

# Transformers & Rectifiers India Ltd.

Kapil Bagaria (kbagaria@mfglobal.com) +91 22 6667 9987

## Robust order book enhances confidence ...

The results of Transformers & Rectifiers India Limited (TRIL), for Q1FY10 have been in-line with our expectations with a growth of 4.5% in net sales and a 5.1% de-growth in PAT. We believe that the decent order addition in such difficult times, stable margin outlook for the existing order book of close to Rs 4.9 bn (1.15x FY09 Net Sales) and healthy balance sheet position augurs well for the prospects of the company. We are revising our estimates for the company for FY10 and FY11 based on good visibility of revenues and margins for at least the next 3-4 quarters. Also we are upgrading the stock to BUY with an increased price target of Rs 336 (increased target multiple).

### Robust Order Book increases visibility

- Its order backlog is healthy at Rs 4.89bn as on 23 July 2009, that is, about 1.15x FY09 net sales. In the orders, close to 78% are from power transformers, 3% from distribution transformers, 9% from furnace transformers, 2% from the rectifier transformers and close to 8% comes from exports.
- In terms of MVA the unexecuted order book comprises of 10728 MVA.
- The company has indicated the above order book will be executed over the next 3 quarters.

### 16000 MVA new facility started commercial production

- TRIL inaugurated its new transformer plant at Moraiya near Ahmedabad on 29<sup>th</sup> May 2009. This plant will have a production capacity of 16000 MVA, when fully operational, taking the total installed capacity for the company to 23200 MVA. In the current fiscal the company has given guidance for production levels of between 3000 to 4000 MVA. The plant will make transformers of above 220 kv class of transformers.

### Outlook and Valuation

- The transformer industry may go through a consolidation phase for the next 12-15 months as the capacity build up over the last 2 years have lead to early signs of over-capacity situation. But TRIL has exhibited exceptional order acquisition ability in the last quarter or so to enhance the visibility for the coming years. Although the new plant may take some time to stabilise, we believe that the foray in the 400 kv and higher class of transformers will bring in long term positives for the company going forward. The current order book of close to Rs 4.9 bn gives visibility to revenues for next 12 months. At the CMP of Rs 290, TRIL trades at 8.6x and 7.3x our revised FY10E and FY11E EPS estimates respectively. We feel that the stock may be up for a re-rating if the order flow continues and the company is able to execute the orders efficiently. We are upgrading the stock to BUY with an increased price target of Rs 336. At our target price the stock will trade at 10x FY10E EPS.

### Valuation summary

Y/E Mar, Rs mn	FY2007	FY2008	FY2009E	FY2010E	FY2011E
Net Sales	2,179	3,014	4,251	4,906	5,884
Growth, %	66.5	38.3	41.1	15.4	19.9
Core EBITDA	335	542	647	724	880
EBIDTA margins, %	15.4	18.0	15.2	14.8	14.9
Net profit	183	321	440	434	513
Net profit margin, %	8.4	10.7	10.3	8.9	8.7
EPS, Rs	25.9	24.9	34.0	33.6	39.7
EPS Growth, %	130.5	(3.9)	36.8	(1.2)	18.0
PER, x	11.2	11.7	8.5	8.6	7.3
EV/EBIDTA, x	11.6	7.2	6.4	5.6	4.7
EV/Net Sales, x	1.8	1.3	1.0	0.8	0.7
Price/Book Value, x	5.1	1.8	1.5	1.3	1.2
ROIC, %	44.3	31.8	22.5	19.4	19.5
ROE, %	59.5	26.1	19.5	16.5	16.9
Dividend Yield, %	0.6	0.7	1.4	1.4	1.7

Source: Company, MF Global India Research Estimates

Upgrade to BUY / Rs 290  
Target Rs 336 (+16%)

#### Sector Rating

OW	N	UW

#### Stock Rating

Buy	Neutral	Sell
> 15%	-15% to +15%	> -15%

*This note should be read for*

- Q1FY10 Results Update
- Revised Estimates & Outlook

Bloomberg code : TRIL IN  
Reuters code : TRNF.BO  
www.transformerindia.com

BSE Sensex : 15248  
NSE Nifty : 4529

#### Company data

O/S shares :	13mn
Market cap (Rs) :	4bn
Market cap (USD) :	77mn
52 - wk Hi/Lo (Rs) :	397 / 103
Avg. daily vol. (3mth) :	26,517
Face Value (Rs) :	10

