far the most impressive in the industry. Part of the reason for this is that the outsourced portion in Kalpataru's business is lower than Jyoti and KEC. The total tower production capacity of the industry was 221,000 MT/per annum in FY04, with average capacity utilisation being ~55%. Capacity increased to 275,000 MT/per annum by the end of FY06, and the average capacity utilisation increased to ~89%. Capacity continues to remain tight in the industry. However, setting up capacity for tower manufacturing is fast and involves low capital expenditure. We expect capacity utilisation to remain at ~90% levels in FY07E and FY08E.

Valuation expansion likely in the backdrop of continued strong growth

Power transmission tower companies have been one of the best performing stocks in the power T&D space. Kalpataru gave ~134% return on the stocks (TTM), while Jyoti yielded ~117%. Although sector valuations have expanded over the past twelve months, we believe the sector still offers a potential upside. We expect the strock performance to track earnings growth over the medium term. In the backdrop of an encouraging investment environment, we remain positive on the power tower segment because of both maintenance-led up-gradation programs and new T&D network roll-outs. Our favorite picks in the sector are Kalpataru and Jyoti. Kalpataru trades at a P/E of 14.8x and 11.1x FY08E and FY09E earnings, respectively, while Jyoti trades at a P/E of 11.3x and 8.4x FY08E and FY09E earnings, respectively. For an attractive growth profile of these two companies and a definitive progress towards a business model, we believe that such valuations are attractive.

Chart 2: Return ratios



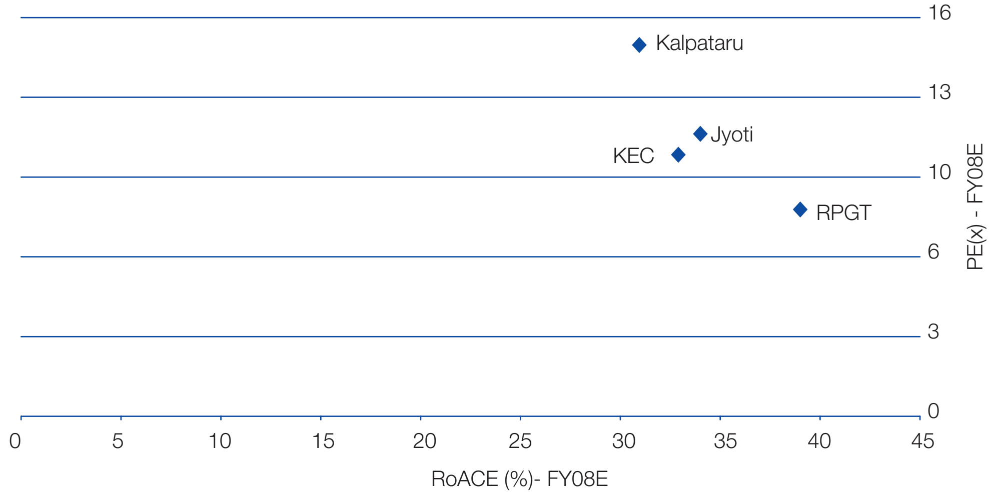
Source: Edelweiss research

On valuation terms, Kalpataru trades at a premium to segment peers, which we believe is justified considering the company's emerging business model. Kalpataru's presence in the pipeline business is a positive. We believe this business is easily scalable and can assist the company in increasing its turnover manifold.

Our top picks Kalpataru and Jyoti trade at a P/E of 14.9x and 11.3x FY08E earnings

While Kalpataru has been a leading player in the industry in terms of sales growth and margins, Jyoti has posted strong result for H1FY07 with sales growing by ~53% and margins at the EBITDA level increasing by ~140bps to 10.9%. Additionally, we consider Reliance Energy's stake to be beneficial to Jyoti for projects that the company is likely to bag under the privatisation route. Reliance Energy Transmission Limited (RETL) recently emerged as the lowest bidder for laying transmission lines connecting Maharashtra and Gujarat. We believe Jyoti is likely to be the biggest beneficiary of this development. On our upgraded estimates, Jyoti trades at P/E of 11.3x and 8.4x FY08E and FY09E earnings, respectively.

Chart 3: P/E & return ratios



Source: Edelweiss research

KEC and RPG are both RPG group companies. While KEC has a substantial share of its revenues (~75%) coming from the international market, RPG caters primarily to the domestic market. KEC and RPG trade at a significant discount to the other players in the sector. We expect KEC and RPG to continue trading at a discount to other players in the market due to lower margins and lower market share in the domestic market. On an EPS of INR 42.8 and INR 57.4, KEC trades at P/E multiple of 8.3x and 6.2x FY08E and FY09E earnings, respectively. RPG, on the other hand, trades at P/E multiple of 10.5x and 7.5x on our EPS estimates of INR 19.1 and INR 26.8 for FY08E and FY09E earnings, respectively.

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Company Update

JYOTI STRUCTURES

INR 140

Spreading the light

BUY

Edelweiss
Ideas create, values protect

Head start to strong growth

Jyoti's growth continued to be buoyant and profitability improved in H1FY07 in the backdrop of a robust macro environment in the domestic power T&D space. In H1FY07, revenues grew by ~53% Y-o-Y to ~INR 4.6 bn, while EBIDTA margin increased by ~130bps Y-o-Y to 10.9%. At an order book-to-sales of ~2x, we believe the visibility remains intact and provides comfort on valuations.

Moving to international markets

Jyoti has ventured into international markets in a planned manner after losses in FY02 due to high exposure in export markets. Currently, international orders form ~10-15% of the order book backlog. Recently, Jyoti secured an order worth ~INR 1.8 bn from Dubai Electricity and Water Authority. It has started bidding for projects in the Middle East and Africa and is one of the key players in those geographies.

Capacity expansion on track…to cater to robust demand

Jyoti had a tower manufacturing capacity of 52,000MT/p.a. at the end of H1FY07. We expect significant capacity expansion to cater to the increasing domestic demand. Jyoti is likely to add 24,000MT/p.a. in H2FY07 at its Nashik facility. Additionally, Gulf Jyoti Structures (JV with Gulf Investment Corporation) is likely to add 33,000 MT/p.a. capacity by the end of FY07. We believe the Dubai capacity will further help to cater to the Middle East and African markets.

