

## RESULT UPDATE

### SMALL CAP

#### Share Data

Reuters code	EMCO.BO
Bloomberg code	EMCO IN
Market cap. (US\$ mn)	111
6M avg. daily turnover (US\$ mn)	1.6
Issued shares (mn)	54
Target price (Rs)	100

#### Performance (%) 1M 3M 12M

Absolute	7	6	114
Relative	9	0	112

#### Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs.)	8.0	10.0
+/- (%)	(11.6)	24.7
PER (x)	12.0	9.7
PBV (x)	0.9	0.8
Dividend/Yield (%)	1.4	1.4
EV/Sales (x)	0.6	0.5
EV/EBITDA (x)	4.5	4.3

#### Major shareholders (%)

Promoters	33
FII's	6
MF's	12
BFSI's	1
Public & Others	48

#### Financial highlights

(Rs mn)	2QFY09	2QFY10	YoY (%)	1HFY09	1HFY10	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net Revenue	2,306	2,014	(12.7)	4,140	3,941	(4.8)	9,963	10,845	8.9	13,656	25.9
EBITDA	307	260	(15.2)	546	512	(6.1)	1,463	1,390	(5.0)	1,716	23.5
EBITDA Margin (%)	13.3	12.9	-	13.2	13.0	-	14.7	12.8	-	12.6	(2.0)
Depreciation	39	44	14.7	76	88	15.1	164	187	14.1	220	17.8
Interest	105	78	(25.9)	160	165	2.6	471	436	(7.5)	542	24.3
PBT and EoI	163	141	(13.5)	309	264	(14.8)	805	777	(3.4)	969	(24.7)
Tax	50	48	(5.4)	96	89	(7.4)	273	257	(5.9)	320	24.7
EoI	-	985	-	-	985	-	-	985	-	-	-
Reported PAT	113	1,079	854.4	213	1,160	443.3	531	1,506	183.6	649	(56.9)
Adjusted PAT	113	94	(17.1)	213	175	(18.1)	532	521	(2.1)	649	24.7
Adjusted EPS (Rs)	1.9	1.6	(17.1)	3.6	3.0	(18.1)	9.0	8.0	(11.6)	10.0	24.7

## EMCO

Maintain Outperformer

Price: Rs 96

BSE Index: 16,353

27 October 2009

### 2QFY10 Result – Lower sales hit earnings growth

- Revenue declined 13% YoY, below our expectations, primarily led by delays and postponement in project completion schedule, thereby affecting project execution. Revenue consisted of 68% from transformers, 28% from projects and 4% from meters business. While transformer business reported 14% growth in volumes, at 3,091 MVA, transformer realisations dipped significantly on account of lower commodity prices and competitive pressures, thus resulting in ~20% decline in transformer segment for the quarter. Projects business grew at a healthy pace of 22% YoY.
- EBITDA margins were at 12.9%, a decline of 40 bps YoY. While raw material costs to sales declined by 260 bps YoY, at 71%, employee expenses increased 42% YoY as the company has ramped up their projects team. Interest expenses declined 26% YoY on account of repayment of some debt from the *proceeds of the sale of Emco Energy' power project to GMR Energy (Rs 1.7 bn)*. EMCO had incurred Rs 428 mn on this venture. Net of tax, the company has booked Rs 985 mn as extraordinary gains during the quarter.
- Order book has increased by 23% YoY to Rs 16 bn, 64% being from projects and 34% from transformers business, thus providing substantial growth visibility for the next 18 months.

### Maintain Outperformer

**We believe monetisation of investments in power projects will be beneficial for EMCO to meet the increased working capital of the changing business mix and improve the balance-sheet strength. EMCO has however, retained the core team of this entity, to pursue its growth plans in power sector. While transformer business is facing realisations pressures, sales growth will be largely dependent on strong volumes and greater execution of large projects in hand. Execution of 5 projects of 765 kV from PGCIL (Rs 5.5 bn) will accelerate in 2HFY10. Furthermore, as interest pressure will ease in subsequent quarters, earnings growth is likely to pick up in 2HFY10. Given these developments, we have revised our profit estimates up by 4% for FY10E and 7% for FY11E.**

