

21 January 2008

BUY

Price **Rs 1,531** Target Price **Rs 1,896**

Sensex **17,605**

Price Performance

| (%) | 1M | 3M | 6M | 12M |
|----------------|-----|----|----|-----|
| Absolute | (5) | 15 | 68 | 257 |
| Rel. to Sensex | 3 | 15 | 50 | 187 |

Source: Bloomberg

Stock Details

| | |
|-------------------------------|-------------------|
| Sector | Material Handling |
| Reuters | TTRO.BO |
| Bloomberg | TRF@IN |
| Equity Capital (Rs mn) | 55 |
| Face Value (Rs) | 10 |
| 52 Week H/L (Rs) | 2100/412 |
| Market Cap (Rs bn) | 8.4 |
| Daily Avg Vol. (No of shares) | 8045 |
| Daily Avg Turnover (US\$) | 0.3 |

Shareholding Pattern (%)(31st Dec'07)

| | |
|---------------|------|
| Promoters | 41.7 |
| FII/NRI | 5.9 |
| Institutions | 11.5 |
| Private Corp. | 9.2 |
| Public | 31.8 |

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TRF Limited

Result Update

Weak performance, outlook remains strong

The performance of the company in Q3FY2008 was below our expectations. Revenues de-grew by 28% yoy in the quarter to Rs 582 mn, attributed to 38% yoy decline in revenues of projects division. The EBIDTA growth at 33% yoy to Rs92 mn and Net Profit growth at 11% yoy to Rs56 mn was below our expectations. We believe that, Q3FY2008 performance is an aberration owing to lower order booking in project division. Accordingly, we have revised our FY2008E and FY2009E estimates and introduced FY2010E estimates. The FY2008E estimates are revised downwards-revenues (-10%) to Rs4.4 bn and net profit (-10%) to Rs0.3 bn. The FY2009E estimates are revised upwards – revenues +4% to Rs7.1 bn and net profit +2% to Rs0.5 mn. The FY2010E estimates at revenue and net profit front are Rs9.1 bn and Rs0.7 bn respectively.

We continue to remain bullish on TRF and its business model, which has a balanced mix between its product and project division lending resilience to its revenue model. In wake of strong order backlog, enhanced visibility in earnings and favorable business environment, we have rolled our PE multiple to FY2010E earnings and valued TRF at 15X FY2010E earnings with a price target of Rs1896. This does not capture the upsides from (1) acquisition of York Transport (Singapore) and (2) receipt of UMPP order and its positive impact on FY2009E and FY2010E earnings estimates. We maintain our BUY rating.

Result Highlights

Q3FY08 revenues declined 28% yoy to Rs581 mn, below our expectations. This was triggered by postponement of order booking in the projects division, owing to late execution of projects order. Revenues from projects division declined by 38% yoy to Rs425 mn. But, products division registered 6% yoy growth to Rs284 mn, resulting in 28% yoy decline in overall revenues. We believe that, decline in revenues is an aberration, which should even out in subsequent quarters in light of healthy order backlog.

During the quarter, EBITDA growth at 33% yoy to Rs92 mn was below our expectations. The 720bps jump in EBIDTA margins to 15.7% triggered the 33% yoy jump in EBIDTA. We believe that, jump in EBIDTA margins is attributed to (1) healthy order booking in high margin product division and (2) shift in revenue-mix. The EBIDTA margins at 15.7% in the quarter are an aberration owing to higher share of product division in overall revenues. These margins cannot be sustained and should settle at 12-13% for FY2008E and FY2009E.

Net profit (before extraordinary items) grew by 11% yoy to Rs56 mn, below our expectations. We believe that, subdued performance is attributed to lower than expected revenue growth. This was triggered by postponement of order booking in project business to subsequent quarters.

Key Financials: Rs Mn

| YE-Mar | Net Sales | EBITDA (Core) | EBITDA (%) | APAT | AEPS (Rs) | EV/ EBITDA | P/BV | Div Yld (%) | RoCE (%) | P/E |
|---------|-----------|---------------|------------|------|-----------|------------|------|-------------|----------|------|
| FY2007 | 3472 | 410 | 11.8% | 202 | 36.3 | 24.3 | 15.1 | 0.4 | 44.0 | 42.1 |
| FY2008E | 4386 | 547 | 12.5% | 300 | 54.6 | 17.0 | 10.2 | 0.4 | 53.1 | 28.1 |
| FY2009E | 7081 | 912 | 12.9% | 530 | 96.4 | 10.0 | 6.5 | 0.7 | 57.9 | 15.9 |
| FY2010E | 9154 | 1175 | 12.8% | 696 | 126.5 | 7.6 | 4.4 | 0.9 | 54.0 | 12.1 |

The order backlog of the company was Rs7 bn in Q2FY2008. TRF has received two orders thereafter (1) receipt of order worth Rs1.0 bn from Tata Projects for Coal Handling Plant and (2) receipt of order worth Rs1.1 bn from NMDC for Crushing and Stacking Section. Company has also emerged L1 in Rs3.0 bn order from NTPC for Coal Handling Plant. The current order backlog stands at Rs11.5 bn indicating strong visibility in earnings.

