

March 4, 2008

Rating	Outperformer
Price	Rs1,891
Target Price	Rs2,294
Implied Upside	21.3%
Sensex	16,678

(Prices as on March 3, 2008)

#### Trading Data

Market Cap. (Rs bn)	90.4
Shares o/s (m)	47.8
Free Float	44.4%
Avg. Daily Vol ('000)	24.5
Avg. Daily Value (Rs m)	52.2

#### Major Shareholders

Promoters	72.2%
Foreign	2.5%
Domestic Inst.	13.7%
Public & Others	11.6%

#### Stock Performance

(%)	1M	6M	12M
Absolute	(2.2)	16.5	71.9
Relative	8.4	8.7	42.5

Price Performance (RIC: AREV.BO, BB: ATD IN)



Source: Bloomberg

## Areva T&D

### High margin orders reap good results

- Results in line:** Areva T&D reported topline of Rs7.3bn for Q4CY07, a growth of 83.0% YoY in line with estimates. On account of the company's strategy to bid for high margin orders, its EBIDTA margin improved by 460bps to 19.3% YoY and by 120bps QoQ. It reported a PAT of Rs839m, a growth of 160.4% YoY and 74.8% QoQ. For the year, revenue witnessed a growth of 25% and EBIDTA margin improved by 470bps to 17.8%. PAT for the year stood at Rs2.16bn, a 108.1% increase YoY.
- Strong order inflows to drive future growth:** Order intake for the year was Rs29.3bn, an increase of 21% YoY. Its order backlog as on December 31, 2007 stood at Rs27.5bn, an increase of 46.3% as compared to the same period last year. During the year, the company managed to bag some prestigious orders in the high voltage transformer and GIS space. The continued growth in order book provides visibility in terms of revenue growth.
- Expanding capacity to fulfil demand:** Areva T&D plans to invest Rs7bn in three facilities in Baroda, Hosur and Padappai for manufacture of transformers, HV GIS and circuit breakers upto 1200kv. These facilities are expected to be operational by the end of this year.
- Valuation:** At the current market price of Rs1,891, the stock trades at 28.8x CY08E and 23.1x CY09E earnings of Rs65.3 and Rs85.0 respectively. We maintain Outperformer rating on the stock with a target price of Rs2,294, an upside of 21.3%.

Key financials (Y/e Dec)	CY06	CY07	CY08E	CY09E
Revenue (Rs m)	16,058	20,063	28,887	36,816
Growth (%)	84.7	24.9	44.0	27.5
EBITDA (Rs m)	2,098	3,575	5,055	6,590
PAT (Rs m)	1,370	2,163	3,123	4,064
EPS (Rs)	27.2	45.3	65.3	85.0
Growth (%)	427.4	66.9	44.0	30.1
Net DPS (Rs)	6.0	9.0	10.0	11.0

Source: Company Data; PL Research

Profitability & valuation	CY06	CY07	CY08E	CY09E
EBITDA margin (%)	13.1	17.8	17.5	17.9
RoE (%)	59.2	44.1	44.5	44.5
RoCE (%)	61.5	48.3	48.0	47.5
EV / sales (x)	5.5	4.4	3.0	2.4
EV / EBITDA (x)	42.4	24.7	17.3	13.3
PE (x)	69.6	41.7	29.0	22.3
P / BV (x)	23.6	15.1	11.0	8.8
Net dividend yield (%)	0.3	0.5	0.5	0.6