**Income Statement**

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
<b>Net sales</b>	<b>9,443</b>	<b>9,963</b>	<b>10,845</b>	<b>13,656</b>
<i>Growth (%)</i>	44.0	5.5	8.9	25.9
Operating expenses	(8,150)	(8,500)	(9,455)	(11,940)
Operating profit	1,292	1,463	1,390	1,716
<b>EBITDA</b>	<b>1,292</b>	<b>1,463</b>	<b>1,390</b>	<b>1,716</b>
<i>Growth (%)</i>	49.3	13.2	(5.0)	23.5
Depreciation	(98)	(164)	(187)	(220)
Other income	78	(23)	10	15
<b>EBIT</b>	<b>1,272</b>	<b>1,276</b>	<b>1,213</b>	<b>1,511</b>
Interest paid	(317)	(471)	(436)	(542)
Pre-tax profit	955	805	777	969
(before non-recurring items)				
Non-recurring items	(3)	(1)	985	0
Pre-tax profit	952	804	1,762	969
(after non-recurring items)				
Tax (current + deferred)	(306)	(273)	(257)	(320)
Net profit	647	531	1,506	649
<b>Adjusted net profit</b>	<b>650</b>	<b>532</b>	<b>521</b>	<b>649</b>
<i>Growth (%)</i>	65.7	(18.1)	(2.1)	24.7
Prior period adjustments	(2)	0	0	0
<b>Net income</b>	<b>644</b>	<b>531</b>	<b>1,506</b>	<b>649</b>

**Balance Sheet**

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Current assets	8,580	10,190	12,035	14,471
Investments	134	122	122	122
Net fixed assets	1,830	2,060	2,074	2,029
Other non-current assets	51	74	0	0
<b>Total assets</b>	<b>10,595</b>	<b>12,445</b>	<b>14,230</b>	<b>16,621</b>
Current liabilities	3,357	4,215	4,739	5,540
Total debt	3,084	3,561	3,486	4,514
Other non-current liabilities	193	273	0	0
<b>Total liabilities</b>	<b>6,634</b>	<b>8,050</b>	<b>8,225</b>	<b>10,054</b>
Share capital	313	313	124	124
Reserves & surplus	3,648	4,082	5,881	6,443
<b>Shareholders' funds</b>	<b>3,961</b>	<b>4,396</b>	<b>6,005</b>	<b>6,567</b>
<b>Total equity &amp; liabilities</b>	<b>10,595</b>	<b>12,445</b>	<b>14,230</b>	<b>16,621</b>
<b>Capital employed</b>	<b>7,238</b>	<b>8,230</b>	<b>9,490</b>	<b>11,081</b>

**Cash Flow Statement**

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	952	804	1,762	969
Depreciation	103	162	187	220
Chg in working capital	(1,227)	(743)	(375)	(1,820)
Total tax paid	(207)	(216)	(456)	(320)
<b>Cash flow from oper. (a)</b>	<b>(379)</b>	<b>7</b>	<b>1,118</b>	<b>(950)</b>
Capital expenditure	(1,095)	(392)	(201)	(175)
Chg in investments	162	13	0	0
<b>Cash flow from inv. (b)</b>	<b>(933)</b>	<b>(379)</b>	<b>(201)</b>	<b>(175)</b>
<b>Free cash flow (a+b)</b>	<b>(1,312)</b>	<b>(372)</b>	<b>917</b>	<b>(1,125)</b>
Equity raised/(repaid)	421	0	189	0
Debt raised/(repaid)	1,231	478	(76)	1,028
Dividend (incl. tax)	(60)	(96)	(96)	(86)
Other financing activities	(2)	0	0	0
<b>Cash flow from fin. (c)</b>	<b>1,590</b>	<b>381</b>	<b>17</b>	<b>943</b>
<b>Net chg in cash (a+b+c)</b>	<b>277</b>	<b>9</b>	<b>934</b>	<b>(182)</b>

**Key Ratios**

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
EPS (Rs)	11.0	9.0	8.0	10.0
EPS growth	25.1	(18.1)	(11.6)	24.7
EBITDA margin	13.7	14.7	12.8	12.6
EBIT margin	13.5	12.8	11.2	11.1
RoCE	20.9	16.5	13.7	14.7
Net debt/Equity	45.6	51.8	44.9	62.1

**Valuations**

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	7.6	9.3	10.5	8.4
PCE	6.6	7.1	7.7	6.3
Price/Book	1.2	1.1	0.9	0.8
Yield (%)	1.7	1.7	1.4	1.4
EV/Net sales	0.7	0.7	0.6	0.5
EV/EBITDA	5.2	4.9	4.5	4.3

**Du Pont Analysis – ROE**

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	6.9	5.3	4.8	4.8
Asset turnover	1.0	0.9	0.8	0.9
Leverage factor	2.7	2.8	2.6	2.5
Return on equity (%)	18.7	12.7	10.0	10.3

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**Analyst Declaration:** I, Renu Baid, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

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1. **BUY:** Potential upside of > +25% (absolute returns)
  2. **OUTPERFORMER:** 0 to +25%
  3. **UNDERPERFORMER:** 0 to -25%
  4. **SELL:** Potential downside of < -25% (absolute returns)
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