Privatization of transmission networks a positive for Jyoti; estimates upgraded

Recently, Reliance Energy Transmission Limited (RETL) emerged as the lowest bidder for laying two transmission lines connecting Maharashtra and Gujarat. Reliance Energy has a ~7% stake in Jyoti through its subsidiaries. As further transmission networks are privatized, the potential upside for Jyoti is high, given that RETL is one of the key participants in the privatization of transmission networks process. In the back of encouraging performance and sound fundamentals, we are upgrading our numbers for Jyoti. On our upgraded EPS of INR 12.3 and INR 16.6, the stock trades at P/E multiple of 11.3 and 8.4 FY08E and FY09E earnings, respectively. We continue to maintain our '**BUY**' recommendation.

Financials

Year to March	FY06	FY07E	FY08E	FY09E
Revenue (INR mn)	6,956	10,540	14,210	17,942
Rev. growth (%)	*63.9*	*51.5*	*34.8*	*26.3*
EBITDA (INR mn)	748	1,245	1,709	2,154
Net profit (INR mn)	277	587	1,001	1,289
Basic shares outstanding (mn)	69	77	77	77
Adjusted diluted EPS (INR)	3.6	7.5	12.3	16.6
EPS growth (%)	*140.0*	*112.2*	*63.6*	*34.2*
P/E (x)	39.3	18.5	11.3	8.4
EV/ EBITDA (x)	16.4	10.3	7.8	6.2
ROAE (%)	25.6	39.7	46.2	41.0
ROACE (%)	28.6	34.0	34.0	33.6

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Priyanko Panja
+91-22-2286 4300
priyanko.panja@edelcap.com

Misal Singh
+91-22-2286 4316
misal.singh@edelcap.com

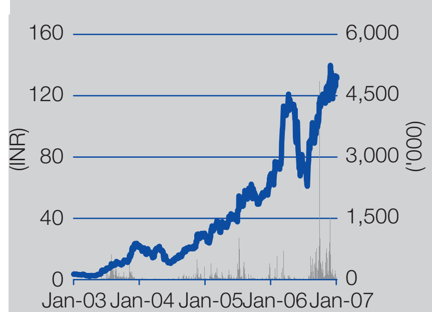
Reuters	:	JYTS.BO
Bloomberg	:	JYS IN

Market Data

52-week range (INR)	:	144 / 59
Share in issue (mn)	:	76.9
M cap (INR bn/USD mn)	:	10.7 / 242.7
Avg. Daily Vol. BSE/NSE ('000)	:	393.6

Share Holding Pattern (%)

Promoters	:	24.9
MFs, FIs & Banks	:	15.8
FIIs	:	21.0
Others	:	38.3



Edelweiss Research is also available on Bloomberg EDEL <GO>, Thomson First Call, Reuters and Factset.

Table 1: Revised estimates

	Previous estimates		Revised estimates		
	FY07E	FY08E	FY07E	FY08E	Remarks
Revenues (INR mn)	8,448	9,966	10,540	14,210	Upgrading revenues on back of strong first half results and robust macro enviornment in the T&D space
EBITDA (INR mn)	832	1,031	1,245	1,709	Higher margins due to better price realizations in recent contracts and larger order sizes
EBITDA margin (%)	9.9	10.3	11.8	12.0	
PAT (INR mn)	327	427	587	961	Higher margins in FY08E due to revenues from Gulf Jyoti kicking in
Net margin (%)	3.9	4.3	5.6	6.8	
EPS (INR)	4.3	5.6	7.5	12.3	

Source: Edelweiss research

Upgrading estimates: Key changes

We are upgrading our FY07 and FY08 revenue estimates by 25% and 43% to INR 10.5 bn and INR 14.2 bn, respectively, on back of strong first half results and a robust overseas operations business model. NTPC and PGCI form about 50% of the order book for Jyoti currently. We expect this number to go down after additional facilities and overseas operations kick in. Recent contracts from PGCI and other state utilities carry better price realizations and larger order size, which is leading to greater operational efficiencies. We expect the improved profitability scenario to continue, leading us to upgrade our EBITDA margin expectations to 11.8% and 12.0% for FY07E and FY08E, respectively. Further, to cater to the demand we expect Jyoti to convert an already existing plant in Nashik to a tower manufacturing plant at nominal capex, driving return ratios upwards. Consequently, Jyoti is likely to add ~24,000 MT/ p.a. of tower manufacturing capacity in H2FY07E.

Outlook and valuations

On our consolidated EPS estimate of INR 12.3 and INR 16.6, the stock trades at a P/E multiple of 11.3x and 8.4x for FY08E and FY09E, respectively. At an EV of INR 12.8 bn (market capitalization of INR 10.9 bn and net debt of INR 1.9 bn as on FY07-end) and an order backlog of INR 14 bn (as on end of Q2FY07) the EV to order backlog ratio stands at 0.9x. We believe that robust investment scenario in the power T&D space is likely to translate into high order book growth and better margins for Jyoti Structures. In the backdrop of a strong demand environment and sound fundamentals, we continue to like the stock and maintain our '**BUY**' recommendation.

Financial Statements

Income statement (INR mn)

Year to March	FY05	FY06	FY07E	FY08E	FY09E
Income from operations	4,245	6,956	10,540	14,210	17,942
Direct costs	3,271	5,355	8,002	10,757	13,588
Employee costs	143	185	281	378	478
Other expenses	422	668	1,012	1,364	1,723
Total operating expenses	3,835	6,208	9,295	12,500	15,788
EBITDA	410	748	1,245	1,709	2,154
Depreciation and amortisation	39	48	60	79	105
EBIT	371	700	1,186	1,630	2,049
Interest expenses	195	258	381	499	561
Other income	5	21	46	72	90
Profit before tax	181	462	851	1,203	1,578
Provision for tax	66	185	264	373	489
Extraordinary items	-	-	-	40	-
Associate income	-	-	-	130	200
Reported profit	115	277	587	1,001	1,289
Adjusted net profit	115	277	587	961	1,289
Basic shares outstanding	69.1	69.1	77.1	77.1	77.1
Dividend per share	0.2	0.4	0.8	1.4	1.9
Dividend payout (%)	14.4	11.1	11.1	10.7	11.1

Common size metrics as a % of net revenues

Year to March	FY05	FY06	FY07E	FY08E	FY09E
Operating expenses	90.3	89.2	88.2	88.0	88.0
Depreciation	0.9	0.7	0.6	0.6	0.6
Interest expenditure	4.6	3.7	3.6	3.5	3.1
EBITDA margins	9.7	10.8	11.8	12.0	12.0
Adjusted Net profit margins	2.7	4.0	5.6	6.8	7.2

