

July 29, 2011

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs253	Rs352
EPS change FY11E/12E (%)	NA
Target Price change (%)	NA
Nifty	5,482
Sensex	18,197

Price Performance

(%)	1M	3M	6M	12M
Absolute	1	(9)	(14)	(37)
Rel. to Nifty	3	(4)	(14)	(38)

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	437/232
Market Cap (Rs bn/USD mn)	3/68
Daily Avg Volume (No of sh)	36482
Daily Avg Turnover (US\$m)	0.2

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	76.8	76.8	76.8
FII/NRI	0.4	0.4	0.4
Institutions	2.1	2.2	2.2
Private Corp	3.0	2.9	3.1
Public	17.7	17.7	17.4

Source: Capitaline

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- TRIL's Q1 performance (rev - Rs1.4bn, PAT - Rs77mn) is better than est due to (1) significantly higher volumes (98% gr.) and (2) high margin export revenues of Rs322mn vs Rs27mn yoy
- Positives not yet factored (1) JV with ZTG & L1 in eight 765kv transformers (Rs1.2bn), (2) almost on schedule delivery of 1200kv in Q211E & (3) successful deliveries & performance of 400kv and exp. qualification in PGCIL/NTPC orders
- We reiterate that TRIL is quickly entering into big league of transformer mfrs (CG, ABB, Areva and Siemens) with a capacity to deliver across ranges though only transformers
- Some pain left on lower entry prices and ambiguity on sector fundamentals but TRIL better placed with exports and specialized transformers. Expect gradual re-rating; Buy

Q1FY12 results beat estimates on strong volume growth

TRIL reported revenues of Rs1.4bn higher than our expectations of Rs1.0bn mainly due to volume growth (3148 MVA) of 98% yoy on account of better export volumes. Export revenues stood at Rs322mn vs Rs27mn in Q1FY11. Realization stood at Rs0.44mn/MVA. As a result of higher export revenues, EBITDA margins (10.1%, down 710bps yoy) were slightly better than our estimate. PAT declined by 9% yoy to Rs77mn (our est. - Rs58mn). EPS stood at Rs6.0/share. Despite the better than expected performance, we maintain our FY12E/13E earnings on short term concerns on margin ambiguity in domestic power transformer business.

Valuations not factoring a lot of positive developments currently taking place

There have been significant positive developments which have taken place recently (1) TRIL in JV with ZTR, Ukraine has emerged L1 bidder for supplying eight 765kv transformers to PGCIL (order size:Rs1.2bn) (2) the company is almost on track to deliver 1200kv in Q2FY12E and (3) delivery of 400kv transformer to SEB - an important pre-qualification for PGCIL/NTPC orders. These developments will propel future growth and would boost EBITDA margins as the company establishes itself in the 400Kv/765Kv market. We believe that the current valuations of 2.9x FY13E EV/EBITDA are not factoring in these positives.

TRIL entering into big league of transformers manufacturers

TRIL's focus on (1) higher range of transformers (400kv, 765kv & 1200kv) and (2) achieving prequalification for supply of higher range of transformers to PGCIL/NTPC will propel higher growth in future and will push the company into big league of transformer manufacturers (Crompton greaves, ABB, Areva and Siemens) with a capacity to deliver across ranges, though its only transformers.

Financial Snapshot

Rs Mn

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	5,128	728	14.2	489	37.9	8.4	18.4	6.4	3.9	1.1
FY11E	5,503	655	11.9	415	32.2	(15.2)	13.7	7.9	4.3	1.0
FY12E	6,867	824	12.0	483	37.4	16.4	14.2	6.8	3.4	0.9
FY13E	8,213	988	12.0	595	46.1	23.2	15.4	5.5	2.9	0.8