#### Share holding pattern, %

Promoters :	76.8
FII / NRI :	2.6
FI / MF :	3.7
Non Promoter Corp. Holdings :	2.5
Public & Others :	14.3

#### Price performance, %

	1mth	3mth	1yr
Abs	0.9	63.2	-8.9
Rel to BSE	-5.5	26.3	-11.0

#### Price vs. Sensex



Source: Bloomberg, MF Global India Research

## Q1FY10 Results

Rs mn	Q1FY10	Q1FY09
Net sales	859	822
Growth, %	4.5	53.0
Other income		
Total income	859	822
Operating expenses	714	704
<b>EBITDA</b>	<b>145</b>	<b>118</b>
Growth, %	22.8	43.7
Margin, %	16.9	14.4
Depreciation	9	6
<b>EBIT</b>	<b>137</b>	<b>113</b>
Margin, %	17.7	13.7
Interest paid	11	15
Other Non-Operating Income	5	42
Pre-tax profit	131	140
Tax provided	43	47
<b>Profit after tax</b>	<b>88</b>	<b>93</b>
<b>Reported PAT</b>	<b>88</b>	<b>93</b>
Growth, %	(5.1)	
Margin, %	11.0	11.3
Adj Fully Dilluted EPS, Rs	6.8	7.2
Unadj. shares (m)	13	13
Wtd avg shares (m)	13	13

Source: Company, MF Global India Research

### Top line growth of 4.5% during the quarter

- The company registered a top line of Rs 859mn in the quarter ended 30 June 2009 as against Rs 822mn in the corresponding period last year, registering a YoY growth of 4.5%.
- Its volume for the quarter de-grew by 4.3% in terms of MVA sold as it decreased from 1689 MVA in Q1FY09 to 1616 MVA in Q1FY10. Of the total sales, 78% was to utilities and the rest was to industrial buyers. In terms of the types of transformers, 87% of the sales were from power and distribution transformers and the rest were industrial transformers.

### EBIDTA margins increased by 252bps

- EBIDTA for the quarter stood at Rs 145.3mn, registering a growth of 22.8% YoY. The EBIDTA margin for the quarter stood at 16.9% as against 14.4% in the corresponding period, an increase of 252bps on a YoY basis.

### PAT 5.1% YoY for the quarter

- The APAT for the quarter stood at Rs 88.3mn for the quarter as against Rs 93.0 mn in the corresponding period and the EPS works out to be Rs 6.8. The PAT was lower despite an increase in EBIDTA due to lower other income during the quarter. In the corresponding period last year the company had the unutilized IPO proceeds which were invested to earn additional income.

## Revision of FY09 and FY10 estimates

The new facility of the company has come on stream from the last week of the quarter, this will help the company to execute the orders with greater efficiency and increase the production. Also the current order book of close to Rs 4.9 bn assures close to 12 months sales for the company. The company has indicated that the current orders will be executed in next 3 quarters, this will certainly boost the performance of the company, if it is achieved. It has also given a stable outlook for margins for the existing orders and also for the future orders. Thus we revised our estimates for FY10 and FY11 for the company for the better.

For FY10E, we now expect the company to post a top line of Rs 4906mn (growth of 15.4% YoY), EBIDTA of Rs 724mn (growth of 11.9% YoY) and PAT of Rs 434mn (de-growth of 1.2%). These numbers are higher by 4%, 14% and 11%, respectively, from our earlier estimates. We have increased our margin estimate by 130 bps from 13.5% to 14.8% given the better visibility. The new EPS estimate for FY10 stands at Rs 33.6.

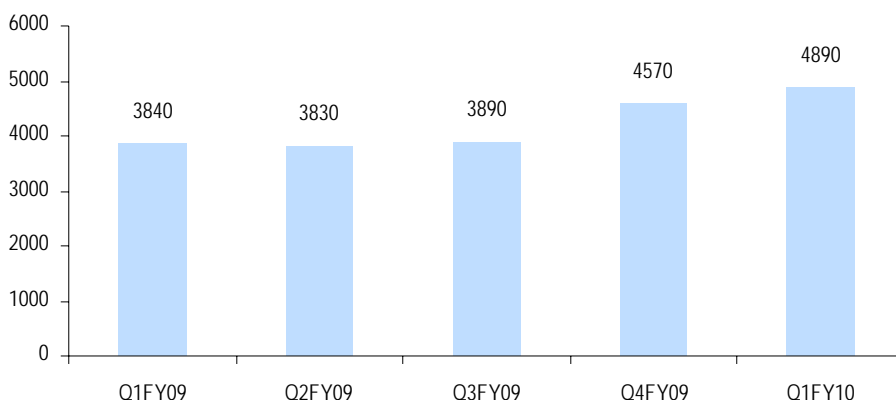
For FY11E, we expect the company to post a top line of Rs 5884 (a growth of 19.9% YoY), EBIDTA of Rs 880mn (YoY growth of 21.5%) and PAT of Rs 513mn (YoY growth of 18.0%). These numbers are higher by 10%, 18% and 11%, respectively, from our earlier estimates. We have also increased our margin estimate by 100 bps. The new EPS estimate for FY11 stands at Rs 39.7.

