

November 9, 2011

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs217	Rs293
EPS change FY12E/13E (%)	-37/-32
Target Price change (%)	-17.0
Nifty	5,221
Sensex	17,570

Price Performance

(%)	1M	3M	6M	12M
Absolute	(1)	(10)	(15)	(41)
Rel. to Nifty	(6)	(13)	(10)	(29)

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	373/212
Market Cap (Rs bn/USD mn)	3/61
Daily Avg Volume (No of sh)	4658
Daily Avg Turnover (US\$m)	0.0

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	76.8	76.8	76.8
FII/NRI	0.4	0.4	0.4
Institutions	2.4	2.1	2.2
Private Corp	2.8	3.0	2.9
Public	17.5	17.7	17.7

Source: Capitaline

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- **TRIL's Q2 performance (rev - Rs1.4bn, up 23% yoy, PAT - Rs21mn, down 79% yoy) is lower than est due to low margin orders (2Q EBITDA margins at 3.9% vs 15.1% yoy) execution.**
- **Has received Rs2.2bn, 765kv order (20 transformers) from PGCIL (will help in scaling up the range). Few orders including 765kv orders are low margin orders- to impact numbers in mid-term - cut FY12/13E EPS by 37% and 32%.**
- **But we maintain that TRIL is quickly entering into big league of transformer mfrs (CG, ABB, Areva and Siemens) with a capacity to deliver across ranges - should lead to re-rating.**
- **Some pain left on lower entry prices and ambiguity on sector fundamentals but TRIL better placed with exports and special transformers/rectifiers. Expect gradual re-rating; Retain Buy**

2Q12 results reflects low margin orders

TRIL reported revenues of Rs1.4bn, up 23%yoy driven by volume growth (3001 MVA) of 22% yoy. Export revenues were lower at Rs80mn vs Rs322mn qoq. Realization stood at Rs0.47mn/MVA. As a result of low margin orders taken to sustain production and volumes, margins have declined to 3.9% vs 10.1% in 1Q. Therefore, PAT declined by 79% yoy to Rs21mn (our est. - Rs99mn). EPS stood at Rs1.6/share. Considering low margin orders still there in the order book including entry level prices in 765kv, we lower our margins numbers to 8% in FY12E and 8.55 in FY13E - resulting in earnings cut of 37% and 32% for FY12E/13E earnings. We believe 3Q12 numbers would be subdued and expect some improvement in 4Q12 driven by operating leverage.

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.

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 won 765kv transformer order from PGCIL (order size:Rs2bn, 20 transformers), (2) the company is almost on track to deliver 1200kv in Q3FY12E 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 and as sector fundamentals improve. We believe that the current valuations of 0.8x FY13E book are not factoring in these positives.

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	5.5	3.6	1.0
FY11	5,503	655	11.9	415	32.2	(15.2)	13.7	6.9	4.0	0.9
FY12E	6,867	550	8.0	302	23.4	(27.2)	9.1	9.4	4.8	0.8
FY13E	8,213	697	8.5	403	31.3	33.4	11.1	7.1	3.8	0.8

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

We highlight 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 with a long-term perspective

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 Rs217/share, stock is trading at 7.0x FY13E earnings and 0.8x FY13E book - which we believe is undemanding considering TRIL entering into big league of transformer manufacturers. Gradually as it 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 Rs293/share (1x Book).

Quarterly Results

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	FY10	FY11	YoY (%)
Revenue	1,141	1,270	2,237	1,373	1,401	22.9	2.1	5,128	5,503	7.3
Expenditure	-969	-1,151	-2,019	-1,235	-1,346	39.0	9.0	-4,400	-4,847	10.2
<i>as % of sales</i>	<i>-84.9%</i>	<i>-90.7%</i>	<i>-90.3%</i>	<i>-89.9%</i>	<i>-96.1%</i>			<i>-85.8%</i>	<i>-88.1%</i>	
Consumption of RM	-826	-956	-1,850	-1,075	-1,200	45.3	11.6	-3,832	-4,222	10.2
<i>as % of sales</i>	<i>-72.4%</i>	<i>-75.3%</i>	<i>-82.7%</i>	<i>-78.3%</i>	<i>-85.6%</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	-45	-38	-50	-39	-43	-4.4	10.3	-129	-161	25.1
<i>as % of sales</i>	<i>-3.9%</i>	<i>-3.0%</i>	<i>-2.2%</i>	<i>-2.8%</i>	<i>-3.1%</i>			<i>-2.5%</i>	<i>-2.9%</i>	
Other expenditure	-98	-158	-119	-121	-103	5.3	-14.7	-439	-464	5.7
<i>as % of sales</i>	<i>-8.6%</i>	<i>-12.4%</i>	<i>-5.3%</i>	<i>-8.8%</i>	<i>-7.4%</i>			<i>-8.6%</i>	<i>-8.4%</i>	
EBITDA	172	119	218	138	55	-68.0	-60.1	728	655	-10.0
Depreciation	-14	-15	-14	-14	-15	7.9	7.9	-44	-58	31.1
EBIT	158	103	203	124	40	-74.7	-67.8	684	598	-12.6
Other Income	0	9	23	8	10		-65.4	83	32	-62.0
Interest	-5	-10	-19	-17	-21	324.5	22.4	-47	-41	-12.6
PBT	153	102	208	115	30	-80.7	-74.3	720	588	-18.3
Total Tax	-51	-34	-62	-38	-8	-83.7	-78.2	-251	-187	-25.4
Adjusted PAT	102	68	146	77	21	-79.2	-72.5	469	401	-14.6
Extra ordinary items	0	0	0	0	0			54	0	
Reported PAT	102	68	146	77	21	-79.2	-72.5	523	401	-23.3
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0				15	-
PAT after MI	102	68	146	77	21	-79.2	-72.5	523	415	-20.5
Reported EPS	7.9	5.3	11.3	6.0	1.6	-79.2	-72.5	40.5	32.1	-20.5

