

January 31, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs280	Rs315
EPS change FY11E/12E (%)	-30 / -32
Target Price change (%)	-30
Nifty	5,512
Sensex	18,396

Price Performance (%)	1M	3M	6M	12M
Absolute	(2)	(22)	(28)	(23)
Rel. to Nifty	7	(15)	(30)	(32)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Transformer
Bloomberg	TRIL@IN
Equity Capital (Rs mn)	129
Face Value(Rs)	10
No of shares o/s (mn)	13
52 Week H/L	473/291
Market Cap (Rs bn/USD mn)	4/87
Daily Avg Volume (No of sh)	43433
Daily Avg Turnover (US\$m)	0.3

Shareholding Pattern (%)

	J'10	M'10	D'09
Promoters	76.8	76.8	76.8
FII/NRI	0.4	0.5	1.6
Institutions	2.2	3.8	3.7
Private Corp	3.1	2.8	3.0
Public	17.4	16.1	14.9

Source: Capitaline

Amit Golchha

amit.golchha@emkayglobal.com
+91 22 6624 2408

Nihag Shah, CFA

nihag.shah@emkayglobal.com
+91 22 6624 2486

- **TRIL rep. PAT of Rs68mn vs est. of Rs146mn due to (1) one time incentives (~Rs10mn), (2) dev. exp. of 1150kv transfrm (~Rs15mn), (3) dispatch slippages & (4) competition**
- **Around 1,300MVA of dispatches slipped to Q4 resulting in volume (2,711MVA) decline of 5% yoy; this led to revenue declining by 1% yoy to Rs1.3bn (realizations were up 4% yoy)**
- **Due to same reasons, EBITDA margins declined by -205bps yoy; No signals of competition pressures easing except for fact that order inflows have been strong for third qtr in a row**
- **Cut FY11E/12E earnings by 30%/32%; Order inflows, realizations and 765kv manufacturing key variables to track; maintain accumulate on 20% valuations discount to peers**

Performance impacted by one offs, dispatch slippages & competition

TRIL reported revenues of Rs1.3bn lower than our expectations of Rs1.6bn mainly due to dispatch slippages of 1,300MVA to Q4 and volumes declining by 5% yoy to 2,711MVA. Though, realizations improved by 4% yoy to Rs0.47mn/MVA due to (1) product mix in favor of higher range and (2) higher raw material prices pass through under PVC. Competition was visible in EBITDA margins, which declined by 205bps yoy to 9.3% and significantly lower than our estimate at 14.8%. The EBITDA margins were also impacted due to (1) one time incentives (~Rs10mn), (2) dev. exp. of 1150kv transfrm (~Rs15mn) & (3) dispatch slippages. As a result of flattish revenues and decline in EBITDA margins, EBITDA and PAT declined by 19% and 39% (lower other income) yoy, below estimate.

But on the positive side order inflows very strong for third qtr in a row

The strong positive to note in this quarter was yet again strong order inflows of Rs1.7bn, increase of 218% yoy (on low base). This is after reporting ~100% yoy growth in order inflows in H1FY11. Though the pricing pressure still visible in orders is hurting the performance but three quarters of strong order inflows after 4 quarters of muted inflows, is definitely a strong positive and key variable to track going forward along with order inflow realizations.

Cut earnings on lower margins and volumes

TRIL has reported EPS of Rs19.7/Share (decline of 10% yoy) in 9mFY11. We cut our FY11E/FY12E earnings by 30%/32% on the back of (1) lower volume growth in FY11E (10% growth vs 20% earlier) and (2) lower margins (12.0% vs 14.5% earlier).

Financial Snapshot

	Rs Mn									
YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY09	4,251	647	15.2	452	35.0	32.8	20.0	8.0	5.2	1.5
FY10	5,128	728	14.2	489	37.9	8.3	18.3	7.0	4.6	1.3
FY11E	5,641	682	12.1	446	34.5	(8.8)	14.5	8.1	4.9	1.1
FY12E	6,747	809	12.0	522	40.4	16.9	14.9	6.9	4.1	1.0

Maintain Accumulate on 20% valuation discount to peers

At CMP of Rs280, TRIL is trading at 8.1/6.9x FY11/12E earnings, 1.1/1.0x FY11/12E Book Value and 4.9/4.1x FY11/12E EBITDA. This is a discount of 20% to the peers. Also on EV/MVA basis, TRIL is trading at 0.14mn/MVA which is ~ 45% discount to industry average of Rs0.27mn/MVA. We believe competition is still intense in the sector with no signals of easing - remaining an overhang on the sector. But we relatively prefer TRIL due to (1) strong order inflows since past three qtrs and (2) valuations discount to peers. We maintain 'Accumulate' ratings with a revised price target of Rs315/Share (earlier Rs448/Share).

