



Punjab Tractors

STOCK INFO. BLOOMBERG
BSE Sensex: 14,091 PJT IN
REUTERS CODE
S&P CNX: 4,083 PTR.A.BO

31 January 2007

Neutral

Previous Recommendation: Neutral

Rs251

Equity Shares (m)	60.8
52-Week Range (Rs)	293/191
1,6,12 Rel. Perf. (%)	0/-11/-41
M.Cap. (Rs b)	15.2
M.Cap. (US\$ b)	0.3

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/06A	9,585	724	11.9	15.1	21.1	2.7	12.7	18.9	1.6	11.9
3/07E	10,085	771	12.7	6.5	19.8	2.5	12.4	17.4	1.4	11.5
3/08E	10,993	864	14.2	12.0	17.6	2.3	12.8	17.9	1.3	10.2

- Punjab Tractors' 3QFY07 results were below expectations. Sales increased by a mere 2.3% YoY to Rs2.6b, as volumes declined by 2.5% YoY, while realizations increased 4.9% YoY. EBITDA margin declined 160bp YoY, mainly on account of higher other expenditure.
- Raw material cost as a percentage of sales declined 40bp YoY. However, other expenditure as a percentage of sales increased 150bp YoY. This coupled with higher staff expenses resulted in margin contraction. EBITDA declined 9.3% YoY to Rs331m.
- Lower interest and flattish depreciation led to adj. PAT declining 8.7% YoY to Rs190m. There was an extraordinary gain of Rs56m, as the company sold half of its investment in Canfortune – 94, which led to a higher reported PAT of Rs246m.
- Concerns about Punjab Tractors' volume growth remain, as it is continuing to lag the industry growth rate. While the industry has been clocking 25-30% growth, Punjab Tractors' YTD growth rate has been just 1.2%.
- We have reduced our volume expectations for FY07 by 3.4% following the company's disappointing performance so far. We have also cut our EBITDA margin estimate for FY07 to 12.5%. As a result, our EPS estimates for FY07 and FY08 have been downgraded by 14.8% and 15%, respectively. The stock trades at 19.8x FY07E EPS of Rs12.7 and 17.6x FY08E EPS of Rs14.2. We maintain **Neutral**

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Total Volumes (nos)	7,820	6,847	8,600	8,129	8,192	6,974	8,384	8,788	31,847	32,338
Net Sales	2,380	2,121	2,575	2,514	2,436	2,226	2,634	2,789	9,585	10,085
Change (%)	19.0	11.8	2.6	6.8	2.4	5.0	2.3	11.0	11.7	5.2
Total Cost	2,125	1,863	2,210	2,131	2,135	1,950	2,303	2,433	8,325	8,821
EBITDA	255	258	365	383	301	276	331	356	1,261	1,264
As a % of Sales	10.7	12.2	14.2	15.2	12.4	12.4	12.6	12.8	13.2	12.5
Change (%)	20.3	43.3	-3.2	3.6	18.0	7.0	-9.3	-7.1	10.7	0.2
Non-Operating Income	0	44	0	3	2	40	0	4	46	46
Extraordinary Income	613	0	0	0	0	0	56	0	613	56
Interest	15	18	18	13	5	8	2	10	64	25
Gross Profit	853	284	347	373	298	308	385	350	1,856	1,341
Less: Depreciation	40	38	38	36	38	38	40	44	152	160
PBT	813	246	309	337	260	270	345	306	1,704	1,181
Tax	106	78	101	126	83	87	99	85	411	354
Effective Tax Rate (%)	13.0	31.7	32.7	37.5	31.9	32.2	28.7	27.9	24.1	30.0
PAT	707	168	208	210	177	183	246	221	1,293	827
Adj PAT	138	168	208	210	177	183	190	221	724	771
Change (%)	38.0	55.6	-1.0	-0.2	28.3	8.9	-8.7	5.0	15.1	6.5

E: MOST Estimates

Volume growth significantly below industry average

Concerns about Punjab Tractors’ volume growth remain, as it is continuing to lag the industry growth rate. While the industry has been clocking 25-30% growth, Punjab Tractors’ YTD growth rate has been just 1.2%. The company is operating at just half its installed capacity of 60,000 tractors per annum.

