



INDIA RESEARCH

EMCO Projects

Rs96
OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs5.6bn; US\$131m

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Result: Q4FY09

Comment: Sharply higher than estimates led by better margins; FY10E earnings upgraded 11.7%

Last report: 2 January 2009 (Price Rs39; Recommendation: Outperformer)

Key valuation metrics

Year to March (Rs mn)	Sales	yoy chg (%)	Net Profit	EPS (Rs)	yoy chg (%)	PER (x)
2006	4,054	71.8	257	34.5	113.9	2.8
2007	6,559	61.8	392	43.3	25.4	2.2
2008	9,443	44.0	650	11.0	27.6	8.7
2009P	9,963	5.5	532	9.1	-18.1	10.6
2010E	11,722	17.7	625	10.6	17.3	9.1
2011E	13,816	17.9	822	14.0	31.6	6.9

HIGHLIGHTS OF Q4FY09 RESULTS

- Revenues grew by 9.4% yoy to Rs3.74bn, ahead of our estimate of Rs3.32bn led mainly by better than estimated transformer revenues. FY09 revenues increased by 5.5% yoy to Rs9.96bn.
- Transformer revenues showed strong growth of 19.2% yoy during the quarter to Rs2.37bn, while project revenues increased by 4.7% yoy to Rs1.29bn.
- EBITDA margins came in sharply higher than estimates at 15% (+76bps yoy) led mainly by the better than expected revenue growth and higher transformer margins Resultant, EBIDTA grew 15.2% yoy to Rs561mn. FY09 EBIDTA margins stood at 13.9% (+20bps) and FY09 EBIDTA grew by 7% to Rs1.38bn.
- Interest costs grew by ~3x to Rs139m, led by debt of Rs3.56bn on books as on March 31, 2009 and also due to higher average cost of borrowings.
- PAT fell by 18.7% yoy to Rs237mn mainly due to higher interest costs and a relatively higher tax rate (36.7%) during the quarter. Actual PAT was however, ahead of estimates of Rs175mn on the back of the higher than expected revenues and margins during the quarter.
- Total order backlog as on March 31st 2009 stood at Rs15.63bn (1.6x FY09 revenues). The transformer orders constitute 33% of the order backlog, while projects contributed 66% and the balance 1% being meter orders.
- The order inflow for the quarter was Rs6.37bn (~3x Q4FY08 order inflow) as the company booked fresh orders in the project business. For FY09, order inflow showed strong growth of 33% and came at Rs14.59bn.
- The Board of Emco has cancelled the outstanding 1.7mn warrants to promoters and 10% upfront payment made by promoters towards the same has been forfeited. The Board has approved a fresh issue of 6.3mn warrants to promoters, to be converted at a price not less than Rs62/share. The promoters' stake in the company is likely to increase to 40% in case of the conversion of these warrants.

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Order backlog and booking trend

(Rs mn)	1Q08	2Q08	3Q08	4Q08	FY08	1Q09	2Q09	3Q09	4Q09	FY09
Order backlog	10,030	10,040	12,327	11,000	11,000	13,000	13,000	13,000	15,630	15,630
Order booking	2,073	1,852	4,721	2,095	10,943	3,833	2,306	2,079	6,373	14,593
Book-to-Bill ratio (x)	1.5	1.5	1.9	1.2	1.2	1.4	1.4	1.4	1.6	1.6
% yoy										
Order backlog	129.5	27.9	23.3	15.8	151.7	29.6	29.5	5.5	42.1	99.1
Order booking	40.5	-61.3	24.8	3.9	641.6	84.9	24.6	(56.0)	204.2	20.0

VALUATIONS & VIEW

We have upgraded our FY10 earnings estimates for EMCO by 11.7% to Rs10.6/share, led by the better than estimated margins. We introduced our FY11 earnings estimates at Rs14/share. Led by an order backlog of Rs15.63bn, we expect EMCO to see an 18% CAGR in revenues over FY09-11E, and coupled with a stable margin outlook, we expect the company to deliver earnings CAGR of 24% over the same period. The stock is currently trading at 9.1x FY10E earnings, which we believe is attractive considering the order book position, our favourable view of power T&D capex going forward and the company's earnings outlook. We maintain our Outperformer rating on the stock with an upgraded target price of Rs127/share (12x FY10E multiple).

Quarterly results

(Rs mn)	4Q08	FY08	1Q09	2Q09	3Q09	4Q09	FY09	FY10E
Net Sales	3,422	9,443	1,833	2,306	2,079	3,743	9,963	11,722
Expenses								
Materials Consumed	3,094	7,182	1,721	1,830	1,749	2,331	7,630	8,715
Stock Adjustment	(387)	-	(352)	(134)	(257)	499	(244)	-
Employee Expenses	53	304	95	105	107	103	410	534
Other Expenses	175	665	130	199	204	249	783	940
Total Expenses	2,935	8,150	1,595	2,000	1,803	3,182	8,580	10,189
EBITDA	487	1,292	239	307	277	561	1,383	1,533
OPM (%)	14.2	13.7	13.0	13.3	13.3	15.0	13.9	13.1
Other Income	1	1.07	-	0	0	0	1	1
Interest	45	240	55	105	116	139	415	420
Depreciation	38	98	38	39	40	48	164	182
PBT	405	955	146	163	121	374	805	932
Tax	114	306	46	50	39	137	273	289
<i>Tax Rate (%)</i>	<i>28.1</i>	<i>32.0</i>	<i>31.2</i>	<i>30.8</i>	<i>32.5</i>	<i>36.7</i>	<i>33.9</i>	<i>33.0</i>
	-							
PAT	291	650	100	113	82	237	532	625
Extraordinary items	(2)	2	-	-	-	1	-	-
Reported PAT	283	642	100	113	82	236	532	625
% chg yoy								
Sales	36.0	44.0	18.8	25.2	(14.6)	9.4	5.5	17.7
EBITDA	52.6	49.3	18.5	22.3	(15.6)	15.2	7.0	10.8
Other Income	(21.0)	(20.7)	-	-	-	(74.4)	4.8	(10.7)
Interest	(49.2)	21.3	18.4	42.6	67.2	211.4	72.9	1.3
Depreciation	149.4	63.6	117.9	110.8	73.1	24.9	67.7	10.7
PBT	86.4	56.8	6.1	2.9	(48.5)	(7.6)	(15.7)	15.7
PAT	121.5	65.7	11.5	9.2	(45.7)	(18.7)	(18.1)	17.3
Reported PAT	94.7	58.0	11.5	9.2	(45.7)	(16.7)	(17.0)	17.3

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1. Outperformer: More than 10% to Index
2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

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