Key variables to track - order Inflows, realizations in new orders & 765kv entry

Apart from absolute order inflows and realizations in new orders (which remains key to the margins), the important thing to look at is TRIL's entry into 765kv. TRIL has been L1 in one of the PGCIL's 765kv orders bid recently. As per management, TRIL is the only company in India (apart from Crompton) which has manufacturing and testing facilities already in place for 765kv. TRIL had bid for PGCIL order in JV with the MNC & is likely to manufacture 765kv transformers starting FY12E. We believe with power generation sector likely to see significant jump in the capacity additions coupled with transmission infrastructure moving into higher ranges, 765kv manufacturing capabilities would be a big long term positive for the company.

Quarterly Results

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	9mFY10	9mFY11	YoY (%)
Revenue	1,282	2,138	833	1,120	1,270	-1.0	13.4	2,990	3,223	7.8
Expenditure	-1,136	-1,824	-708	-969	-1,151	1.3	18.8	-2,576	-2,828	9.8
<i>as % of sales</i>	<i>-88.6%</i>	<i>-85.3%</i>	<i>-85.0%</i>	<i>-86.5%</i>	<i>-90.7%</i>			<i>-86.2%</i>	<i>-87.8%</i>	
Consumption of RM	-1,013	-1,686	-591	-826	-956	-5.6	15.7	-2,146	-2,372	10.5
<i>as % of sales</i>	<i>-79.0%</i>	<i>-78.8%</i>	<i>-70.9%</i>	<i>-73.7%</i>	<i>-75.3%</i>			<i>-71.8%</i>	<i>-73.6%</i>	
Power and Fuel	0	0	0	0	0			0	0	
<i>as % of sales</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>			<i>0</i>	<i>0</i>	
Other Mfg Expenses	0	0	0	0	0			0	0	
<i>as % of sales</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>			<i>0</i>	<i>0</i>	
Employee Cost	-25	-41	-28	-45	-38	54.3	-16.0	-88	-111	26.6
<i>as % of sales</i>	<i>-1.9%</i>	<i>-1.9%</i>	<i>-3.4%</i>	<i>-4.0%</i>	<i>-3.0%</i>			<i>-2.9%</i>	<i>-3.4%</i>	
Other expenditure	-99	-97	-90	-98	-158	59.6	60.9	-342	-345	0.9
<i>as % of sales</i>	<i>-7.7%</i>	<i>-4.5%</i>	<i>-10.8%</i>	<i>-8.8%</i>	<i>-12.4%</i>			<i>-11.4%</i>	<i>-10.7%</i>	
EBITDA	146	315	125	151	119	-18.8	-21.5	414	395	-4.6
Depreciation	-13	-14	-14	-14	-15	16.0	8.6	-31	-43	41.8
EBIT	133	301	110	137	104	1.8	-24.6	383	351	-8.3
Other Income	19	31	23	20	9	-55.3	-57.5	52	51	-1.7
Interest	-7	-19	-7	-5	-10	37.5	102.0	-28	-22	-21.6
PBT	145	313	126	152	102	-29.5	-33.0	407	380	-6.6
Total Tax	-48	-114	-41	-51	-34	-28.2	-33.1	-137	-126	-8.4
Adjusted PAT	97	200	85	101	68	-30.1	-32.9	270	254	-5.6
Extra ordinary items	15	0	0	0	0			27	0	
Reported PAT	112	200	85	101	68	-39.4	-32.9	296	254	-14.1
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			0	0	
PAT after MI	112	200	85	101	68	-39.4	-32.9	296	254	-14.1
Reported EPS	7.5	15.4	6.6	7.8	5.3	-30.1	-32.9	21.8	19.7	-9.5

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	11.4	14.7	15.0	13.5	9.3	-205	-415	13.8	12.2	-159
EBIT	10.4	14.1	13.3	12.3	8.2	-222	-410	12.8	10.9	-192
EBT	12.5	14.7	15.1	13.6	8.0	-442	-556	13.6	11.8	-181
PAT	7.6	9.3	10.2	9.0	5.4	-223	-369	9.9	7.9	-201
Effective Tax rate	29.7	36.3	32.4	33.5	33.4	367	-9	33.8	33.1	-65