## Our Assumptions for Volume & Realisation growth

	Sales Volume (MVA)	Realisation per MVA (Rs Mn)	Volume Growth	Realisation Growth	Sales Growth
FY08	5,543	0.55	27.5%	10.3%	40.7%
FY09	7,526	0.56	35.8%	1.7%	38.0%
FY10E	10,449	0.47	38.8%	-16.9%	15.4%
FY11E	12,528	0.47	19.9%	0.0%	19.9%

Source: Company, MF Global India Research Estimates

## Quarterly Order backlog, Rs mn



Source: Company, MF Global India Research

## FINANCIALS

### Income Statement

Y/E Mar, Rs mn	FY2007	FY2008	FY2009E	FY2010E	FY2011E
Net sales	2,179	3,014	4,251	4,906	5,884
<i>Growth, %</i>	66.5	38.3	41.1	15.4	19.9
Other income	-9	58	104	34	35
Total income	2,170	3,071	4,355	4,940	5,919
Operating expenses	-1,843	-2,471	-3,604	-4,182	-5,005
<b>EBITDA</b>	<b>335</b>	<b>542</b>	<b>647</b>	<b>724</b>	<b>880</b>
<i>Growth, %</i>	135.2	61.8	19.2	11.9	21.5
<i>Margin, %</i>	15.4	18.0	15.2	14.8	14.9
Depreciation	-16	-20	-25	-55	-85
<b>EBIT</b>	<b>319</b>	<b>523</b>	<b>622</b>	<b>669</b>	<b>794</b>
<i>Growth, %</i>	138.0	63.6	18.9	7.6	18.8
<i>Margin, %</i>	14.7	17.3	14.6	13.6	13.5
Interest paid	-53	-77	-69	-55	-66
<b>Pre-tax profit</b>	<b>258</b>	<b>504</b>	<b>656</b>	<b>648</b>	<b>764</b>
Tax provided	-92	-182	-217	-214	-251
<b>Profit after tax</b>	<b>166</b>	<b>321</b>	<b>440</b>	<b>434</b>	<b>513</b>
<b>Net Profit</b>	<b>166</b>	<b>321</b>	<b>440</b>	<b>434</b>	<b>513</b>
<b>MF Global Net profit</b>	<b>183</b>	<b>321</b>	<b>440</b>	<b>434</b>	<b>513</b>
<i>Growth, %</i>	139.8	75.2	36.8	(1.2)	18.0
Extraordinary items: Gains/(Losses)	-18	0	0	0	0
Unadj. shares (m)	7	13	13	13	13
Wtd avg shares (m)	7	13	13	13	13

### Cash Flow

Y/E Mar, Rs mn	FY2007	FY2008	FY2009E	FY2010E	FY2011E
Pre-tax profit	258	504	656	648	764
Depreciation	16	20	25	55	85
Chg in working capital	-149	-766	-222	304	-186
Total tax paid	-68	-200	-199	-179	-209
Other operating activities	0	0	0	0	0
<b>Cash flow from operating activities</b>	<b>57</b>	<b>-443</b>	<b>261</b>	<b>828</b>	<b>454</b>
Capital expenditure	-91	-199	-442	-655	-445
Chg in investments	-18	-759	-5	0	0
Chg in marketable securities	0	0	0	0	0
Other investing activities	0	0	0	0	0
<b>Cash flow from investing activities</b>	<b>-109</b>	<b>-958</b>	<b>-447</b>	<b>-655</b>	<b>-445</b>
Free cash flow	-52	-1,401	-186	173	0
Equity raised/(repaid)	36	1,362	0	0	0
Debt raised/(repaid)	104	66	207	-101	0
Dividend (incl. tax)	-12	-17	-34	-60	-63
Other financing activities	0	0	0	0	0
<b>Cash flow from financing activities</b>	<b>128</b>	<b>1,411</b>	<b>173</b>	<b>-161</b>	<b>-63</b>
<b>Net chg in cash</b>	<b>76</b>	<b>10</b>	<b>-13</b>	<b>11</b>	<b>0</b>