While 81% of Punjab Tractors’ tractor sales come from the 31-40 HP range, it is losing market share to its competitors due to its absence in the fast growing 41-50 HP segment. The 41-50 HP segment is doing well in the western and southern regions. According to management estimates, this range constitutes 22-23% of the total tractors market.

Punjab Tractors intends to make a renewed foray into the 41-50 HP segment by launching a 42 HP tractor in April 2007. With this, the company hopes to garner a share of this market, which is growing in importance. It will also launch its new look 48 HP and 55 HP tractor models, with better styling, which should help boost demand. The company is also attempting to give higher focus to R&D by making changes for tractors in South India, making lighter tractors for Rajasthan, etc. The impact of these changes will be visible 1QFY08 onwards.

Punjab Tractors is attempting to reduce its dealer level inventory, and to this end, its sales in 4QFY07 might be on the lower side. The management has indicated that retail sales were 10% higher than billing volumes in 9MFY07. Other initiatives include expansion of the dealer network, to increase penetration.

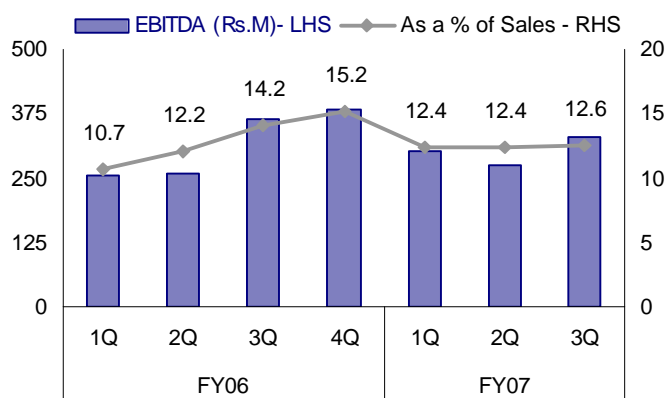
Operating performance disappoints

In 3QFY07, Punjab Tractors’ sales increased by a mere 2.3% YoY to Rs2.6b, as volumes declined by 2.5% YoY, while realizations increased 4.9% YoY. EBITDA margin declined 160bp YoY, mainly on account of higher other expenditure.

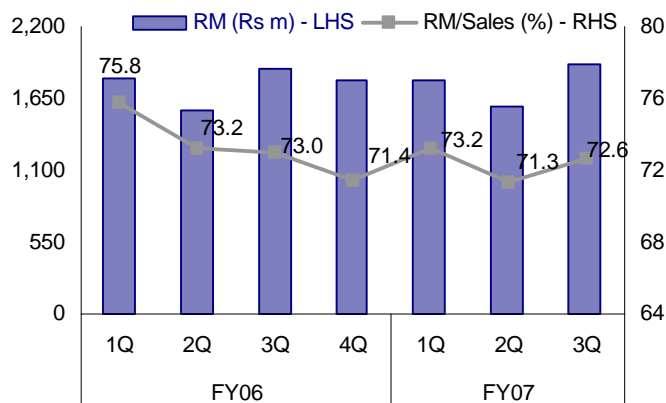
Raw material cost as a percentage of sales declined 40bp YoY. However, other expenditure as a percentage of sales increased 150bp YoY. This coupled with higher staff expenses resulted in margin contraction. EBITDA declined 9.3% YoY to Rs331m.

Lower interest and flattish depreciation led to adjusted PAT declining 8.7% YoY to Rs190m. There was an extraordinary gain of Rs56m, as the company sold half of its investment in Canfortune – 94, which led to a higher reported PAT of Rs246m. The management has indicated the likelihood of the balance stake being sold in 4QFY07.

EBITDA MARGIN PLUMMETS ON A YOY BASIS



RAW MATERIAL COST: DECLINES ON A YOY BASIS



Source: Company/ Motilal Oswal Securities

Valuation and view

We have a positive view on the tractor industry for FY07. The industry displayed strong 18% volume growth in FY06, after growing 38% in FY05. We expect the momentum to continue in FY07 as well, on the back of normal monsoons and strong rural credit growth, as has been evidenced by the 25-30% growth in tractor volumes seen in 9MFY07. The government's focus on the agri-economy, with a targeted 30% increase in rural lending, should ensure ample availability of cheap finance.