Growth metrics (%)

Year to March	FY05	FY06	FY07E	FY08E	FY09E
Revenues	42.3	63.9	51.5	34.8	26.3
EBITDA	35.9	82.2	66.5	37.2	26.0
PBT	92.0	155.0	84.2	41.5	31.1
Net profit	110.8	140.0	112.2	63.6	34.2
EPS	110.8	140.0	112.2	63.6	34.2

Cash flow statement (INR mn)

Year to March	FY05	FY06	FY07E	FY08E	FY09E
Net profit	115	277	587	1,001	1,289
Add: Depreciation	39	48	60	79	105
Add: E.O.adjustments	-	-	-	(40)	-
Add: Deferred tax	10	9	-	-	-
Gross cash flow	164	334	647	1,040	1,394
Less: Dividends	17	31	65	107	143
Less: Changes in W. C.	499	626	784	801	815
Operating cash flow	(352)	(323)	(202)	131	435
Less: Change in investments	(4)	79	96	-	-
Less: Capex	61	137	157	251	228
Free cash flow	**(410)**	**(539)**	**(455)**	**(120)**	**208**

Balance sheet (INR mn)

As on 31st March	FY05	FY06	FY07E	FY08E	FY09E
Equity capital	138	138	154	154	154
Share warrants	0	15	15	15	15
Reserves & surplus	806	1,063	1,576	2,415	3,541
Shareholders funds	944	1,216	1,745	2,584	3,710
Secured loans	854	1,203	1,403	1,703	1,803
Unsecured loans	265	406	1,006	1,156	1,256
Borrowings	1,119	1,609	2,409	2,859	3,059
Sources of funds	**2,064**	**2,825**	**4,154**	**5,443**	**6,769**
Gross block	716	853	1,025	1,276	1,504
Depreciation	290	322	382	461	566
Net block	426	531	643	815	938
Capital work in progress	15	15	-	-	-
Total fixed assets	441	546	643	815	938
Investments	87	166	262	262	262
Inventories	915	1,213	1,733	2,336	2,949
Sundry debtors	1,838	2,487	3,754	5,061	6,390
Cash and equivalents	171	38	159	172	254
Loans and advances	456	517	1,026	1,383	1,746
Other current assets	539	633	866	1,168	1,475
Total current assets	3,918	4,889	7,537	10,120	12,814
Sundry creditors and others	2,277	2,558	3,983	5,370	6,780
Provisions	40	141	227	306	386
Total CL & provisions	2,316	2,699	4,210	5,676	7,167
Net current assets	1,602	2,190	3,327	4,444	5,648
Net deferred tax	(69)	(78)	(78)	(78)	(79)
Others	2	1	-	-	-
Uses of funds	**2,064**	**2,825**	**4,154**	**5,443**	**6,769**
Book value per share (INR)	14	18	23	33	48

Ratios

Year to March	FY05	FY06	FY07E	FY08E	FY09E
ROAE (%)	14.7	25.6	39.7	46.2	41.0
ROACE (%)	20.9	28.6	34.0	34.0	33.6
Current ratio	1.7	1.8	1.8	1.8	1.8
Debtors (days)	158	131	130	130	130
Fixed assets t/o (x)	9.6	12.7	16.4	17.4	19.1
Average working capital t/o (x)	3.2	3.7	3.8	3.7	3.6
Gross debt/equity	1.2	1.3	1.4	1.1	0.8

Valuation parameters

Year to March	FY05	FY06	FY07E	FY08E	FY09E
Adjusted diluted EPS (INR)	1.5	3.6	7.5	12.3	16.6
Y-o-Y growth (%)	*110.8*	*140.0*	*112.2*	*63.6*	*34.2*
Diluted CEPS (INR)	2.0	4.2	8.3	13.4	17.9
PE (x)	94.4	39.3	18.5	11.3	8.4
Price/BV(x)	10.2	7.9	6.2	4.2	2.9
EV/Sales (x)	2.8	1.8	1.2	0.9	0.7
EV/EBITDA (x)	31.4	17.2	10.3	7.5	6.0

India Equity Research | Power

Company Update

KALPATARU POWER TRANSMISSION

INR 1,043

Edelweiss
Ideas create, values protect

Shining star

BUY

January 8, 2007

Priyanko Panja
+91-22-2286 4300
priyanko.panja@edelcap.com

Misal Singh
+91-22-2286 4316
misal.singh@edelcap.com

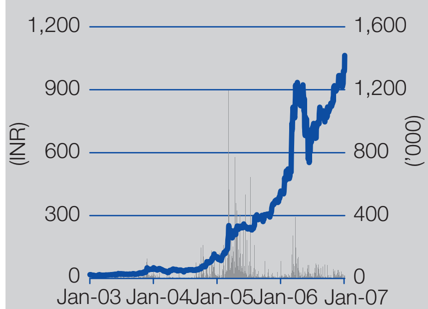
Reuters	:	KAPT.BO
Bloomberg	:	KPP IN

Market Data

52-week range (INR)	:	1,060 / 413
Share in issue (mn)	:	26.5
M cap (INR bn/USD mn)	:	27.6 / 624.2
Avg. Daily Vol. BSE/NSE ('000)	:	62.8

Share Holding Pattern (%)

Promoters	:	63.7
MFs, FIs & Banks	:	20.2
FIIs	:	7.2
Others	:	8.9



Gas pipeline segment scaling up; T&D on a strong footing

Kalpataru's gas pipeline segment grew by 21x Y-o-Y in H1FY07 on the back of rapid scale-up in business. Characteristically, pipeline laying activity in the infrastructure business is relatively easily scalable and hence, this business segment is likely to contribute to strong growth, going forward. We believe that the pipeline segment's contribution to total revenue is likely to increase to ~18% in both FY08E and FY09E, from ~4% in FY06. The T&D segment continues to perform spectacularly, with sales growing by 140% Y-o-Y in H1FY07.

