



Transformers and Rectifiers

IPO Fact Sheet

Issue details

Issue opens	: December 07, 2007
Issue closes	: December 12, 2007
Issue size	: 29.95 lakh equity shares
Reservation for employees	: 1.5 lakh shares
Fresh issue to public	: 28.45 lakh shares
Face value	: Rs10 each
Break-up of fresh issue to public:	
QIB's portion	: 17.07 lakh shares
Retail portion	: 8.53 lakh shares
Non-institutional portion	: 2.84 lakh shares
Price band	: Rs425-465

Objects of the Issue

The company plans to raise Rs127.3 crore to Rs139.3 crore depending on the price band of Rs425-465. The funds raised would be used to:

- ♦ Set up a green field manufacturing facility
- ♦ Partly finance incremental working capital requirements
- ♦ Meet issue expenses

Share holding pattern

The issue consists of 2,995,000 shares to be offered to public, which will dilute the promoters' and promoters group's stake by 23.17%.

Objects of the issue

(Rs crore)

Activities	Total project cost	Already spent upto Aug 31, 2007	Balance amount to be sept ending		Amount to be raised by the way of the issue
			Mar 31, 2008	Mar 31, 2009	
Set up a green field manufacturing facility	66.7	5.9	14.1	46.7	60.8
Partly finance incremental working capital requirements	3.5	0.0	35.4	-	35.4
Meet issue expenses	-	-	-	-	-
Total	-	-	-	-	-

Source: RHP

Shareholding pattern

	Pre-Issue		Post-Issue	
	No of shares	%	No of shares	%
Promoters and promoters group	9,928,611	100.0	9,928,611	76.8
Public	0	0.0	2,995,000	23.2
Total	9,928,611		12,923,611	

Source: RHP

Company background

Transformers and rectifiers Ltd (TRL) is one of the major players in the Indian market manufacturing power generation transformers, transmission and distribution (T&D) transformers, industrial transformers and a range of specialty transformers. TRL is one of the few players having the capacity to design and manufacture a wide range of transformers in-house without any third-party technical collaboration or assistance.

The company currently manufactures transformers up to 220 kiloVolt (kV) capacity, and has an installed capacity of 7,200 MVA transformers per annum. The manufacturing facilities of the company are situated at Changodar and Odhav in Ahmedabad.

In FY2007, TRL acquired Transformers and Rectifiers (India) Ltd, a proprietorship concern of the promoter manufacturing transformers. To further integrate operations, TRL acquired stakes in Transweld Mechanical Engineering Works Limited and Transpares Limited, which were promoter group

companies manufacturing transformer tanks and core channels, and pressed steel radiators.

The company caters to a wide spectrum of transformer users in various industries such as petrochemicals, oil refining, cement, paper and pulp, pharmaceuticals, automobiles, steel, alloy plant, power plant, railways, mining and minerals among others.

Its clients include utilities, power transmission companies and industrial users.

New plant to come on stream during 2008-2009

TRL is setting up a new plant in Moraiya, near Ahmedabad with an installed capacity of ~16,000MVA. The plant is expected to come on stream during 2008-2009. The new plant would be capable of manufacturing transformers upto 756kV class, though the company initially intends to manufacture transformers of 220kV and 400kV classes. The company currently has an installed capacity of 7,200MVA and in FY2007 it was operating at 80% utilisation. The table below shows the project utilisation after the addition of the new capacity.

Estimated capacity utilisation

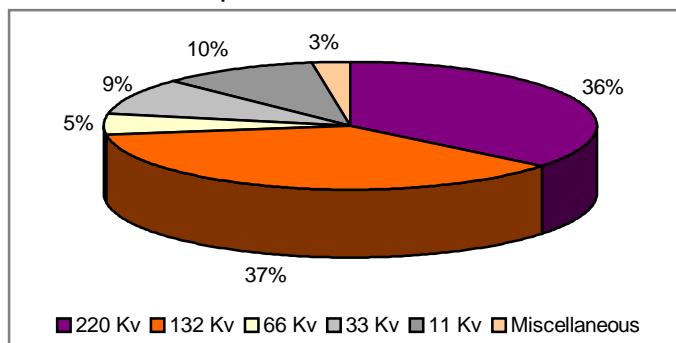
Particulars	FY2009	FY2010	FY2011
Installed capacity (MVA)	23200	23200	23200
Production quantity	9480	12480	15480
Capacity utilisation (%)	41	54	67

Source: RHP

Order book—1.6x FY2007 revenues

The company has an order backlog of Rs360 crore which is 1.6x FY2007 consolidated revenues. Out of the current orders, 110-crore-worth of orders are for industrial clients while the remaining are for utility companies. The current order book is executable over the next eight nine months.

Orderbook break-up



Source: Company

Key positives

Wide product portfolio and ability to cater to diverse market requirements

The company manufactures entire range of transformers, which includes power generation transformers, T&D transformers, industrial transformers such as furnace transformers, and special transformers such as mobile substation, rectifiers, testing transformers etc. The company has a wide portfolio of products, including certain speciality transformers, which helps it to cater to diverse market requirements.

With wide product range and large addressable market the company also enjoys a wide customer reach.

Niche position in the industry as one of the largest manufacturers of furnace transformers

TRL is one of the largest manufacturers of furnace transformers and holds a niche position in the space. These include arc furnace transformers, submerged arc furnace transformers, ladle furnace transformers, induction furnace transformers and DC arc furnace transformers. Revenues from furnace transformers have risen to Rs28.8 crore in FY2007 from Rs20.5 crore in FY2005.