Despite the strong industry growth, the performance of Punjab Tractors has been poor, with volumes growing just 1.2% YTD. We have reduced our volume expectations for FY07 by 3.4% following the company's disappointing performance so far. We have also cut our EBITDA margin estimate for FY07 to 12.5%. As a result, our EPS estimates for FY07 and FY08 have been downgraded by 14.8% and 15%, respectively. The stock trades at 19.8x FY07E EPS of Rs12.7 and 17.6x FY08E EPS of Rs14.2. We maintain **Neutral**.

Punjab Tractors: an investment profile

Company description

Punjab Tractors (PTL) is a profit-making, dividend-paying company of the Swaraj group. It was formed by Central Mechanical Engineering Research Institute (CMERI) jointly with Punjab Industrial Development Corporation. CDC bought over the Punjab government's 23% stake in the company in 2003.

Key investment arguments

- PTL is amongst the largest players in the tractor industry. Hence, growth in the sector should be positive for the company.
- Increased rural lending by the government and normal monsoons augur well for tractor demand.

Key investments risks

- PTL has grown at a significantly lower rate than the industry. Against the industry growth rate of 25-30% YTD, it has grown at just 1.2% YTD.
- Market is shifting to the higher end of the segment, where PTL has limited presence.

Recent developments

- Mr Yash Mahajan, the long-term Vice-Chairman and MD of PTL stepped down in May 2006, and was replaced by the then Director – Finance, Mr Sivaram, who was appointed as COO in his place.
- The Burman family has increased its shareholding in the company to 12.5% through purchases in the open market.

Valuation and view

- We have cut our EPS estimates for FY07 and FY08 by 14.8% and 15%, respectively. The stock trades at 19.8x FY07E EPS of Rs12.7 and 17.6x FY08E EPS of Rs14.2. On the back of poor growth and the recent run up in stock price, we maintain **Neutral**.

Sector view

- We expect the tractor industry to maintain strong volume growth in FY07, assuming normal monsoons and government focus on the agri economy.
- We maintain a positive view on the sector.

COMPARATIVE VALUATIONS

		PUNJAB TRACTORS	M&M
P/E (x)	FY07E	19.8	16.5
	FY08E	17.6	13.9
EPS Gr (%)	FY07E	6.5	45.8
	FY08E	12	18.4
RoE (%)	FY07E	12.4	25.2
	FY08E	12.8	23.1
EV/EBITDA (x)	FY07E	11.5	15.2
	FY08E	10.2	13.8

SHAREHOLDING PATTERN (%)

	DEC.06	SEP.06	DEC.05
Promoter	0.0	0.0	0.0
Domestic Inst	37.8	39.6	34.5
Foreign	33.0	31.8	32.7
Others	29.2	28.6	32.8

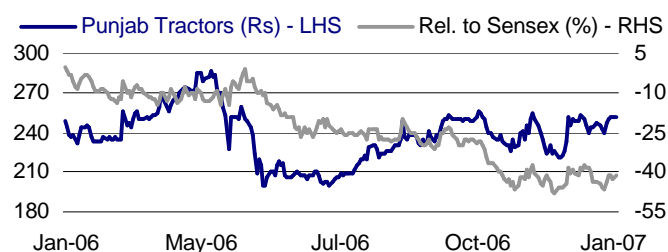
EPS: MOST FORECAST V/S CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY07	12.7	13.7	-7.4
FY08	14.2	16.6	-14.5

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
251	220	-	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007E	2008E	2009E
Volumes	30330	31396	32338	34278	35992
Gross Sales	8,962	9,725	10,291	11,218	12,099
Less: Excise	382	140	206	224	181
Net Sales	8,580	9,585	10,085	10,993	11,918
Change (%)	43.6	11.7	5.2	9.0	8.4
Expenditure	7,441	8,325	8,821	9,592	10,390
EBITDA	1,139	1,261	1,264	1,403	1,529
Change (%)	50.6	10.7	0.2	11.0	9.0
% of Net Sales	13.3	13.2	12.5	12.8	12.8
Depreciation	160	152	160	171	179
Interest & Finance Charges	58	64	25	25	25
Other Income	50	46	46	46	46
Non-recurring Expense	0	0	0	0	0
Non-recurring Income	0	613	56	0	0
PBT	972	1,704	1,181	1,252	1,370
Tax	343	411	354	388	438
Effective Rate (%)	35.3	24.1	30.0	31.0	32.0
PAT	629	1,293	827	864	931
% of Net Sales	7.3	13.5	8.2	7.9	7.8
Adj. PAT	629	724	771	864	931
Change (%)	49.7	15.1	6.5	12.0	7.8