Domestic T&D market buoyant…Kalpataru well placed to leverage

In the domestic market, Kalpataru had a market share of ~25% and a domestic order backlog of ~INR 13 bn at the end of H1FY07. The company's margins have always been higher than industry standards, mainly because of lower amount of outsourcing and better project management skills. Kalpataru has an installed capacity of 84,000 MT/p.a. We believe the industry is likely to add further capacity in the near to medium term. Though Kalpataru has the highest capacity utilization amongst peers, we believe it is unlikely to add to capacities in the domestic operations as overseas operations do not necessitate capacity addition. The current power transmission capacity in India is ~11,500 MW and PGCI has a target of achieving ~16,450 MW by the end of the tenth plan. We believe this sets the stage for acceleration in order inflow for the industry as a whole.

The most important entry barriers in this industry are the pre-qualification norms. Kalpataru is one of the best placed players in this regard, along with Jyoti and KEC International. We expect growth kicking from overseas operations with a strong domestic demand market providing the base.

Outlook and valuations

In the backdrop of an encouraging investment environment, we remain positive on the power tower segment—both on account of maintenance-led upgradation programs and new T&D network roll-outs. On EPS estimates of INR 70.2 and INR 93.8, the stock trades at P/E multiple of 14.8x and 11.1x FY08E and FY09E earnings, respectively. Kalpataru remains one of our favorite bets in the T&D space. Based on a strong emerging business model, strong growth and financial management, we reiterate our '**BUY**' recommendation.

Financials

Year to March	FY06	FY07E	FY08E	FY09E
Revenue (INR mn)	8,404	14,090	19,035	25,030
Rev. growth (%)	*55.1*	*67.7*	*35.1*	*31.5*
EBITDA (INR mn)	1,310	2,261	2,715	3,472
Net profit (INR mn)	665	1,356	1,861	2,485
Shares outstanding (mn)	11	26	26	26
EPS (INR) (adjusted for split)	30.6	51.2	70.2	93.8
EPS growth (%)	*131.7*	*67.1*	*37.3*	*33.5*
P/E (x)	34.1	20.4	14.8	11.1
EV/ EBITDA (x)	22.5	13.0	10.9	8.5
ROAE (%)	39.6	22.2	24.7	26.2
ROACE (%)	30.5	25.4	30.9	34.1

Table 1: Revised estimates

	Previous estimates	Revised estimates	
	FY08E	FY08E	Remarks
Revenues (INR mn)	18,370	19,035	Upgrading revenues on back of robust macro enviornment in the T&D space
EBITDA (INR mn)	2,924	2,715	Lower margins on account on increase in the share of gas pipeline business
EBITDA margin (%)	15.9	14.3	
PAT (INR mn)	1,726	1,861	Higher margins due to decrease in interest expenses
Net margin (%)	9.4	9.8	
EPS (INR)	65.1	70.2	

Source: Edelweiss research

Upgrading FY08 estimates: Key changes

We are upgrading our FY08 estimates as we expect further scale up in the gas pipeline business. We are upgrading our revenue estimates by ~4% to ~INR 18.3 bn for FY08, with the revenues from the gas pipeline business growing by ~60% Y-o-Y. With the gas pipeline business contributing ~18% to sales, we believe margins should decline. Consequently, we are reducing our EBITDA margin estimates by ~130bps to 14.3% for FY08.

Financial Statements

Income statement (INR mn)

Year to March	FY05	FY06	FY07E	FY08E	FY09E
Income from operations	5,418	8,404	14,090	19,035	25,030
Direct costs	4,264	6,188	10,267	13,940	18,467
Employee costs	236	389	705	1,047	1,427
Other expenses	285	517	858	1,332	1,664
Total operating expenses	4,786	7,094	11,829	16,320	21,558
EBITDA	633	1,310	2,261	2,715	3,472
Depreciation and amortisation	55	88	119	125	131
EBIT	578	1,222	2,142	2,590	3,341
Interest expenses	157	310	358	221	81
Other income	14	33	59	139	79
Profit before tax	435	944	1,843	2,509	3,338
Provision for tax	147	279	544	741	985
Reported profit	287	665	1,299	1,768	2,353
Add: share of profits in associate cos.	-	-	56	92	132
Adjusted net profit	287	665	1,356	1,861	2,485
Shares outstanding	11	11	26	26	26
Face value	10	10	10	10	10
Dividend per share	5.0	10.0	10.0	10.6	14.1
Dividend payout (%)	18.9	16.3	19.5	15.1	15.0

Common size metrics as a % of net revenues

Year to March	FY05	FY06	FY07E	FY08E	FY09E
Operating expenses	88.3	84.4	84.0	85.7	86.1
Depreciation	1.0	1.0	0.8	0.7	0.5
Interest expenditure	2.9	3.7	2.5	1.2	0.3
EBITDA margins	11.7	15.6	16.0	14.3	13.9
Net profit margins	5.3	7.9	9.6	9.8	9.9

Growth metrics (%)

Year to March	FY05	FY06	FY07E	FY08E	FY09E
Revenues	57.2	55.1	67.7	35.1	31.5
EBITDA	85.4	107.0	72.7	20.1	27.9
PBT	137.0	117.2	95.3	36.1	33.1
Net profit	103.3	131.7	103.7	37.3	33.5
EPS	103.3	131.7	67.1	37.3	33.5

Cash flow statement (INR mn)

Year to March	FY05	FY06	FY07E	FY08E	FY09E
Net profit	287	665	1,356	1,861	2,485
Add: Depreciation	55	88	119	125	131
Add: Misc expenses written off	1	0	1	0	-
Add: Deferred tax	8	3	6	9	12
Gross cash flow	351	757	1,481	1,995	2,627
Less: Dividends	54	124	303	322	426
Less: Changes in W. C.	71	656	1,696	1,556	1,770
Operating cash flow	226	(23)	(518)	117	431
Less: Change in investments	100	193	-	-	-
Less: Capex	119	899	100	100	100
Free cash flow	**7**	**(1,115)**	**(618)**	**17**	**331**

Balance sheet (INR mn)