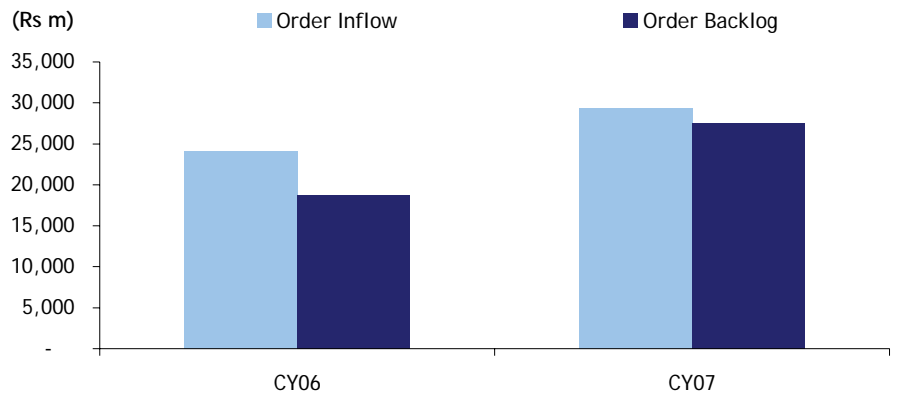
Source: Company Data; PL Research

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## Highlights

### Strong order inflow



Source: Company Data, PL Research

### Large orders won

(Rs m)

	Value
<b>Utilities</b>	
Central Utilities	
PGCIL	1,497
NTPC	800
<b>State utilities</b>	
MPPTCL	1,460
<b>Private utilities</b>	
Reliance Energy	1,224
<b>Industry segment</b>	
Essar	651
Neelachal Ispat	223
Dalmia Cement	208
Salem steel	194
Utkal Aluminium	182
<b>GIS</b>	
NPC	685
HVPNL	440
MESTCL	340
L&T for Delhi Metro	230

Source: Company Data, PL Research

**Capacity expansion plans**

Location	Investment (Rs bn)	Capability
Baroda	5	Power transformers upto 1200kv, HVDC distribution, middle voltage and secondary distribution
Hosur	1	Instrument transformers upto 1200kv and R&D centre for instrument transformers
Chennai	1	Circuit breakers upto 1200kv, high voltage GIS, distribution components

Source: Company Data, PL Research

**Q4 CY07 result overview**

(Rs m)

Y/e Dec	Q4CY07	Q4CY06	YoY gr. (%)	Q3CY07	H2CY07	H2CY06	YoY gr. (%)
Net sales	7,332	4,007	83.0	4,326	11,658	7,211	61.7
<b>Expenditure</b>							
Raw material	4,587	2,790	64.4	2,739	7,326	4,995	46.7
<i>% of net sales</i>	<i>62.6</i>	<i>69.6</i>		<i>63.3</i>	<i>62.8</i>	<i>69.3</i>	
Personnel cost	447	276	62.1	399	846	516	63.9
<i>% of net sales</i>	<i>6.1</i>	<i>6.9</i>		<i>9.2</i>	<i>7.3</i>	<i>7.2</i>	
Others	881	350	151.6	407	1,288	746	72.7
<i>% of net sales</i>	<i>12.0</i>	<i>8.7</i>		<i>9.4</i>	<i>11.0</i>	<i>10.3</i>	
Total expenditure	5,915	3,416	73.1	3,545	9,460	6,257	51.2
EBITDA	1,417	591	139.8	781	2,198	954	130.4
<i>Margin (%)</i>	<i>19.3</i>	<i>14.7</i>		<i>18.1</i>	<i>18.9</i>	<i>13.2</i>	
Other income	83	31	171.2	47	130	53	143.4
Depreciation	66	31	110.9	63	129	59	120.1
EBIT	1,434	590	143.0	765	2,199	949	131.8
Interest	49	17	183.2	11	60	24	146.9
PBT	1,385	573	141.8	754	2,139	924	131.4
Total taxes	546	251	117.9	274	820	340	141.3
<i>ETR (%)</i>	<i>39.4</i>	<i>43.8</i>		<i>36.3</i>	<i>38.3</i>	<i>36.8</i>	
PAT	852	322	164.4	480	1,319	585	125.6



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#### PL's Recommendation Nomenclature

<b>BUY</b>	: > 15% Outperformance to BSE Sensex	<b>Outperformer (OP)</b>	: 5 to 15% Outperformance to Sensex
<b>Market Performer (MP)</b>	: -5 to 5% of Sensex Movement	<b>Underperformer (UP)</b>	: -5 to -15% of Underperformance to Sensex
<b>Sell</b>	: <-15% Relative to Sensex		
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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