Quarterly Result Analysis

Indo Tech Transformers Rs 196

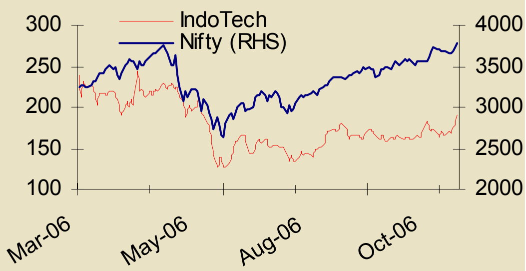
Powering Growth **Buy**

03rd Nov 2006

SCRIP DETAILS	
Market Cap (Rs crores)	208.6
P/E (x) - FY07 (E)	11.9
Market Cap/Sales (x) - FY07 (E)	1.6
EV EBIDTA (x) - FY07 (E)	8.0
Dividend (Rs)/ Yield (%)	2/1.0
Equity Capital (Rs crores)	10.6
Face Value (Rs)	10.0
52 Week High/Low (Rs)	252 / 117.5
Website: www.indo-tech.com	
NSE Code	INDOTECH
Sensex	13,130
Nifty	3,805

(as on 30th June 2006)	
Promoters	60.2
FIIs	3.1
Mutual Funds/ Banks/ FIs	12.7
Public	16.2
Others	7.8

COMPARATIVE PRICE MOVEMENT



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Indo Tech Transformers Ltd (ITTL), which currently manufactures power and distribution transformers at its facilities in Chennai, Tamil Nadu and Kerala, has reported better-than-expected results for Q2FY07.

Improving Performance

Net sales for Q2FY07 jumped by 27%, to Rs 32.5 crores from Rs 25.6 crores in Q2FY06. PAT for the quarter went up 24%, to Rs 4.6 crores from Rs 3.7 crores. For H1FY07, net sales grew to Rs 53.9 crores, up 29%. The Company showed an impressive rise of 58% in PAT, to Rs 7.8 crores from Rs 5.0 crores in H1FY06. EPS jumped significantly, to Rs 7.4 for HIFY07 from Rs 4.7 in H1FY06. For H1FY07, almost 65% of the revenues were contributed by the Tamil Nadu SEB - this indicates too much dependence on a single customer.

Expansion in operating margins

For H1FY07, the Company reported operating profits of Rs 10.5 crores, up 43%. Margins were up 180 bps, from 17.7% in H1FY06 to 19.5% in H2FY07, on the back of raw material cost as a percentage of sales, declining by 150 bps. Also, personnel cost and other expenses, which, in proportion to sales were lower as compared to those in HIFY06, also contributed to expansion of margins.

Strong Order Book provides earnings visibility

Currently, ITTL has an order-book position worth Rs 172 crores, which is executable over a period of 9 to 12 months. Of this, the order book for power transformers is Rs 163.4 crores and for distribution transformers is Rs 8.6 crores. The customer-wise break-up of the order book comprises of SEBs accounting for 93% and the balance being accounted by EPC contractors, corporate houses and exports.

Moving-up the value chain by entering into higher value power transformers

The Company manufactures both, power and distribution transformers upto 110/ 132 KV. There is substantial demand for these classes of transformers, as well as for a higher class (the 220 KV) of transformers. The margins in these transformers are also higher, as compared to those of the smaller range of transformers. With the setting-up of the new manufacturing facility of the 132-KV and 220-KV classes of transformers, the Company is well positioned to cater to the power transformer segment and thus move up the value chain.

Foray into dry-type transformers to be margin accretive

The Company has signed an MoU with a leading MNC, for setting up a plant capable of manufacturing dry-type transformers, using Nomex insulating materials, with the technology being provided by the MNC. This facility would be set-up at the Thirumazhisai complex and would chiefly cater to industrial and corporate customers. The margins for dry-type transformers are more by 1-2% than those of oil transformers. The plant is likely to commence commercial production by Dec 06.

Positive Industry Outlook

Emphasis by the Government of India on providing electricity to all by 2012, wherein 1,00,000 MW of power generation capacity is likely to be added, would result into demand of about 7,00,000 MVA transformers by 2012. Besides, focus on reducing T&D losses is also generating replacement demand for transformers. The Company is well -placed to benefit from the same, as it has built strong relationships with various SEBs in the South, over the years.

Financials

(YE March 31)	Q2FY07	Q2FY06	Chg (%)	H1FY07	H1FY06	Chg (%)	FY07(E)	Chg (%)
Net Sales	**32.5**	**25.6**	**27.0**	**53.9**	**41.6**	**29.4**	**120.9**	**30.6**
Raw Mat. consumed	22.6	17.5	28.8	38.0	30.0	26.7	84.5	28.5
Other expenses	2.3	1.9	21.2	3.9	3.0	27.7	9.1	15.3
Personnel	0.8	0.6	24.2	1.5	1.2	20.3	2.9	15.1
Total expenditure	**25.7**	**20.0**	**27.9**	**43.4**	**34.3**	**26.6**	**96.5**	**26.7**
Operating Profit	**6.8**	**5.5**	**23.4**	**10.5**	**7.4**	**42.7**	**24.4**	**47.4**
Other Income	0.8	0.2	271.4	1.8	0.3	513.8	**2.8**	**250.0**
Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Gross Profit	**7.6**	**5.7**	**32.5**	**12.3**	**7.7**	**60.6**	**27.2**	**56.8**
Depreciation	0.3	0.2	23.8	0.5	0.4	19.5	1.0	17.6
PBT	**7.3**	**5.5**	**32.8**	**11.8**	**7.3**	**62.9**	**26.2**	**58.8**
Prov. for Tax- Current	2.7	1.9	20.0	4.0	2.3	51.0	8.6	59.3
PAT	**4.6**	**3.7**	**24.3**	**7.8**	**5.0**	**57.7**	**17.6**	**59.1**
Equity Share capital	10.6	10.6		10.6	10.6		**10.6**	
EPS (Rs)	**4.3**	**3.5**	**24.3**	**7.4**	**4.7**	**57.7**	**16.6**	**59.1**
CEPS (Rs)	5.1	3.7	38.4	8.1	4.9	65.1	**17.5**	**58.8**
OPM (%)	21.0	21.6		19.5	17.7		20.2	
PBT (%)	22.6	21.6		21.9	17.4		21.7	
PAT (%)	14.2	14.5		14.5	11.9		14.6	

Valuation and Conclusion

ITTL is an established player, with over a decade of presence and stands to benefit from the current boom in the power sector. Further, the Company, having established strong relationships with the South-based SEBs and industrial customers over the years, is all set to reap benefits, going forward.

At CMP of Rs 196, the stock is trading at 11.9x its FY07(E) earnings of Rs 16.6 & 8.0x its FY07(E) EV/ EBITDA. Given the robust power industry scenario, the Company's entry into higher value power transformers and dry type transformers, together with the strong order book position, we recommend investors to buy the stock at the CMP, with a price target of Rs 275, an upside of 40% from the current levels for a 9-12 months horizon.

WAY2WEALTH Research

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