As on 31st March	FY05	FY06	FY07E	FY08E	FY09E
Equity capital	109	109	265	265	265
Reserves & surplus	1,029	1,571	5,830	7,277	9,204
Shareholders funds	1,138	1,679	6,095	7,542	9,469
Secured loans	1,005	2,328	2,328	828	328
Unsecured loans	100	0	0	0	0
Borrowings	1,105	2,328	2,328	828	328
Sources of funds	**2,243**	**4,007**	**8,423**	**8,370**	**9,797**
Gross block	977	1,594	1,977	2,077	2,177
Depreciation	271	354	472	597	728
Net block	706	1,240	1,505	1,480	1,450
Capital work in progress	2	284	0	0	0
Total fixed assets	708	1,524	1,505	1,480	1,450
Investments	101	294	294	294	294
Inventories	1,227	1,387	2,355	3,015	3,673
Sundry debtors	1,282	2,973	4,829	6,524	8,579
Cash and equivalents	64	166	2,912	1,336	1,036
Loans and advances	861	1,482	1,455	1,892	2,460
Total current assets	3,434	6,009	11,552	12,767	15,747
Sundry creditors and others	1,727	3,402	3,935	4,893	6,048
Provisions	221	361	930	1,206	1,561
Total CL & provisions	1,947	3,763	4,865	6,100	7,610
Net current assets	1,487	2,246	6,687	6,668	8,137
Net deferred tax	(55)	(58)	(64)	(73)	(84)
Others	2	1	0	0	0
Uses of funds	**2,243**	**4,007**	**8,423**	**8,370**	**9,797**
Book value per share (INR)	105	155	230	285	357

Ratios

Year to March	FY05	FY06	FY07E	FY08E	FY09E
ROAE (%)	25.2	39.6	22.2	24.7	26.2
ROACE (%)	25.8	30.5	25.4	30.9	34.1
Current ratio	1.8	1.6	2.4	2.1	2.1
Debtors (days)	86	129	125	125	125
Fixed assets t/o (x)	7.7	5.5	9.4	12.9	17.3
Average working capital t/o (x)	3.6	4.5	3.2	2.9	3.4
Gross debt/Equity	1.0	1.4	0.4	0.1	0.0

Valuation parameters

Year to March	FY05	FY06	FY07E	FY08E	FY09E
EPS (INR) (adjusted for split)	13.2	30.6	51.2	70.2	93.8
Y-o-Y growth (%)	*103.3*	*131.7*	*67.1*	*37.3*	*33.5*
CEPS (INR) (adjusted for split)	31.5	69.4	55.6	74.9	98.7
PE (x)	78.9	34.1	20.4	14.8	11.1
Price/BV(x)	10.0	6.7	4.5	3.7	2.9
EV/Sales (x)	5.4	3.5	2.1	1.5	1.2
EV/EBITDA (x)	46.6	22.5	13.0	10.9	8.5

India Equity Research | Power Company Update

KEC INTERNATIONAL

INR 356

Lighting up

BUY

Strong international presence; sizeable domestic market share

International markets—mainly Africa and the Middle East—contribute ~75% to KEC International's (KEC) revenues. Further, the company is present in Kazakhstan, countries around the Caspian sea and is also making forays into South East Asian markets, especially the Philippines. With substantial investments planned in the power transmission space in emerging markets, KEC is one of the best placed domestic players to leverage on the same. It has a substantial presence in the domestic market with a ~15% market share. The company has bagged domestic rural electrification orders worth ~INR 5 bn and transmission orders worth ~INR 3 bn in the first half of FY07.

Large order backlog; visibility intact

KEC's order book backlog at the end of H1FY07 was ~INR 30 bn, which is 1.8x FY06 revenues. Significantly, PGCI is likely to float tenders worth ~INR 15 bn in H2FY07 to meet tenth plan targets. Thus, we believe KEC's order intake from the domestic market is likely to increase in H2FY07, resulting in further increase of the order book-to-sales ratio and providing comfort on the visibility front.

Margin expansion sustainable

Profitability of the sector as a whole expanded in H1FY07 as old contracts with lower margins have been executed, and the new contracts carry higher margins. Consequently, KEC posted robust EBITDA margin of 11.4% in H1FY07. Additionally, the average order size from PGCI has increased, leading to better profitability. While the average order size earlier was ~INR 600 mn, recent order size has been around INR 1 bn.

Outlook and valuations

In the backdrop of strong H1FY07 performance in EBITDA-level profitability, we believe that a case for margin improvement does exist given larger size of orders and increase in price realizations. At current EPS estimates of INR 42.8 and INR 57.4 for FY08 and FY09, respectively, the stock is trading at P/E multiple of 8.3x and 6.2x FY08E and FY09E earnings, respectively. We reiterate our '**BUY**' recommendation.

Financials

Year to March	FY06	FY07E	FY08E	FY09E
Revenue (INR mn)	17,272	20,799	26,025	32,530
Rev. growth (%)	*40.4*	*20.4*	*25.1*	*25.0*
EBITDA (INR mn)	1,622	2,399	3,061	3,833
Net profit (INR mn)	493	1,152	1,612	2,164
Shares outstanding (mn)	38	38	38	38
EPS (INR)	13.1	30.6	42.8	57.4
EPS growth (%)	*16.5*	*133.6*	*39.9*	*34.2*
P/E (x)	27.2	11.7	8.3	6.2
EV/ EBITDA (x)	9.8	6.6	5.2	4.1
ROAE (%)	19.3	48.3	44.7	41.0
ROACE (%)	23.7	36.6	39.0	41.1

Edelweiss
Ideas create, values protect

January 8, 2007

Priyanko Panja
+91-22-2286 4300
priyanko.panja@edelcap.com

Misal Singh
+91-22-2286 4316
misal.singh@edelcap.com

Reuters	:	KECI.BO
Bloomberg	:	KEC IN

Market Data

52-week range (INR)	:	506 / 210
Share in issue (mn)	:	37.7
M cap (INR bn/USD mn)	:	13.4 / 303.0
Avg. Daily Vol. BSE/NSE ('000)	:	170.1

Share Holding Pattern (%)

Promoters	:	34.3
MFs, FIs & Banks	:	35.0
FIIs	:	12.3
Others	:	18.5

Table 1: Revised estimates

	Previous estimates	Revised estimates	
	FY08E	FY08E	Remarks
Revenues (INR mn)	25,609	26,025	Upgrading revenues on account of robust macro enviornment in the domestic and international T&D space
EBITDA (INR mn)	2,494	3,061	Higher margins due to better price realizations in recent contracts and larger order sizes
EBITDA margin (%)	9.7	11.8	
PAT (INR mn)	1,292	1,612	
Net margin (%)	5.0	6.2	
EPS (INR)	34.3	42.8	

Source: Edelweiss research

Upgrading FY08 estimates: Key changes

We are upgrading our FY08 estimates due to improvement in margins with larger and profitable contracts being executed. While we are increasing our sales numbers marginally, our net profit numbers stand upgraded by ~25% to INR 1.6 bn for FY08E, implying a ~120bps improvement in FY08E margins from previous estimates.