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Net Sales	4,251	5,128	5,641	6,747
<i>Growth (%)</i>	41.2	20.6	10.0	19.6
Expenditure	3,604	4,400	4,959	5,938
Raw Materials	3,091	3,832	4,300	5,192
Construction Exp	321	281	310	344
Employee Cost	87	129	140	156
Other Exp	105	158	209	246
EBITDA	647	728	682	809
<i>Growth (%)</i>	18.9	12.6	-6.4	18.6
EBITDA margin (%)	15.2	14.2	12.1	12.0
Depreciation	25	44	60	61
EBIT	622	684	621	747
EBIT margin (%)	14.6	13.3	11.0	11.1
Other Income	104	83	76	83
Interest expenses	69	47	39	59
PBT	657	720	658	772
Tax	225	251	236	274
<i>Effective tax rate (%)</i>	32.9	32.5	34.0	34.0
Adjusted PAT	432	469	422	498
(Profit)/loss from JV's/Ass/MI	20	20	24	24
Adjusted PAT after MI	452	489	446	522
<i>Growth (%)</i>	32.8	8.3	-8.8	16.9
Net Margin (%)	10.6	9.5	7.9	7.7
E/O items	0	27	0	0
Reported PAT	452	516	446	522
<i>Growth (%)</i>	32.8	14.1	-13.5	16.9

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	580	691	617	724
Depreciation	25	44	60	61
Interest Provided	69	47	39	59
Other Non-Cash items	0	0	0	0
Chg in working cap	-184	-179	-742	-442
Tax paid	-225	-238	-228	-258
Operating Cash flow	265	365	-253	143
Capital expenditure	-441	-50	-70	-70
Free Cash Flow	-176	315	-323	73
Other income	104	83	76	83
Investments	27	27	35	35
Investing Cash flow	-310	60	41	48
Equity Capital Raised	-7	-7	-11	-11
Loans Taken / (Repaid)	206	100	0	0
Interest Paid	-69	-47	-39	-59
Dividend paid (incl tax)	-52	-65	-56	-65
Income from investments	-39	-37	-50	-53
Others	0	0	0	0
Financing Cash flow	39	-56	-156	-188
Net chg in cash	-6	369	-368	4
Opening cash position	922	916	1,285	920
Closing cash position	915	1,285	920	928

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	129	129	129	129
Reserves & surplus	2,317	2,758	3,140	3,587
Net worth	2,446	2,888	3,270	3,716
Minority Interest	0	0	0	0
Secured Loans	550	650	650	650
Unsecured Loans	0	0	0	0
Loan Funds	550	650	650	650
Net deferred tax liability	6	6	2	-2
Total Liabilities	3,002	3,543	3,922	4,364
Gross Block	505	915	985	1,055
Less: Depreciation	100	144	204	265
Net block	405	771	780	789
Capital work in progress	385	25	25	25
Investment	17	17	17	17
Current Assets	3,107	3,862	4,373	5,058
Inventories	547	701	1,080	1,291
Sundry debtors	1,531	1,758	2,243	2,683
Cash & bank balance	916	1,285	920	928
Loans & advances	113	118	130	156
Other current assets	0	0	0	0
Current lia & Prov	911	1,131	1,272	1,523
Current liabilities	848	1,055	1,189	1,424
Provisions	63	76	83	100
Net current assets	2,196	2,732	3,101	3,534
Misc. exp	-1	-1	-1	-1
Total Assets	3,002	3,543	3,922	4,364

Key Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	15.2	14.2	12.1	12.0
Net Margin	10.6	9.5	7.9	7.7
ROCE	22.9	20.9	16.6	18.0
ROE	20.0	18.3	14.5	14.9
RoIC	41.5	35.1	24.0	23.5
Per Share Data (Rs)				
EPS	35.0	37.9	34.5	40.4
CEPS	36.9	41.3	39.2	45.1
BVPS	189.3	223.5	253.1	287.6
DPS	4.0	5.0	4.3	5.1
Valuations (x)				
PER	8.0	7.0	8.1	6.9
P/CEPS	7.6	6.8	7.1	6.2
P/BV	1.5	1.3	1.1	1.0
EV / Sales	0.8	0.6	0.6	0.5
EV / EBITDA	5.2	4.6	4.9	4.1
Dividend Yield (%)	1.4	1.8	1.5	1.8
Gearing Ratio (x)				
Net Debt/ Equity	-0.1	-0.2	-0.1	-0.1
Net Debt/EBITDA	-0.6	-0.9	-0.4	-0.3
Working Cap Cycle (days)	110	103	141	141

Recommendation History: Transformers & Rectifiers (TRIL) – TRIL IN

Date	Reports	Reco	CMP	Target
20/10/2010	TRIL Q2FY11 Result Update	Accumulate	380	448
28/07/2010	TRIL Q1FY11 Result Update	Accumulate	418	448
29/04/2010	TRIL Q4FY10 Result Update	Accumulate	406	448
28/01/2010	TRIL Q3FY10 Result Update	Hold	387	379

Recent Research Reports

Date	Reports	Reco	CMP	Target
27/01/2011	Emco Q3FY11 Result Update	Reduce	66	60
25/01/2011	Bharat Bijlee Q3FY11 Result Update	Buy	1,088	1,350
25/01/2011	Power Sector Report: Too many ends to tie			
13/01/2011	Sintex Industries Q3FY11 Result Update	Accumulate	169	215

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

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