## Balance Sheet

As at 31st Mar, Rs mn	FY2007	FY2008	FY2009E	FY2010E	FY2011E
Cash & bank	143	162	151	162	105
Marketable securities at cost	0	0	0	0	0
Debtors	690	1,244	1,531	1,788	2,164
Inventory	394	614	547	613	705
Loans & advances	56	83	113	105	113
Other current assets	1	0	0	0	0
Total current assets	1,283	2,103	2,342	2,668	3,088
Investments	18	777	782	782	782
Gross fixed assets	196	276	505	1,505	1,905
Less: Depreciation	-53	-75	-100	-165	-165
Add: Capital WIP	50	173	385	50	10
Net fixed assets	194	373	790	1,390	1,750
Non-current assets	11	0	0	0	0
<b>Total assets</b>	<b>1,505</b>	<b>3,253</b>	<b>3,914</b>	<b>4,840</b>	<b>5,621</b>
Current liabilities	763	787	815	1,434	1,725
Provisions	49	57	96	136	191
Total current liabilities	811	844	911	1,570	1,916
Non-current liabilities	291	344	557	450	450
Total liabilities	1,103	1,188	1,467	2,020	2,366
Paid-up capital	71	129	129	129	129
Reserves & surplus	332	1,936	2,317	2,691	3,126
Shareholders' equity	403	2,065	2,446	2,820	3,255
<b>Total equity &amp; liabilities</b>	<b>1,505</b>	<b>3,253</b>	<b>3,914</b>	<b>4,840</b>	<b>5,621</b>

## Per-share data

	FY2007	FY2008	FY2009E	FY2010E	FY2011E
MF Global EPS (INR)	25.9	24.9	34.0	33.6	39.7
Growth, %	130.5	(3.9)	36.8	(1.2)	18.0
Book NAV/share (INR)	56.8	159.8	189.3	218.2	251.9
FDEPS (INR)	25.9	24.9	34.0	33.6	39.7
CEPS (INR)	30.6	26.4	36.0	37.9	46.3
CFPS (INR)	8.7	(39.6)	12.2	61.4	32.4
DPS (INR)	1.8	2.0	4.0	4.0	5.0

## Financial structure

	FY2007	FY2008	FY2009E	FY2010E	FY2011E
Total debt/Equity (%)	69.0	16.6	22.5	16.0	13.9
Net debt/Equity (%)	33.6	8.8	16.4	10.2	10.6

### Profitability, Productivity, Liquidity and Valuation Ratios

	FY2007	FY2008	FY2009E	FY2010E	FY2011E
Return on assets (%)	15.6	15.6	13.5	10.7	10.6
Return on equity (%)	59.5	26.1	19.5	16.5	16.9
Return on Invested capital (%)	44.3	31.8	22.5	19.4	19.5
RoIC/Cost of capital (x)	4.9	3.8	2.7	2.3	2.4
RoIC - Cost of capital (%)	35.3	23.5	14.2	11.1	11.3
Return on capital employed (%)	36.4	23.9	17.9	15.0	15.9
Cost of capital (%)	9.0	8.3	8.4	8.3	8.2
RoCE - Cost of capital (%)	27.4	15.6	9.5	6.7	7.7
Asset turnover (x)	4.7	2.9	2.3	2.1	2.2
Sales/Total assets (x)	1.7	1.3	1.2	1.1	1.1
Sales/Net FA (x)	13.9	10.6	7.3	4.5	3.7
Working capital/Sales (x)	0.2	0.4	0.3	0.2	0.2
Fixed capital/Sales (x)	-	-	-	-	-
Receivable days	115.5	150.6	131.4	133.1	134.2
Inventory days	65.9	74.4	47.0	45.6	43.7
Payable days	104.1	75.8	52.9	94.2	96.0
Current ratio (x)	1.6	2.5	2.6	1.7	1.6
Quick ratio (x)	1.1	1.8	2.0	1.3	1.2
Interest cover (x)	6.7	6.8	9.0	12.2	12.3
Dividend cover (x)	14.4	12.4	8.5	8.4	7.9
PER (x)	11.2	11.7	8.5	8.6	7.3
PEG (x) - y-o-y growth	0.1	(3.0)	0.2	(7.2)	0.4
Price/Book (x)	5.1	1.8	1.5	1.3	1.2
Yield (%)	0.6	0.7	1.4	1.4	1.7
EV/Net sales (x)	1.8	1.3	1.0	0.8	0.7
EV/EBITDA (x)	11.6	7.2	6.4	5.6	4.7
EV/EBIT (x)	12.2	7.5	6.7	6.0	5.2
EV/NOPLAT (x)	16.0	10.9	9.6	7.9	6.5
EV/CE	5.6	1.6	1.4	1.2	1.1
EV/IC (x)	8.4	3.7	2.2	1.7	1.5