Financial Statements

Income statement (INR mn)

Year to March	FY05	FY06	FY07E	FY08E	FY09E
Income from operations	12,303	17,272	20,799	26,025	32,530
Direct costs	8,844	13,123	15,179	18,800	23,351
Employee costs	760	838	1,085	1,358	1,698
Other expenses	1,503	1,689	2,136	2,806	3,648
Total operating expenses	11,107	15,650	18,400	22,964	28,697
EBITDA	1,196	1,622	2,399	3,061	3,833
Depreciation and amortisation	101	269	257	265	273
EBIT	1,096	1,353	2,141	2,796	3,561
Interest expenses	487	593	556	572	544
Other income	68	4	60	78	74
Profit before tax	676	765	1,645	2,303	3,091
Provision for tax	254	272	494	691	927
Reported profit	423	493	1,152	1,612	2,164
Adjusted net profit	423	493	1,152	1,612	2,164
Shares outstanding	38	38	38	38	38
Dividend per share		1.2	3.0	4.5	6.0
Dividend payout (%)	-	9.2	9.8	10.5	10.5

Common size metrics as a % of net revenues

Year to March	FY05	FY06	FY07E	FY08E	FY09E
Operating expenses	90.3	90.6	88.5	88.2	88.2
Depreciation	0.8	1.6	1.2	1.0	0.8
Interest expenditure	4.0	3.4	2.7	2.2	1.7
EBITDA margins	9.7	9.4	11.5	11.8	11.8
Net profit margins (adjusted)	3.4	2.9	5.5	6.2	6.7

Growth metrics (%)

Year to March	FY05	FY06	FY07E	FY08E	FY09E
Revenues	50.6	40.4	20.4	25.1	25.0
EBITDA	21.9	35.6	47.9	27.6	25.2
PBT	105.3	13.0	115.2	39.9	34.2
Net profit (adjusted)	0.0	16.6	133.6	39.9	34.2
EPS	(19.9)	16.5	133.6	39.9	34.2

Cash flow statement (INR mn)

Year to March	FY05	FY06	FY07E	FY08E	FY09E
Net profit	423	493	1,152	1,612	2,164
Add: Depreciation	101	269	257	265	273
Add: Misc expenses written off	(3)	3	-	-	-
Add: Deferred tax	219	201	-	-	-
Gross cash flow	739	966	1,409	1,876	2,436
Less: Dividends	31	52	127	191	255
Less: Changes in W. C.	(4,307)	(466)	(361)	723	909
Operating cash flow	5,014	1,381	1,643	962	1,271
Less: Change in investments	(866)	205	-	-	-
Less: Capex	(145)	(508)	110	140	146
Free cash flow	**6,026**	**1,684**	**1,533**	**823**	**1,126**

Balance sheet (INR mn)

As on 31st March	FY05	FY06	FY07E	FY08E	FY09E
Equity capital	376	377	377	377	377
Preference capital	130	130	130	130	130
Reserves & surplus	924	1,365	2,390	3,811	5,719
Shareholders funds	1,430	1,872	2,897	4,317	6,226
Secured loans	4,749	3,325	3,616	3,523	3,270
Unsecured loans	35	1	1	1	1
Borrowings	4,784	3,326	3,617	3,525	3,271
Sources of funds	**6,214**	**5,198**	**6,514**	**7,842**	**9,496**
Intangible assets	2,125	2,339	2,202	2,066	1,930
Gross block	2,440	2,024	2,194	2,334	2,479
Depreciation	1,030	133	254	383	519
Net block	1,410	1,892	1,940	1,951	1,960
Capital work in progress	152	60	-	-	-
Total fixed assets	1,562	1,951	1,940	1,951	1,960
Investments	0	205	205	205	205
Inventories	1,064	1,249	1,261	1,560	1,962
Sundry debtors	8,440	7,260	10,401	13,015	16,269
Cash and equivalents	1,661	636	2,461	3,190	4,062
Loans and advances	1,891	1,619	1,894	2,322	2,844
Total current assets	13,056	10,764	16,017	20,088	25,137
Sundry creditors and others	10,518	9,723	13,071	15,492	18,523
Provisions	142	136	578	775	1,011
Total CL & provisions	10,661	9,860	13,649	16,267	19,534
Net current assets	2,395	905	2,368	3,821	5,602
Net deferred tax	128	(201)	(201)	(201)	(201)
Others	3	-	-	-	-
Uses of funds	**6,214**	**5,198**	**6,514**	**7,842**	**9,496**
Book value per share (INR)	38	50	77	115	165

Ratios

Year to March	FY05	FY06	FY07E	FY08E	FY09E
ROAE (%)	22.2	19.3	48.3	44.7	41.0
ROACE (%)	15.2	23.7	36.6	39.0	41.1
Current ratio	1.2	1.1	1.2	1.2	1.3
Debtors (days)	250	153	183	183	183
Fixed assets t/o (x)	7.9	8.9	10.7	13.3	16.6
Average working capital t/o (x)	3.1	10.5	12.7	8.4	6.9
Gross debt/Equity	3.3	1.8	1.2	0.8	0.5

Valuation parameters

Year to March	FY05	FY06	FY07E	FY08E	FY09E
EPS (INR)	11.2	13.1	30.6	42.8	57.4
Y-o-Y growth (%)	*(19.9)*	*16.5*	*133.6*	*39.9*	*34.2*
CEPS (INR)	13.9	20.2	37.4	49.8	64.6
PE (x)	31.7	27.2	11.7	8.3	6.2
Price/BV(x)	9.4	7.2	4.6	3.1	2.2
EV/Sales (x)	1.3	0.9	0.8	0.6	0.5
EV/EBITDA (x)	13.8	9.8	6.6	5.2	4.1

India Equity Research | Power | Company Update

RPG Transmission

INR 201

In the big league

BUY

January 8, 2007

Priyanko Panja
+91-22-2286 4300
priyanko.panja@edelcap.com

Misal Singh
+91-22-2286 4316
misal.singh@edelcap.com

Change in project mix leads to margin expansion

RPG Transmission (RPGT) executed ~11,172 MT of tower component sales in Q2FY07. While 86% of this was used for its own projects, 14% was used for projects that were outsourced to RPGT. As the project mix moves towards self-owned projects from doing job work for outsourced projects, we expect margins to improve. EBITDA margin was 11% in Q2FY07, up 190bps Y-o-Y. We expect the project mix to drive margin improvement, going forward.

