

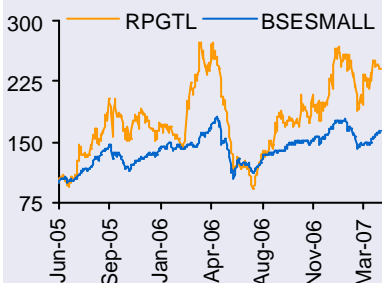
RPG Transmission Ltd (Q4 FY07) - Investment Update

Recommendation	BUY
CMP	Rs206
Target Price	Rs275
Upside	33%
52 Week H/L	Rs240 / 75
Average Volumes (6m)	90,680
Market Cap	Rs3.2bn
Face Value	Rs10
BSE Code	590029
NSE Code	RPGTLTD
Bloomberg	SAE@IN
Reuters	RPGT.BO

Share Holding Pattern

Mar'07	(%)
Foreign	11.0
Institutions	17.0
Non Promoter Corp. Hold.	8.0
Promoters	37.0
Public & Others	24.0

Share Price Trend



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RPG Transmission Ltd (RPGTL) is a player in power transmission, railway electrification and telecommunication tower constructing and erecting space. The company is engaged in design, construction and erection of high voltage AC and DC transmission lines. RPGTL during Q4FY07 and FY07 registered a bottomline growth of 165.6% and 185.3% to Rs100mn and Rs257mn respectively. RPGTL currently trades at 10.6x FY08E earnings of Rs19.4 and 8.2x FY09E earnings of Rs25. We recommend BUY with a price target of Rs275 over the next 12 months.

Financial highlights

Period to	03/07	03/06	Growth	03/07	03/06	Growth
Rs mn	(3)	(3)	(%)	(12)	(12)	(%)
Sales	1007	970	3.8	3725	2376	56.8
Expenditure	(888)	(861)	3.2	(3295)	(2279)	44.6
Operating profit	119	109	9.2	430	97	341.7
Other income	1	3	(70.0)	1	16	(92.3)
Interest	(18)	(25)	(30.0)	(74)	(71)	3.8
Depreciation	(6)	(5)	5.8	(20)	(21)	(3.9)
PBT	97	81	18.7	338	21	1,485.9
Tax	4	(44)	(109.0)	(81)	69	(217.9)
PAT	100	38	165.6	257	90	185.3
OPM (%)	11.8	11.2	0.6	11.5	4.1	7.4
Equity	156	156		156	156	
EPS (Rs) Annualized	25.7	9.7		16.4	5.8	
NPM (%)	10.0	3.6	6.4	6.9	3.1	3.8

Source: Company

Faster execution of projects boosts topline by 56.8% during FY07

During FY07 the company registered a 56.8% topline growth to Rs3.7bn against Rs2.4bn for the corresponding period last year. This was fallout of faster execution of projects undertaken by the company. For Q4FY07 it registered a flattish 3.8% topline growth to just over Rs1bn from Rs9.7bn in Q4FY06. For the year the company produced about 44,000 tons with majority of it being for own projects.

Operating margins expand to 11.5% for FY07

With higher and faster execution of erection work during the year the company experienced a decline in raw material cost. Raw material costs declined to 52.2% of net sales during FY07 against 53.1% last year. During the year it completed some low margin contracts in the first quarter and executed high margin orders during the remaining year. Also any rise in costs are passed through to the clients, hence protecting their margins. Coupled with this improved efficiency enabled the company to reduce its staff and administrative costs by 320bps each. This resulted into margins expanding for the year to 11.5% against 4.1% in the corresponding period last year.

Cost break up

Period to	03/07	03/06	Growth	03/07	03/06	Growth
As % of net sales	(3)	(3)	(%)	(12)	(12)	(%)
Raw Material	48.7	59.2	(10.5)	52.2	53.1	(0.8)
Erection and fabrication	13.4	15.1	(1.7)	13.3	13.6	(0.3)
Staff cost	7.0	6.7	0.3	6.8	10.0	(3.2)
Adm, sell & other exp	19.0	7.7	11.3	16.1	19.3	(3.2)
Total	88.2	88.8	(0.6)	88.5	95.9	(7.4)

Source: Company

185.3% bottomline growth

Interest cost during FY07 was marginally higher during the year at Rs74mn. During this period last year it had undergone CDR, which includes interest write off of Rs15mn. This was due to repayment of debt to the extent of Rs30mn during this period. Hence adjusting for that, interest cost has actually declined. Despite this, the company registered a bottomline jump of 185.3% and 165.6% for FY07 and Q4FY07 respectively. The company's profit stood at Rs257mn and Rs100mn for FY07 and Q4FY07 respectively. This translates into an EPS of Rs16.4 against Rs5.8 for FY07 and FY06 respectively.