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	15.1	9.3	9.7	10.1	3.9	-1113	-613	14.2	11.9	-229
EBIT	13.8	8.1	9.1	9.0	2.8	-1098	-618	13.3	10.9	-248
EBT	13.4	8.0	9.3	8.4	2.1	-1129	-627	14.0	10.7	-336
PAT	8.9	5.3	6.5	5.6	1.5	-741	-410	10.2	7.5	-265
Effective Tax rate	33.4	33.4	29.6	33.0	28.1	-524	-491	34.9	31.8	-302

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	5,128	5,503	6,867	8,213
Growth (%)	20.6	7.3	24.8	19.6
Expenditure	4,400	4,847	6,317	7,516
Raw Materials	3,832	4,222	5,594	6,690
Construction Exp	281	0	0	0
Employee Cost	129	161	182	207
Other Exp	158	464	541	619
EBITDA	728	655	550	697
Growth (%)	12.6	-10.0	-16.1	26.7
EBITDA margin (%)	14.2	11.9	8.0	8.5
Depreciation	44	58	86	84
EBIT	684	598	464	613
EBIT margin (%)	13.3	10.9	6.8	7.5
Other Income	83	32	35	38
Interest expenses	47	41	51	51
PBT	720	588	447	600
Tax	251	187	159	211
Effective tax rate (%)	32.5	30.8	34.0	34.0
Adjusted PAT	469	401	288	389
(Profit)/loss from JV's/Ass/MI	20	14	14	14
Adjusted PAT after MI	489	415	302	403
Growth (%)	8.3	-15.2	-27.2	33.4
Net Margin (%)	9.5	7.5	4.4	4.9
E/O items	27	0	0	0
Reported PAT	516	415	302	403
Growth (%)	14.1	-19.5	-27.2	33.4

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
PBT (Ex-Other income)	691	578	434	583
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	103	-448
Tax paid	-226	-196	-134	-191
Operating Cash flow	558	-524	540	80
Capital expenditure	-236	-132	-70	-70
Free Cash Flow	322	-656	470	10
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	-38	-60
Income from investments	-37	-50	-53	-52
Others	18	24	19	13
Financing Cash flow	-13	-173	-130	-158
Net chg in cash	415	-776	396	-89
Opening cash position	916	1,331	555	956
Closing cash position	1,331	555	951	867

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	129	129	129	129
Reserves & surplus	2,737	3,064	3,322	3,656
Net worth	2,866	3,193	3,451	3,785
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	62	59
Total Liabilities	3,588	3,898	4,154	4,485
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	4,567	5,192
Inventories	515	1,064	985	1,178
Sundry debtors	1,477	2,315	2,366	2,830
Cash & bank balance	1,331	555	956	872
Loans & advances	150	267	260	311
Other current assets	0	0	0	0
Current lia & Prov	889	1,380	1,474	1,754
Current liabilities	801	1,301	1,370	1,630
Provisions	88	79	104	125
Net current assets	2,584	2,821	3,093	3,438
Misc. exp	-1	-1	-1	-1
Total Assets	3,586	3,897	4,153	4,484

Key ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
Profitability (%)				
EBITDA Margin	14.2	11.9	8.0	8.5
Net Margin	9.5	7.5	4.4	4.9
ROCE	20.8	16.0	11.5	14.2
ROE	18.4	13.7	9.1	11.1
RoIC	36.1	22.0	14.3	18.3
Per Share Data (Rs)				
EPS	37.9	32.2	23.4	31.3
CEPS	41.3	36.6	30.1	37.8
BVPS	222.2	247.5	267.6	293.4
DPS	5.0	5.0	3.0	4.7
Valuations (x)				
PER	5.5	6.9	9.4	7.1
P/CEPS	5.3	6.0	7.3	5.9
P/BV	1.0	0.9	0.8	0.8
EV / Sales	0.4	0.5	0.4	0.3
EV / EBITDA	3.6	4.0	4.8	3.8
Dividend Yield (%)	2.3	2.3	1.3	2.1
Gearing Ratio (x)				
Net Debt/ Equity	-0.2	0.0	-0.1	0.0
Net Debt/EBITDA	-0.9	0.1	-0.6	0.0
Working Cap Cycle (days)	89	150	114	114

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

Date	Reports	Reco	CMP	Target
29/07/2011	TRIL Q1FY12 Result Update	Buy	253	352
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

Recent Research Reports

Date	Reports	Reco	CMP	Target
08/11/2011	Reliance Power Q2FY12 Result Update	Buy	103	155
31/10/2011	NTPC Q2FY12 Result Update	Buy	179	204
21/10/2011	GIPCL Q2FY12 Result Update	Buy	77	115
21/10/2011	Sintex Industries Q2FY12 Result Update	Buy	118	150

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