Source: Company, MF Global India Research Estimates

Vineet Bhatnagar	Managing Director	vbbhatnagar@mfglobal.com
James Rowsell	Global Head – Institutional Equities & Derivatives	jrowsell@mfglobal.com
Sajid Khalid	Head – Institutional Equities	sakhalid@mfglobal.com
Jignesh Shah	Head – Equity Derivatives	jshah@mfglobal.com

#### Equity Research

Alok Dalal	Pharmaceuticals	91-22-6667 9950	aldalal@mfglobal.com
Ambrish Mishra	Automobiles & Auto Component	91-22-6667 9758	amishra@mfglobal.com
Amit Mahawar	Engineering & Capital Goods	91-22-6667 9759	amahawar@mfglobal.com
Anjali Verma	Economist	91-22-6667 9969	anverma@mfglobal.com
Avishek Agarwal	Logistics & Shipping	91-22-6667 9986	aagarwal@mfglobal.com
Deepali Gautam	Power	91-22-6667 9974	dgautam@mfglobal.com
Dipesh Sohani	Real Estate	91-22-6667 9965	dsohani@mfglobal.com
Gauri Anand	Oil & Gas / Fertiliser	91-22-6667 9943	ganand@mfglobal.com
Kapil Bagaria	Midcap	91-22-6667 9987	kbagaria@mfglobal.com
Kunal Motishaw	Metals	91-22-6667 9996	kmotishaw@mfglobal.com
Manish Agarwalla	Banking	91-22-6667 9962	magarwalla@mfglobal.com
Naveen Kulkarni, FRM	Telecom & FMCG	91-22-6667 9947	nkulkarni@mfglobal.com
Nimesh Mistry	IT Services	91-22-6667 9768	nmistry@mfglobal.com
Ritwik Rai	Media	91-22-6667 9766	rrai@mfglobal.com
Vaibhav Agarwal	Cement	91-22-6667 9967	vagarwal@mfglobal.com
Aravind Manickam	Research Associate	91-22-6667 9992	amanickam@mfglobal.com
Ennette Fernandes	Research Associate	91-22-6667 9764	efernandes@mfglobal.com
Sapna Shah	Research Associate	91-22-6667 9758	sapshah@mfglobal.com
Saurabh Rath	Research Associate	91-22-6667 9951	srathi@mfglobal.com
Shubhangi Agrawal	Research Associate	91-22-6667 9964	sagrawal@mfglobal.com
Shikha Khurana	Quant Analyst	91-22-6667 9948	skhurana@mfglobal.com
Ganesh Deorukhkar	Production	91-22-6667 9756	gdeorukhkar@mfglobal.com
Roshni Kalloor	Editor	91-22-6667 9762	rkalloor@mfglobal.com

#### Institutional Cash Equity Sales

Kartik Broker	Equity Sales	91-22-6667 9934	kbroker@mfglobal.com
Kinshuk Tiwari	Equity Sales	91-22-6667 9946	ktiwari@mfglobal.com
Nasir Mohamed	Equity Sales - UAE	009714 3325052 / 91-22-6667 9973	nmohamed@mfglobal.com
Sheetal Gandhi	Equity Sales - US	91-22-6667 9944	sgandhi@mfglobal.com

#### Institutional Cash Equity Sales Trading

Chetan Savla	Sales Trader	91-22-6667 9749	csavla@mfglobal.com
Rajesh Ashar	Sales Trader	91-22-6667 9746	rashar@mfglobal.com
Sunil Kamath	Sales Trader	91-22-6667 9747	skamath@mfglobal.com

#### Institutional Cash Equity Dealing

Chetan Babaria	Dealer	91-22-6667 9945	cbabaria@mfglobal.com
Mayur Shah	Dealer	91-22-6677 9945	mshah@mfglobal.com
Sagar Shah	Dealer	91-22-6677 9945	sagshah@mfglobal.com

#### Rating Rationale

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MF Global Sify Securities India Pvt. Limited  
2nd Floor, C-Block, Modern Centre, Mahalaxmi, Mumbai-400 011