Rs4.8bn order book set to grow in future

RPG Transmission has a confirmed order book of Rs4.8bn (1.3x FY07 revenues). This is to be executed over the next 12-18 months, which provides us with revenue visibility for the forthcoming year. This is expected to continue in future too on the back of accelerated spending by the government for improving the power situation in the country. With an improved balance sheet, RPGTL is expected to garner a greater share of new order intake in the sector. With world bank funding being tied up, tenders to the extent of Rs3bn - Rs4bn from PGCIL are expected to be announced in the near future. In addition to this RPGTL is also undertaking orders for distribution. This would lead to further improvement in its order book. The present order book contains 2 distribution orders from NHPC one each at Chattisgarh and Jammu (accounting for about 25% of the total order book).

Government initiatives

The government plans to invest close to Rs3tn in enhancing its generating capacity from the current 128,432MW to over 200,000MW by 2012. It is now emphasizing on strengthening the T&D system too with an investment of approximately Rs4tn for the segment. This focus will lead to strong demand for transmission lines to transfer power from surplus states to deficient states (from eastern region to the northern and western region). Demand will also stem from enhancing the national grid's carrying capacity to 37,000MW from the current 9,000MW, coupled with rural electrification under Rajiv Gandhi Grameen Vidhyutikaran Yojana.

For creation of such a grid, an investment of Rs705bn is envisaged of which, Rs500bn will be invested by Powergrid and remaining Rs210bn through private sector participation.

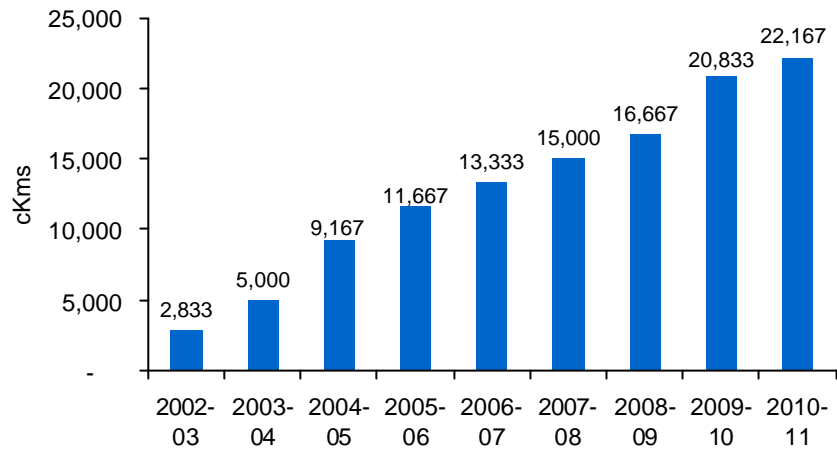
Investment Plan (Rs bn)

	X Plan	XI Plan	Total
Powergrid's Outlay	213.7	282.6	496.3
Private Sector participation	97.1	111.9	209.0
Total Central Sector	310.8	394.4	705.2

Source: Ministry of Power

We expect the company to be one of the beneficiaries of this spending. RPGTL, a player engaged in design, construction and erection of high voltage AC and DC transmission lines, should be a direct beneficiary of this.

Transmission line under X and XI plan



Source: Company

Valuation

The strong momentum in the sector coupled with improving efficiency of the company, enabled it to register 56.8% and 185.3% topline and bottomline growth respectively for FY07. Post successful CDR (during FY06) and continuance of healthy order book of Rs4.8bn, we expect RPGTL's revenues and net income to register a 32.3% and 57.3% CAGR respectively over FY06-09E.

At Rs206, RPGTL trades at a P/E of 10.6x and 8.2x its FY08E and FY09E earnings of Rs19.4 and Rs19.4 respectively. During H1FY07 there was a slow down in orders from PGCIL, which led to a de-rating of the sector, however now with issues being resolved we expect orders to keep flowing. However, we believe with orders expected to flow primarily from PGCIL, the order book size of RPGTL is only set to head northwards. We recommend a BUY rating on the stock with a target price of Rs275 over the next 12 months.



