

**Titagarh Wagons Ltd. - Analysis of Consolidated Q1-FY10 Results**

**August 3, 2009**

**Price: Rs297.50**

**52 week High/Low: 830/119**

**MCap: Rs5.5bn (\$114mn)**

**BSE Sensex: 15670**

**No rating**

**Highlights**

**Slump in wagon sales by 23.1% q-o-q lead to decline in net Sales by 17.8%**

Net sales down 17.8% q-o-q, to Rs106.53Cr, on 23.1% fall in wagon sales (excl. excise) to Rs91.28Cr. We believe the fall is attributable primarily to lack of demand from the private sector. It sold about 700 wagons during the quarter, and wagon division continued to form a major chunk of overall revenues (83.6% of net sales). Steel castings division too reported negative growth, with sales down 53.2%. However, HEMM sales increased by 41.3% to Rs11.44Cr mainly due to the lower base.

**EBITDA margin though back on track, may remain depressed going forward**

EBITDA margin rose 540 bps q-o-q to 14.6% on lower raw material costs (down 240 bps as % of sales) and lower power and fuel costs (down 200 bps as % of sales) Raw materials, the major cost, was about 65.9% of sales. However, lower off-take of wagons from both Indian Railways and non Indian Railways customers and falling realizations restricted EBITDA growth to 30.7% at Rs15.59Cr vis-à-vis 11.92Cr.

**Bottomline up 15.7%, boosted by net interest income**

Net profit up 15.7% primarily due to interest income, mainly from the unutilized IPO proceeds.

TWL had earmarked Rs12.93Cr of the IPO proceeds for setting up the wheel assembly plant; however the plant has not been set up till date. The total unutilized money, parked in fixed deposits stood at Rs21.49Cr. TWL utilized Rs0.68Cr during the quarter, of which Rs0.41Cr and Rs0.26Cr are for EMU manufacturing facility and corporate office respectively.

**Wagon shipments for FY10 to Indian Railways may commence only in January 2010**

Indian Railways plans to procure 18000 new wagons in FY10. Container Corporation of India will spend about Rs500Cr, in procuring 2200-2500 wagons in FY10.

*(continued...)*

**Highlights of Quarterly results**

**(RsCr)**

Particulars	Q1FY09	Q4FY09	Q1FY10	q-o-q %	y-o-y %
Net Sales	231.12	129.60	106.53	-17.8%	-53.9%
Total Expenditure	196.08	117.68	90.95	-22.7%	-53.6%
EBITDA	35.04	11.92	15.59	30.7%	-55.5%
EBITDA margin (%)	15.2%	9.2%	14.6%	5.4%	-0.5%
Other income	1.43	1.23	3.63	194.2%	154.0%
Interest	-1.71	-1.05	-3.20	205.6%	87.1%
PBT	36.13	15.83	17.56	10.9%	-51.4%
Tax	12.06	6.17	6.38	3.4%	-47.1%
Tax rate (%)	33.4%	39.0%	36.3%	-2.6%	3.0%
PAT	24.07	9.66	11.18	15.7%	-53.6%
EPS (Rs)	13.05	5.24	6.06	15.7%	-53.6%

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**Highlights (continued)**

We understand that shipments of wagons to Indian Railways for a financial year commence with a lag of almost 8-9 months from the commencement of the year. Accordingly, the company expects shipments of wagons to Indian Railways for the current fiscal year to commence only in January 2010. In the meantime, shipments against procurement for FY09 is understood to be under way.

The order book for wagons as on date stands at approx. 2600, of which approx. 1700 is from Indian Railways and the rest from the private players. It has also secured orders from Indian Railways for 5 EMU rakes worth Rs60Cr. The total order book was at about Rs700Cr.

Market leader Texmaco, which sold 4079 wagons in FY09, secured orders from Indian Railways for 3455 wagons in May, 2009. It has recently raised Rs170Cr via QIP.

**Valuation**

TWL trades at 8.2x FY11, vis-à-vis Texmaco's 11.5x FY11 (see table on page 3).

**Revenue mix: slumping wagon sales (RsCr)**

Segment	Q1FY09	Q4FY09	Q1FY10	q-o-q %	y-o-y %
Wagon	222.74	118.71	91.28	-23.1%	-59.0%
HEMM	6.37	8.10	11.44	41.3%	79.6%
Steel Castings	7.82	13.93	6.51	-53.2%	-16.7%
Others	0.62	1.36	0.00	-99.9%	-99.7%
<b>Total</b>	<b>237.55</b>	<b>142.09</b>	<b>109.24</b>	<b>-23.1%</b>	<b>-54.0%</b>

Segment	Q1FY09	Q4FY09	Q1FY10	q-o-q %	y-o-y %
Wagon	93.8%	83.5%	83.6%	0.0%	-10.2%
HEMM	2.7%	5.7%	10.5%	4.8%	7.8%
Steel Castings	3.3%	9.8%	6.0%	-3.8%	2.7%
Others	0.3%	1.0%	0.0%	-1.0%	-0.3%

**EBIT Margins**

Segment	Q1FY09	Q4FY09	Q1FY10	q-o-q %	y-o-y %
Wagon	17.5%	10.8%	16.9%	6.1%	-0.6%
HEMM	7.4%	2.7%	2.9%	0.2%	-4.6%
Steel Castings	14.1%	10.0%	8.1%	-1.9%	-6.0%
Others	24.9%	51.4%	-6.3%	-57.7%	-31.1%

**Costs break-up**

(RsCr)

Particulars	Q1FY09	Q4FY09	Q1FY10	q-o-q %	y-o-y %
Raw Material Consumed	169.10	88.54	70.25	-20.7%	-58.5%
as % of sales	73.2%	68.3%	65.9%	-2.4%	-7.2%
Employee Expenses	2.97	2.02	2.67	32.1%	-10.1%
as % of sales	1.3%	1.6%	2.5%	0.9%	1.2%
Other Mfg. Exps	0	0.00	10.10	-	-
as % of sales	0.0%	0.0%	0.0%	0.0%	0.0%
Power, Oil & Fuel	0	5.14	2.07	-59.7%	-
as % of sales	0.0%	4.0%	1.9%	-2.0%	1.9%
Other Expenses	24.01	-16.76	5.86	-135.0%	-75.6%
as % of sales	10.4%	-12.9%	5.5%	18.4%	-4.9%

**Peer comparison**

(RsCr)

	Texmaco			TWL		
	FY07	FY08	FY09	FY07	FY08	FY09
Net Sales	431.93	834.69	1,007.23	281.64	559.64	684.18
EBITDA	41.99	105.45	109.92	47.01	87.88	90.32
EBITDA margin	9.7%	12.6%	10.9%	16.6%	15.7%	13.1%
PAT	27.33	69.41	76.11	29.19	60.57	64.10
Wagons sold (units)	N.a	4129	4,071	2,073	3,466	3,600
Growth	-	-	-1.4%	-	67.2%	3.9%

**Valuation**

	FY10 EPS	FY11 EPS	Price	FY10-P/e	FY11-P/e
Texmaco	8.4	9.4	108	12.9	11.5
Titagarh wagons	29.8	36.6	300	10.1	8.2

(Source: Bloomberg consensus estimates)

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