



(Investment Idea)

Areva T&D

Areva T&D, 66.65% subsidiary of Areva T&D France, has reported excellent performance for quarter ending September 2007. Ongoing focus to improve operational efficiency, enhance capacities in addition to the continued technological support from parent company - Areva were instrumental in achieving such outstanding performance.

Q3 CY 2007 Net Sales (excl. excise) were up by 20.5% to Rs. 432.6 crore (Rs. 358.9 crore). OPM% improved significantly to 18.2% (12.1%) due to sharp reduction in material cost to 63.3% (66.9%) and other expenses to 9.4% (12.7%) of sales. Further aided by 67.9% jump in other income of Rs. 4.7 crore (Rs. 2.8 crore), PBT (before extra ordinary items) spurted up by 84.9% to Rs. 76 crore (Rs. 41.1 crore). However, extra ordinary expenses of Rs. 60 lakh (income of Rs. 6.8 crore) and higher average tax rate of 36.3% (28.2%) restricted growth on PAT of Rs. 48 crore (Rs. 34.4 crore) to 39.5%.

For 9 months ending Sept. 2007, Sales grew @ 15.2% to Rs. 1,273.1 crore (Rs. 1,104.9 crore). OPM% jumped to 17.1% (11.8%). Further boosted by 41.8% higher other income of Rs. 9.5 crore (Rs. 6.7 crore), PBT (before extra ordinary items) soared up by 69.1% to Rs. 206.5 crore (Rs. 122.1 crore). Extra ordinary expenses of Rs. 1.8 crore (income of Rs. 5.9 crore) restricted growth in PAT of Rs. 132 crore (Rs. 85.4 crore) at 55%.

Areva T&D, one of the few large players in the transmission and distribution of electricity, will be big beneficiary of capital spending on power. The massive upgradation of T&D network is multi-billion dollar opportunity for the company in coming years.

Accordingly, company aims to nearly double its turnover to Rs. 3,000 by CY 2010. In order to do so, it plans to invest Rs. 400 crore for capacity expansion in existing plants and two new manufacturing facilities in next two years. New facilities include high-voltage power transformer unit at Vadodara, Gujarat and instrument transformer factory at Hosur, Tamil Nadu.

India has emerged as a very important market for Areva, due to opportunities that Indian power sector offers. While India has power generation capacity of 135,006 MW, its total transmission capacity is only ~ 16,500 MW, which is not sufficient to handle 78,570 MW of additional capacity that government has targeted over next five years. In fact, company's Indian production units have become an attractive manufacturing and sourcing base for Areva T&D's companies around the world and will become a global hub for its engineering, exports, technical expertise and prototyping activities.

Other area for growth is company is developing solutions that would help lower aggregate technical and commercial losses, which are at present in the range of ~ 40%. Power ministry has target of bringing down such losses to 15% by the end of 2012. This offers Areva fantastic area of opportunity.

At CMP of Rs. 1,883.15, the share (Rs. 10/- paid up) is trading at 43.5 times CY 2007 expected EPS of Rs. 43.31 and 32.7 times CY 2008 expected EPS of Rs. 57.53. In view of excellent future prospects, we recommend to "BUY" the share at CMP.

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