Robust demand side driving capacity utilization

RPGT has a tower manufacturing capacity of ~55,000 MT/p.a. Its capacity utilization has increased to ~80% in the first half of the current fiscal from ~65% in FY06. We believe capacity utilization for players with pre-qualifications is likely to increase in the near to medium term as the demand for tower manufacturing capacity leads supply in the medium term, thus impacting margins positively. In Q2FY07, RPGT did sales of ~11,000 MT, with ~9,500 MT being for own projects and ~1,500 MT for outsourced projects.

Order intake likely to increase in H2FY07

RPGT had a modest order intake in H2FY07 at about ~INR 500 mn, primarily due of lower order intake in Q2FY07 as very few tenders were floated by PGCI in the period. However, recently RPGT secured two big ticket orders worth ~INR 1.9 bn from PGCI in the face of global competition. We expect PGCI to float tenders worth ~INR 15 bn in H2FY07 to meet tenth plan targets, hence the order intake for domestic players like RPGT is likely to increase. Currently, RPGT's order book-to-sales ratio is 1.9x, thus providing comfort on visibility.

Outlook and valuations

We expect the high growth scenario in the T&D space to continue at the current level with the strengthening of T&D networks and commissioning of new networks. On our EPS estimate of INR 19.1 and INR 26.8 for FY08 and FY09, respectively, RPGT is one of the most attractive stocks in the power tower makers' universe. At current prices, it trades at P/E multiple of 10.5x and 7.5x FY08E and FY09E earnings, respectively. We continue to remain positive and reiterate our '**BUY**' recommendation.

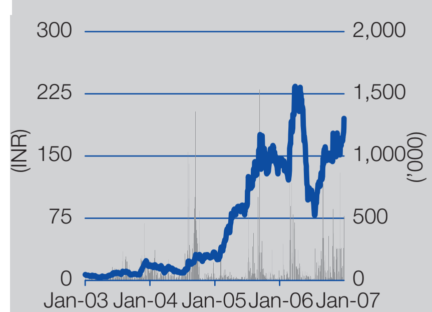
Reuters	:	RPGT.BO
Bloomberg	:	SAE IN

Market Data

52-week range (INR)	:	243 / 75
Share in issue (mn)	:	15.6
M cap (INR bn/USD mn)	:	3.1 / 70.7
Avg. Daily Vol. BSE ('000)	:	168.0

Share Holding Pattern (%)

Promoters	:	37.5
MFs, FIs & Banks	:	9.0
FIIs	:	2.7
Others	:	50.8



Financials

Year to March	FY06	FY07E	FY08E	FY09E
Revenue (INR mn)	1,951	4,061	5,412	7,074
Rev. growth (%) (annualised)	*154.4*	*56.1*	*33.3*	*30.7*
EBITDA (INR mn)	196	356	509	706
Net profit (INR mn)	75	196	299	418
Shares outstanding (mn)	16	16	16	16
EPS (INR mn) (annualised)	6.4	12.5	19.1	26.8
EPS growth (%) (annualised)	*121.7*	*95.6*	*52.6*	*40.0*
P/E (x)	31.3	16.0	10.5	7.5
EV/ EBITDA (x)	19.1	10.5	7.3	5.3
ROAE (%)	22.0	41.6	43.5	41.8
ROACE (%)	16.4	27.1	32.9	37.5

FY06E is 9 months year to March ending. FY07E, FY08E and FY09E are 12 months year to March ending estimates

Table 1: Revised estimates

	Previous estimates	Revised estimates	
	FY08E	FY08E	Remarks
Revenues (INR mn)	5,052	5,412	Upgrading revenues with changing business mix and improvement in project profile
EBITDA (INR mn)	445	509	Higher margins due to better price realizations in recent contracts and larger order sizes
EBITDA margin (%)	8.8	9.4	
PAT (INR mn)	254	299	
Net margin (%)	5.0	5.5	
EPS (INR)	16.3	19.1	

Source: Edelweiss research

Upgrading FY08 estimates: Key changes

We are upgrading our FY08 estimates as we expect larger and more profitable order wins for RPGT. Consequently, we are upgrading our revenue estimates by ~7% to ~INR 5.4 bn for FY08. We expect RPGT's project profile to improve, which should be reflected in superior margins. We are upgrading our EBITDA margins estimates by ~60 bps to 9.4% for FY08E.

Financial Statements

Income statement (INR mn)

Year to financial year ending	FY05#	FY06E^	FY07E@	FY08E@	FY09E@
Income from operations	1,278	1,951	4,061	5,412	7,074
Direct costs	921	1,365	2,529	3,352	4,350
Employee costs	232	181	568	725	940
Other expenses	177	209	607	825	1,078
Total operating expenses	1,331	1,756	3,704	4,902	6,368
EBITDA	(52)	196	356	509	706
Depreciation and amortisation	32	15	36	41	55
EBIT	(84)	180	320	468	651
Interest expenses	27	66	93	110	124
Other income	170	5	4	6	10
Profit before tax	59	120	232	364	536
Provision for tax	(114)	45	36	66	118
Extraordinary items	(126)	-	-	-	-
Reported profit	46	75	196	299	418
Adjusted net profit	173	75	196	299	418
Shares outstanding	12.9	15.6	15.6	15.6	15.6
Dividend per share	-	-	1.4	2.1	2.9
Dividend payout (%)	-	-	11.0	11.0	11.0

Common size metrics as a % of net revenues

Year to financial year ending	FY05#	FY06E^	FY07E@	FY08E@	FY09E@
Operating expenses	104.1	90.0	91.2	90.6	90.0
Depreciation	2.5	0.8	0.9	0.8	0.8
Interest expenditure	2.1	3.4	2.3	2.0	1.8
EBITDA margins	(4.1)	10.0	8.8	9.4	10.0
Net profit margins (reported)	3.6	3.8	4.8	5.5	5.9

Growth metrics (%) (annualised)

Year to financial year ending	FY05#	FY06E^	FY07E@	FY08E@	FY09E@
Revenues	28.6	154.4	56.1	33.3	30.7
EBITDA	59.7	725.6	36.6	42.9	38.6
PBT	117.6	240.2	44.7	57.2	47.1
Net profit	113.8	169.1	95.6	52.6	40.0
EPS	113.3	121.7	95.6	52.6	40.0