Financials

Projected Profit and Loss Statement

Period to (Rs in mn)	FY04 (12)	F6/05 (15)	FY06 (9)	FY07P (12)	FY08P (12)	FY09P (12)
Net Sales	795	1,278	1,951	3,725	4,819	6,024
Operating expenses	(899)	(1,331)	(1,756)	(3,295)	(4,264)	(5,332)
Operating profit	(103)	(52)	196	430	555	693
Other income	6	8	5	1	1	1
PBIDT	(97)	(44)	201	431	556	694
Interest	(143)	(27)	(66)	(74)	(79)	(85)
Depreciation	(33)	(32)	(15)	(20)	(22)	(22)
Profit before tax (PBT)	(273)	(103)	120	338	456	587
Tax	(1)	114	(45)	(81)	(153)	(197)
Profit after tax (PAT)	(274)	11	75	257	303	391
Extraordinary / prior period items	5	36	-	-	-	-
Adjusted profit after tax (APAT)	(269)	46	75	257	303	391

Projected Balance Sheet

Period to (Rs in mn)	FY04 (12)	F6/05 (15)	FY06 (9)	FY07P (12)	FY08P (12)	FY09P (12)
Sources						
Equity Share Capital	123	129	156	156	156	156
Preference share capital	-	-	13	13	13	13
Appl money pending allotment	-	233	-	-	-	-
Reserves	247	232	424	468	706	793
Net Worth	370	593	593	637	875	962
Loan Funds	1,213	820	692	634	674	719
Total	1,584	1,414	1,285	1,271	1,549	1,681
Uses						
Gross Block	641	627	617	637	697	707
Accd Depreciation	(454)	(469)	(464)	(484)	(505)	(527)
Net Block	187	157	153	153	192	180
Capital WIP	0	2	0	2	2	3
Total Fixed Assets	187	159	153	155	193	182
Investments	329	0	0	0	0	0
Total Current Assets	1,643	2,003	2,266	2,908	3,575	4,171
Total Current Liabilities	(1,043)	(1,338)	(1,547)	(1,975)	(2,394)	(2,836)
Net Working Capital	600	665	720	932	1,182	1,335
Profit and Loss A/C	352	295	209	-	-	-
Def Tax assets	115	294	203	184	174	164
Total	1,584	1,414	1,285	1,271	1,549	1,681



Key Ratios

Period to	FY04 (12)	F6/05* (15)	FY06* (9)	FY07P (12)	FY08P (12)	FY09P (12)
Per share ratios (Rs)						
EPS	(21.8)	2.9	6.4	16.4	19.4	25.0
Div per share	0.0	0.0	0.0	0.0	1.0	1.0
Book value per share	30.0	46.1	38.0	40.8	56.0	61.6
Valuation ratios (x)						
P/E	(9.4)	71.3	32.1	12.5	10.6	8.2
P/BV	6.9	4.5	5.4	5.0	3.7	3.3
EV/sales	4.7	3.1	1.5	0.9	0.7	0.6
EV/EBIDTA	(38.3)	(90.1)	14.2	7.9	6.3	5.4
Profitability ratios (%)						
OPM	(13.0)	(4.1)	10.0	11.5	11.5	11.5
PAT	(33.8)	3.6	3.9	6.9	6.3	6.5
ROCE	(6.1)	(2.5)	20.9	33.9	35.9	41.3
RONW	(72.6)	6.3	16.9	40.3	34.6	40.6
Liquidity ratios						
Current ratio	1.6	1.5	1.5	1.5	1.5	1.5
Debtors days	478.1	416.9	199.4	140.0	138.0	138.0
Inventory days	67.9	101.3	58.5	39.6	39.6	39.6
Creditors days	266.0	337.6	142.2	132.0	132.0	132.0
Leverage ratios						
Debt / Total equity	3.3	1.4	1.2	1.0	0.8	0.7
Component ratios (as a % of net sales)						
Raw material	33.6	51.8	53.2	52.2	52.3	52.4
Erection and fabrication	27.4	13.0	13.7	13.3	13.3	13.3
Staff cost	16.0	18.2	9.3	6.8	6.7	6.6
Purchase of goods traded in	3.4	0.1	1.1	0.0	0.0	0.0
Mnft. & Other expenditure	32.6	21.0	12.7	16.1	16.1	16.1
Total operating expenses	113.0	104.1	90.0	88.5	88.5	88.5

*All ratios are annualized



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