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)	FY10	FY11	YoY (%)
Revenue	856	1,141	1,270	2,237	1,373	60.5	-38.6	5,128	5,503	7.3
Expenditure	-708	-969	-1,151	-2,019	-1,235	74.4	-38.8	-4,400	-4,847	10.2
<i>as % of sales</i>	<i>-82.8%</i>	<i>-84.9%</i>	<i>-90.7%</i>	<i>-90.3%</i>	<i>-89.9%</i>			<i>-85.8%</i>	<i>-88.1%</i>	
Consumption of RM	-591	-826	-956	-1,850	-1,075	82.0	-41.9	-3,832	-4,222	10.2
<i>as % of sales</i>	<i>-69.1%</i>	<i>-72.4%</i>	<i>-75.3%</i>	<i>-82.7%</i>	<i>-78.3%</i>			<i>-74.7%</i>	<i>-76.7%</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	-28	-45	-38	-50	-39	39.8	-22.0	-129	-161	25.1
<i>as % of sales</i>	<i>-3.3%</i>	<i>-3.9%</i>	<i>-3.0%</i>	<i>-2.2%</i>	<i>-2.8%</i>			<i>-2.5%</i>	<i>-2.9%</i>	
Other expenditure	-90	-98	-158	-119	-121	35.0	1.7	-439	-464	5.7
<i>as % of sales</i>	<i>-10.5%</i>	<i>-8.6%</i>	<i>-12.4%</i>	<i>-5.3%</i>	<i>-8.8%</i>			<i>-8.6%</i>	<i>-8.4%</i>	
EBITDA	147	172	119	218	138	-6.3	-36.6	728	655	-10.0
Depreciation	-14	-14	-15	-14	-14	-1.4	-2.8	-44	-58	31.1
EBIT	133	158	103	203	124	-6.8	-39.0	684	598	-12.6
Other Income	0	0	9	23	8		-65.4	83	32	-62.0
Interest	-7	-5	-10	-19	-17	1.1	-10.1	-47	-41	-12.6
PBT	126	153	102	208	115	-8.5	-44.6	720	588	-18.3
Total Tax	-41	-51	-34	-62	-38	-6.6	-38.2	-251	-187	-25.4
Adjusted PAT	85	102	68	146	77	-9.4	-47.3	469	401	-14.6
Extra ordinary items	0	0	0	0	0			54	0	
Reported PAT	85	102	68	146	77	-9.4	-47.3	523	401	-23.3
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0				15	
PAT after MI	85	102	68	146	77	-9.4	-47.3	523	415	-20.5
Reported EPS	6.6	7.9	5.3	11.3	6.0	-9.4	-47.3	40.5	32.1	-20.5

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	17.2	15.1	9.3	9.7	10.1	-717	31	14.2	11.9	-229
EBIT	15.6	13.8	8.1	9.1	9.0	-653	-6	13.3	10.9	-248
EBT	14.7	13.4	8.0	9.3	8.4	-632	-90	14.0	10.7	-336
PAT	9.9	8.9	5.3	6.5	5.6	-433	-92	10.2	7.5	-265
Effective Tax rate	32.4	33.4	33.4	29.6	33.0	66	342	34.9	31.8	-302

Some pain left on lower entry prices and ambiguity on domestic power transformer business margins in the short-term

We believe that the company will witness pressure on its margins for few more quarters due to (1) overall ambiguity on domestic power transformer business and margins and (2) TRIL's strategy of submitting 400kv/765kv bids at a very low margin in order to gain foothold in the market.

But TRIL better placed; Expect gradual re-rating in its valuations; Maintain Buy

Despite current issues in transformer business, TRIL is better placed with high margin exports and specialized transformers contributing ~25% of revenues. At the CMP of Rs255/share, stock is trading at 5.5x FY13E earnings, 2.9x FY13E EV/EBITDA and 0.8x FY13E book. Large transformers players currently trade in the range of 7-18x one year forward EV/EBITDA. We believe that TRIL is unlikely to trade those multiples on account of it being standalone transformer player whereas others are full fledged service providers in the T&D sector. However, we believe that gradually as TRIL enters into higher range of transformers successfully, the stock would be re-rated. Maintain Buy from a long-term perspective with a price target of Rs352/share.

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Net Sales	5,128	5,503	6,867	8,213
<i>Growth (%)</i>	20.6	7.3	24.8	19.6
Expenditure	4,400	4,847	6,044	7,226
Raw Materials	3,832	4,222	5,320	6,399
Construction Exp	281	0	0	0
Employee Cost	129	161	182	207
Other Exp	158	464	541	619
EBITDA	728	655	824	988
<i>Growth (%)</i>	12.6	-10.0	25.7	19.9
EBITDA margin (%)	14.2	11.9	12.0	12.0
Depreciation	44	58	86	84
EBIT	684	598	738	904
EBIT margin (%)	13.3	10.9	10.7	11.0
Other Income	83	32	35	38
Interest expenses	47	41	51	51
PBT	720	588	721	891
Tax	251	187	252	310
<i>Effective tax rate (%)</i>	32.5	30.8	34.0	34.0
Adjusted PAT	469	401	469	581
(Profit)/loss from JV's/Ass/MI	20	14	14	14
Adjusted PAT after MI	489	415	483	595
<i>Growth (%)</i>	8.3	-15.2	16.4	23.2
Net Margin (%)	9.5	7.5	7.0	7.2
E/O items	27	0	0	0
Reported PAT	516	415	483	595
<i>Growth (%)</i>	14.1	-19.5	16.4	23.2