Designing expertise and product variety

Designing and engineering forms a critical element of transformer making process. The company has a strong emphasis on designing and is one of the few manufacturers having the capability to design entire range of transformers. The company has a unique distinction of being approved by utility companies to manufacture power transformers upto 245kV class without any external technological support.

Cost advantage

The company enjoys a significant cost advantage on several fronts. The design and engineering capabilities have been developed indigenously and in-house, without third party collaboration or assistance. Acquiring stakes in two companies in FY2007 led to backward integration, giving the company timely and cost-effective access to critical raw material components used in transformer manufacturing like transformer tanks, core channels and pressed steel radiators. The acquisition also helped the company to manage its inventory in a better way.

Key risks

The company is dependent on one line of business

TRL derives its entire sales revenue from transformers, the demand for which in India is largely dependant on power industry. Further, the transformer industry is witnessing rapid capacity build-up by several existing and new players. Any downturn in the industry or demand not keeping pace with the capacity build-up in the industry would hit the company's business.

Highly dependant on SEBs and utilities

Power utilities including State Electricity Boards (SEBs) are the principal customers of the company. Utilities accounted for around 51% of the revenues in FY2007 and 45% of the revenues for six months ended September 30, 2007. Any change in the policy by power utilities would directly hit the company's revenues. Dealing with SEBs and utilities also means slower receivables cycle and higher working capital cycle.

The company has negative cash flows

The company has a negative cash flow from operations and for the six months ended September 2007, the cash flows stood at negative Rs7.65 crore.

Our view and valuations

TRL is one of the leading transformer manufacturing companies in the 220kV class and is lately moving into manufacturing 400kV class transformers. The company has a wide product offering and a large addressable market. It has a niche position in manufacturing furnace transformers, where it is one of the leading players in the space. Given the government's emphasis on power sector, both generation and T&D, the transformer manufacturing industry is witnessing a robust demand. TRL has a wide range of product offering and an order book of Rs360 crore (1.6x FY2007 net revenues) which is executable over the next eight-nine months. The company looks well placed to benefit from the buoyant demand. We have compared TRL with Bharat Bijlee, EMCO and Indo Tech transformers. Annualising H1FY2008 earnings, the stock is being offered to public at the price/earning (P/E) ratio of 21.6x-23.6x its consolidated annualised fully diluted post issue earnings per share (EPS). The stock is attractively valued as compared with its peers. The company also has an order book/sales ratio of 1.4x. The issue has been graded by Credit Analysis & Research (CARE) as grade 4, which indicates above-average fundamentals.

Peer comparison

	Sales^ (Rs cr)	Profits^ (Rs cr)	EPS^ (Rs)	CMP (Rs)	P/E (x)	Order book (Rs cr)	OB/Sales (x)
Bharat Bijlee	503.0	57.9	102.5	3411	33.3	NA	NA
EMCO	677.0	38.7	37.9	1400	36.9	1005	1.5
Indo Tech Transformers	181.5	34.3	32.3	688	21.3	219	1.2
TRL @ 425	253.0	25.4	19.7	425	21.6	360	1.4
TRL @ 465	253.0	25.4	19.7	465	23.6	360	1.4

^Annualised H1FY2008 numbers,

NA - not available

Source: RHP, Capitalline, Sharekhan research

Financials

Profit and loss account (stand-alone)

(Rs crore)

Particulars	FY2004	FY2005	FY2006	FY2007	Sep 30, 2007 (6m)
Net sales	50.6	75.8	130.8	218.0	126.3
Expenditure	46.7	69.2	116.6	184.3	102.4
Operating profit	3.8	6.6	14.3	33.7	23.9
Other income	0.8	1.0	0.7	0.9	1.0
PBDIT	4.6	7.6	14.9	34.5	24.9
Depreciation	0.5	0.5	0.8	1.6	0.9
Interest	1.6	1.4	2.1	5.3	4.0
PBT	2.5	5.7	12.0	27.7	19.9
Tax	0.7	2.2	4.3	9.2	7.5
PAT	1.8	3.5	7.7	18.5	12.5
Adjustments	0.0	-0.3	0.5	-1.8	0.0
PAT(After adjustments)	1.8	3.2	8.1	16.7	12.5
OPM (%)	7.6	8.7	10.9	15.4	18.9
PATM (%)	3.5	4.2	6.2	7.7	9.9

Balance sheet (for period ending March 31, 2007)

(Rs crore)

Particulars	FY2004	FY2005	FY2006	FY2007	Sep 30, 2007 (6m)
Share capital	4.8	4.8	6.8	7.1	9.9
Reserves and surplus	5.5	8.2	14.6	33.2	42.7
Misc expenses W/O	0.1	0.1	0.1	0.0	0.0
Net worth	10.2	12.9	21.4	40.2	52.7
Total debt	13.5	11.1	17.4	27.8	46.3
Capital employed	23.7	23.9	38.8	68.0	99.0
Net fixed assets	7.4	7.6	10.9	14.3	16.2
CWIP	0.0	1.0	1.0	5.0	10.0
Intangible assets	0.0	0.0	0.2	1.1	0.9
Investments	0.0	0.0	0.0	1.8	1.7
Net current assets	17.8	17.0	28.2	47.1	71.8
Deferred tax liability (Net)	-1.5	-1.6	-1.5	-1.3	-1.6
Capital deployed	23.7	23.9	38.8	68.0	99.0

The "views" expressed in this report are our views only and have been arrived at after analysis of the public offering details. This is not a recommendation under our "Stock Idea" category. It may/may not be included in the Stock Idea by our analysts at a later date.

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