Considering strong order backlog of Rs11.5 bn or equivalent to 3.2X FY2007 revenues, we foresee strong visibility in earnings. In light of slippages in order booking during Q2FY2008 and Q3FY2008 and strong order backlog, we have revised our FY2008E and FY2009E estimates and introduced FY2010E estimates. The FY2008E estimates are revised downwards- revenues (-10%) to Rs4.4 bn and net profit (-10%) to Rs0.3 bn. The FY2009E estimates are revised upwards – revenues +4% to Rs7.1 bn and net profit +2% to Rs0.5 mn. The FY2010E estimates at revenue and net profit front are Rs9.1 bn and Rs0.7 bn respectively. (These estimates does not include York Transport (Singapore) and upsides from receipt of UMPP order)

TRF acquired a 51% stake in York Transport Equipment (Asia) Pte through its wholly owned subsidiary TRF (Singapore) Pte (YTE) on October 5, 2007 for a total consideration of Rs447 mn. The acquisition was financed partly from sale proceeds of trade investments and balance being financed through a mix of term loan and internal accruals. YTE is engaged in the business of production and distribution of trailers and trailer axels. We believe that this acquisition will balance the erratic nature in profit and cash flow of project business. Back of envelope calculation indicates, YTE will be earnings accretive during FY2008E. We believe that, consolidated net profit will grow at 56% CAGR in FY2007-10E period with net profit of Rs0.3 bn, Rs0.6 bn and Rs0.7 bn in FY2008E, FY2009E and FY2010E respectively.

Outlook and Valuation

We continue to remain bullish on TRF and its business model, which has a balanced mix between its product and project division lending resilience to its revenue model. We maintain that TRF, with its strong engineering skill set, is well placed to exploit the huge growth opportunity expected within the material handling space and reap handsome gains. We also maintain our core argument of (1) minerals and steel vertical contributing to incremental growth in the sector and (2) upside from the UMPP project to the company-, which is likely to play out sooner.

We have revised our FY2008E and FY2009E earnings estimates and introduced FY2010E estimates. The earning estimates for FY2008E, FY2009E and FY2010E stands at Rs54.6, Rs96.4 and Rs126.4 respectively. At CMP of Rs1531, the stock is trading at 28.1x FY2008E, 15.9x FY2009E and 12.1x FY2010E earnings. In wake of strong order backlog, enhanced visibility in earnings and favorable business environment, we have rolled our PE multiple to FY2010E earnings and valued TRF at 15X FY2010E earnings with a price target of Rs1896. This does not capture the upsides from (1) acquisition of York Transport (Singapore) and (2) receipt of UMPP order and its positive impact on FY2009E and FY2010E earnings estimates. We maintain our BUY rating.

Key Financials (Rs mn)

| | Q308 | Q307 | YoY Gr(%) | Q208 | QoQ Gr(%) |
|----------------------------|------|------|-----------|------|-----------|
| Net Sales | 582 | 804 | -28% | 686 | -15% |
| Expenses | 490 | 735 | -33% | 586 | -16% |
| Raw Materials | 277 | 400 | -31% | 383 | -28% |
| % Of Sales | 48% | 50% | | 56% | |
| Payment to Sub-contractors | 68 | 178 | -62% | 40 | 73% |
| % Of Sales | 12% | 22% | | 6% | |
| Employee Cost | 59 | 68 | -13% | 77 | -22% |
| % Of Sales | 10% | 8% | | 11% | |
| Other expenditure | 86 | 89 | -3% | 87 | -2% |
| % Of Sales | 15% | 11% | | 13% | |
| Ebidta | 91 | 69 | 33% | 100 | -8% |
| Ebidta (%) | 16% | 9% | | 15% | |
| Other Income | 2 | 9 | -82% | 6 | -74% |
| Interest | 7 | 4 | 100% | 1 | 945% |
| Depreciation | 3 | 4 | -7% | 4 | -9% |
| PBT | 83 | 71 | 17% | 102 | -19% |
| Tax | 27 | 21 | 30% | 37 | -27% |
| PAT (Before EO Item) | 55 | 50 | 11% | 65 | -15% |
| Net Margin (%) | 10% | 6% | | 9% | |
| E/O Item | 0 | 0 | 0% | 101 | -100% |
| Reported PAT | 55 | 50 | 11% | 166 | -67% |
| EPS (Rs / share) | 10.1 | 9.1 | 11% | 11.8 | -15% |

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