Cash flow statement (INR mn)

Year to financial year ending	FY05#	FY06E^	FY07E@	FY08E@	FY09E@
Net profit	173	75	196	299	418
Add: Depreciation	32	15	36	41	55
Add: E.O.Adjustments	-	-	-	-	-
Add: Deferred tax	(115)	90	17	29	54
Gross cash flow	90	181	249	369	527
Less: Dividends	-	-	24	37	52
Less: Changes in W. C.	(280)	233	17	50	164
Operating cash flow	370	(53)	208	282	311
Less: Change in investments	(329)	-	-	-	-
Less: Capex	3	9	100	100	100
Free cash flow	**696**	**(62)**	**109**	**182**	**211**

Balance sheet (INR mn)

Year to financial year ending	FY05#	FY06E^	FY07E@	FY08E@	FY09E@
Equity capital	129	156	156	156	156
Preference capital	0	13	13	13	13
Reserves & surplus	(64)	216	387	649	1,015
Shareholders funds	298	385	556	818	1,184
Secured loans	748	691	734	734	734
Unsecured loans	72	0	0	0	0
Borrowings	820	692	734	734	734
Sources of funds	**1,118**	**1,076**	**1,290**	**1,552**	**1,918**
Gross block	627	617	717	817	917
Accumulated epreciation	469	464	500	541	597
Net block	157	153	217	276	320
Capital work in progress	2	0	-	-	-
Total fixed assets	159	153	217	276	320
Investments	0.0	0.0	0.0	0.0	0.0
Inventories	284	417	661	810	1,092
Sundry debtors	1,168	1,422	1,895	2,526	3,302
Cash and equivalents	270	91	242	424	635
Loans and advances	282	337	337	337	337
Total current assets	2,003	2,266	3,135	4,097	5,366
Sundry creditors and others	1,285	1,496	2,154	2,853	3,704
Provisions	53	51	93	124	167
Total CL & provisions	1,338	1,547	2,248	2,977	3,871
Net current assets	665	719	887	1,120	1,495
Add / (Less) : Deferred tax asset/ liability	294	203	186	157	103
Uses of funds	**1,118**	**1,076**	**1,290**	**1,552**	**1,918**
Book value per share (INR)	23	25	36	52	76

Ratios

Year to financial year ending	FY05#	FY06E^	FY07E@	FY08E@	FY09E@
ROAE (%)	29.4	22.0	41.6	43.5	41.8
ROACE (%)	(6.8)	16.4	27.1	32.9	37.5
Current ratio	1.5	1.5	1.4	1.4	1.4
Debtors (days)	334	266	170	170	170
Fixed assets t/o (x)	8.4	11.4	17.1	17.8	19.9
Average working capital t/o (x)	1.9	2.8	5.1	5.4	5.4
Gross debt/Equity	2.8	1.8	1.3	0.9	0.6

Valuation parameters

Year to financial year ending	FY05#	FY06E^	FY07E@	FY08E@	FY09E@
EPS (INR) (annualised)	2.9	6.4	12.5	19.1	26.8
Y-o-Y growth (%) (annualised)	*113.3*	*121.7*	*95.6*	*52.6*	*40.0*
CEPS (INR) (annualised)	4.9	7.7	14.8	21.8	30.3
PE (x)	69.4	31.3	16.0	10.5	7.5
Price/BV(x)	8.7	8.1	5.6	3.8	2.6
EV/Sales (x)	2.9	1.9	0.9	0.7	0.5
EV/EBITDA (x)	n.a	19.1	10.5	7.3	5.3

 # FY05 is year 15 months year to June ending. ^FY06E is 9 months year to March ending. @FY07E, FY08E and FY09E are 12 months year to March ending estimates

NOTES

Edelweiss Securities
14th Floor, Express Towers,
Nariman Point, Mumbai – 400 021
Board: +91 22 2286 4400
Email: ***research@edelcap.com***

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Naresh Kothari - 22864246		Head, Institutional Equities
Vikas Khemani - 22864206		Co-Head, Institutional Equities

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Ashutosh Goel	-	2286 4287	Automobiles, Auto Components
Vishal Goyal, CFA	-	2286 4370	Banking & Finance
Revathi Myneni	-	2286 4413	Cement
Sumeet Budhraja	-	2286 4430	FMCG
Harish Sharma	-	2286 4307	Infrastructure, Auto Components, Mid Caps
Priyanko Panja	-	2286 4300	Infrastructure, Engineering, Telecom
Hitesh Zaveri	-	2286 4424	Information Technology
Priyank Singhal	-	2286 4302	Media, Retail
Prakash Kapadia	-	2286 4432	Mid Caps
Niraj Mansingka	-	2286 4304	Oil & Gas, Petrochemicals
Nimish Mehta	-	2286 4295	Pharmaceuticals, Agrochemicals
Manika Premsingh	-	4019 4847	Economist
Sunil Jain	-	2286 4308	Alternative & Quantitative
Yogesh Radke	-	2286 4328	Alternative & Quantitative

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Rajesh Makharia	-	2286 4202
Shabnam Kapur	-	2286 4394
Amish Choksi	-	2286 4201
Deepak Rao	-	2286 4204
Balakumar V	-	(044) 4263 8283
Monil Bhala	-	2286 4363
Ashish Agrawal	-	2286 4301
Nikhil Garg	-	2286 4282
Swati Khemani	-	2286 4266
Neha Shahra	-	2286 4276
Priya Ramchandran	-	2286 4389
Anubhav Kanodia	-	2286 4361
Tushar Mahajan	-	2286 4439
Harsh Biyani	-	2286 4419
Nirmal Ajmera	-	2286 4258
Ankit Doshi	-	2286 4671
Ravi Pilani	-	4009 4533
Dipesh Shah	-	2286 4434

Email addresses: firstname.lastname@edelcap.com **e.g.** naresh.kothari@edelcap.com *unless otherwise specified*

RATING INTERPRETATION

Buy	Expected to appreciate more than 20% over a 12-month period	**Reduce**	Expected to depreciate up to 10% over a 12-month period
Accumulate	Expected to appreciate up to 20% over a 12-month period	**Sell**	Expected to depreciate more than 10% over a 12-month period
Trading Buy	Expected to appreciate more than 10% over a 45-day period	**Trading Sell**	Expected to depreciate more than 10% over a 45-day period

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