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2005	2006	2007E	2008E	2009E
Share Capital	608	608	608	608	608
Reserves	4,517	5,083	5,602	6,124	6,713
Net Worth	5,124	5,690	6,209	6,731	7,321
Deferred Tax	320	286	286	286	286
Loans	394	130	130	130	130
Capital Employed	5,838	6,106	6,625	7,147	7,737
Gross Fixed Assets	2,867	2,886	3,136	3,436	3,586
Less: Depreciation	1,740	1,881	2,040	2,211	2,390
Net Fixed Assets	1,127	1,005	1,096	1,225	1,196
Capital WIP	6	7	0	0	0
Investments	108	92	68	68	68
Curr.Assets, L & Adv.	6,739	6,658	7,147	7,683	8,433
Inventory	1,119	882	934	1,016	1,100
Sundry Debtors	5,381	5,278	5,216	5,378	5,801
Cash & Bank Balances	46	240	737	1,030	1,273
Loans & Advances	192	259	259	259	259
Current Liab. & Prov.	2,143	1,657	1,685	1,829	1,960
Sundry Creditors	1,462	944	994	1,084	1,175
Provisions	503	551	530	584	624
Net Current Assets	4,596	5,001	5,462	5,854	6,473
Application of Funds	5,838	6,106	6,625	7,147	7,737

E: MOSt Estimates

RATIOS					
Y/E MARCH	2005	2006	2007E	2008E	2009E
Basic (Rs)					
EPS	10.3	11.9	12.7	14.2	15.3
Growth (%)	49.7	15.1	6.5	12.0	7.8
Cash EPS	13.0	23.8	16.2	17.0	18.3
Book Value per Share	84.3	93.7	102.2	110.8	120.5
DPS	5.5	10.5	4.5	5.0	5.0
Payout (Incl. Div. Tax) %	7.5	6.9	37.2	39.6	36.7
Valuation (x)					
P/E	24.2	21.1	19.8	17.6	16.4
Cash P/E	19.3	10.5	15.4	14.7	13.7
EV/EBITDA	13.6	11.9	11.5	10.2	9.2
EV/Sales	18	16	14	13	12
Price to Book Value	3.0	2.7	2.5	2.3	2.1
Dividend Yield (%)	2.2	4.2	18	2.0	2.0
Profitability Ratios (%)					
RoE	12.3	12.7	12.4	12.8	12.7
RoCE	17.6	18.9	17.4	17.9	18.0
Turnover Ratios					
Debtors (Days)	219	198	185	175	175
Creditors (Days)	87	50	50	50	50
Leverage Ratio					
Debt/Equity (x)	0.1	0.0	0.0	0.0	0.0

CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007E	2008E	2009E
Deprn. & Amortisation	160	152	160	171	179
Direct Taxes Paid	-343	-411	-354	-388	-438
(Inc)/Dec in Wkg. Capital	-182	-212	37	-100	-376
CF from Oper. Activity	665	684	993	959	759
Extra-ordinary Items	0	613	56	0	0
CF after EO Items	665	1,298	1,049	959	759
(Inc)/Dec in FA+CWIP	-18	-32	-243	-300	-150
(Pur)/Sale of Invest.	-6	16	24	0	0
CF from Inv. Activity	-24	-15	-219	-300	-150
Issue of Shares	-82	-123	-34	-38	-38
Inc/(Dec) in Debt	-206	-264	0	0	0
Interest Paid	-58	-64	-25	-25	-25
Dividends Paid	-334	-638	-273	-304	-304
CF from Fin. Activity	-679	-1,089	-333	-367	-367
Inc/(Dec) in Cash	-39	194	498	293	243
Add: Beginning Balance	85	46	240	737	1,030
Closing Balance	46	240	737	1,030	1,273



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Punjab Tractors

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|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

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