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
PBT (Ex-Other income)	691	578	707	874
Depreciation	44	58	86	84
Interest Provided	47	41	51	51
Other Non-Cash items	0	0	0	0
Chg in working cap	2	-1,004	44	-452
Tax paid	-226	-196	-227	-290
Operating Cash flow	558	-524	661	268
Capital expenditure	-236	-132	-70	-70
Free Cash Flow	322	-656	591	198
Other income	83	32	35	38
Investments	23	21	21	21
Investing Cash flow	-130	-79	-14	-11
Equity Capital Raised	-7	-7	-7	-7
Loans Taken / (Repaid)	125	-34	0	0
Interest Paid	-47	-41	-51	-51
Dividend paid (incl tax)	-65	-65	-61	-89
Income from investments	-37	-50	-53	-52
Others	18	24	19	13
Financing Cash flow	-13	-173	-153	-186
Net chg in cash	415	-776	494	70
Opening cash position	916	1,331	555	1,049
Closing cash position	1,331	555	1,049	1,120

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	129	129	129	129
Reserves & surplus	2,737	3,064	3,477	3,969
Net worth	2,866	3,193	3,606	4,098
Minority Interest	0	0	0	0
Secured Loans	675	641	641	641
Unsecured Loans	0	0	0	0
Loan Funds	675	641	641	641
Net deferred tax liability	47	64	60	56
Total Liabilities	3,588	3,898	4,307	4,795
Gross Block	994	1,258	1,303	1,373
Less: Depreciation	144	202	288	372
Net block	850	1,056	1,015	1,001
Capital work in progress	132	0	25	25
Investment	21	21	21	21
Current Assets	3,473	4,201	4,661	5,439
Inventories	515	1,064	985	1,178
Sundry debtors	1,477	2,315	2,366	2,830
Cash & bank balance	1,331	555	1,049	1,120
Loans & advances	150	267	260	311
Other current assets	0	0	0	0
Current lia & Prov	889	1,380	1,415	1,691
Current liabilities	801	1,301	1,310	1,567
Provisions	88	79	104	125
Net current assets	2,584	2,821	3,246	3,748
Misc. exp	-1	-1	-1	-1
Total Assets	3,588	3,898	4,307	4,795

Key ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
Profitability (%)				
EBITDA Margin	14.2	11.9	12.0	12.0
Net Margin	9.5	7.5	7.0	7.2
ROCE	20.8	16.0	18.0	19.9
ROE	18.4	13.7	14.2	15.4
RoIC	36.1	22.0	22.6	26.4
Per Share Data (Rs)				
EPS	37.9	32.2	37.4	46.1
CEPS	41.3	36.6	44.1	52.6
BVPS	222.2	247.5	279.5	317.7
DPS	5.0	5.0	4.7	6.9
Valuations (x)				
PER	6.4	7.9	6.8	5.5
P/CEPS	6.2	7.0	5.8	4.8
P/BV	1.1	1.0	0.9	0.8
EV / Sales	0.5	0.6	0.4	0.3
EV / EBITDA	3.9	4.3	3.4	2.9
Dividend Yield (%)	2.0	2.0	1.8	2.7
Gearing Ratio (x)				
Net Debt/ Equity	-0.2	0.0	-0.1	0.0
Net Debt/EBITDA	-0.9	0.1	-0.5	0.0
Working Cap Cycle (days)	89	150	117	117

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

Date	Reports	Reco	CMP	Target
26/04/2011	TRIL Q4FY11 Result Update	Buy	282	352
31/01/2011	TRIL Q3FY11 Result Update	Accumulate	280	315
20/10/2010	TRIL Q2FY11 Result Update	Accumulate	380	448
28/07/2010	TRIL Q1FY11 Result Update	Accumulate	418	448

Recent Research Reports

Date	Reports	Reco	CMP	Target
28/07/2011	Nava Bharat Ventures Q1FY12 Result Update	Accumulate	237	290
25/07/2011	NTPC Q1FY12 Result Update	Buy	184	204
21/07/2011	JSW Energy Q1FY12 Result Update	Reduce	71	74
21/07/2011	Bharat Bijlee Q1FY12 Result Update	Accumulate	850	884

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