

Titagarh Wagons Ltd

Recommendation	BUY
CMP (04/10/2012)	Rs. 331
Target Price	N/A
Sector	Capital Goods

Stock Details

BSE Code	532966
NSE Code	TWL
Bloomberg Code	TWL IN
Market Cap (Rs crs)	664
Free Float (%)	46.89%
52- wk Hi/Lo (Rs)	483/290
Avg. volume BSE (Quarterly)	5372
Face Value (Rs)	10
Dividend (FY12)	80%
Shares o/s (Crs)	2

Relative Performance (%)	1Mth	3Mth	1Yr
TWL	10.97	1.75	-18.11
Sensex	8.54	8.29	14.40

Shareholding Pattern 30th Jun 12

Promoters Holding	53.11%
Institutional (Incl. FII)	16.41%
Corporate Bodies	4.65%
Public & others	25.83%

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Year	Net Sales (Rs crs)	Growth (%)	EBITDA (Rs crs)	Margin (%)	Adj PAT (Rs crs)	Margin (%)	Adj EPS (Rs.)	P/E (x)
FY 09A	686	23	87	12.7	64	9.1	34.8	9.5
FY 10A	554	-19	84	15.1	60	10.5	32.0	10.3
FY 11A	724	31	112	15.5	76	9.8	40.6	8.1
FY 12A	891	23	141	15.8	96	9.2	47.6	6.9

Titagarh Wagons Ltd (TWL) is the largest private wagon manufacturer with capacity of 10k wagons pa. The company also manufactures customized products eg. Railway carriages, steel bridges, mining equipment. Wagon manufacturing accounts for ~82% of the company's business.

Lack of order flows from the Indian Railways had a negative impact on the performance

With the delay from Indian Railways in terms of giving out orders for wagons, TWL saw its order book shrink from ~3000 wagons in Q4FY11 to 1200 wagons in Q2FY12. This impacted its subsequent quarterly performances. A small order book became a concern on the earnings visibility front which led to a significant correction in the stock price.

Current order book of ~2900 wagons boosts earnings visibility in the near to medium term

The Indian Railways placed a large chunk of orders in Q3FY12 and TWL was able to bag significant amount of orders (2699 wagons of the 15700 wagons ordered by Indian Railways in FY12) thereby boosting its order book. The company was able to bag orders worth ~Rs 275 cr in Q1FY13 and has a current order book of Rs 846 cr. This provides a strong visibility in earnings for the near to medium term. With a topline driven business model as majority of price variations are pass through, we expect the company to post good set of numbers in H2FY13.

Strong Industry dynamics

For Indian railways to reach a target of 50% market share in freight movement, it will need additional wagons to be procured from the market. According to the "Indian Railways: Vision 2020" document by the Ministry of Railways, 2,89,136 new wagons need to be procured by 2020. This translates to more than 30,000 wagons to be procured annually from FY13 onwards.

Turnaround in its subsidiary (AFR & Cimmco) complete – to aid growth in future

TWL's first ever overseas acquisition Arbel Fauvet Rail (AFR) has a capacity to produce 2000 wagons per annum. TWL paid €1.92 million for the entire assets without any liability; book value of assets was € 60 million. AFR turned profitable in FY12 and had an order book of € 65 million. TWL became co-promoters for revival of Cimmco Ltd. in 2010. It successfully turned around the company in a period of 9 months. This is expected to aid TWL with profitable growth in FY13.

Valuation & Recommendation

At CMP, the stock is available at 11.5x on TTM basis. On the back of good order book in Q1FY13 we expect TWL to post good set of numbers in H2FY13. With the turnaround in its overseas subsidiary (AFR) complete, this will aid in growth of the company in FY13. Indian Railways in due to place its order for FY13 & FY14 at one go and this can provide a trigger for the stock to move up from current levels. Focus on high margin products (EMUs) will help maintain the operating margins in the 15% range. There was a fire at one of TWL's factories, however we do not see any major impact of that on the company's operations. We recommend Buy on TWL with potential upside of 15-20% from current levels.



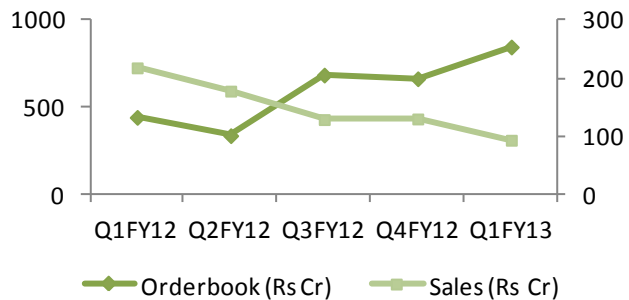
Titagarh Wagons Ltd

Investment Rationale

TWL gets majority (~82%) of its revenues from Wagon manufacturing. With Indian railways being one of the major clients of the company, TWL is highly dependent on them for getting incremental business. The Indian railways had set a target of acquiring 18000 wagons in FY12 which was up from 16500 wagons in FY11.

What went wrong....

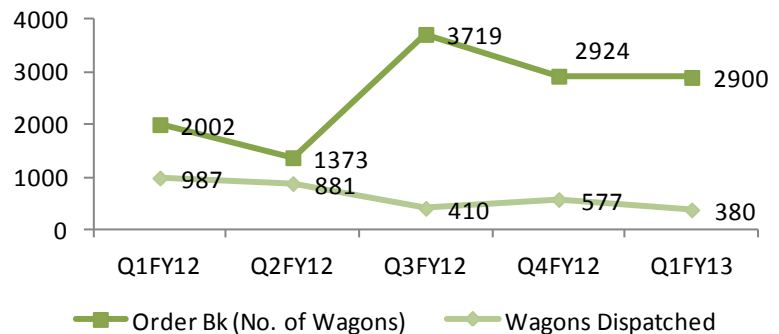
The Indian Railways usually give out orders in Q2 or Q3 of the financial year. However due to a tough economic scenario the orders got delayed. This led to a decline in order book for the company (order book fell from ~3000 wagons in Q4FY11 to 1200 wagons in Q2FY12). With a delay in orders from railways, increasing competition leading to falling realisations and a weak order book leading to poor earnings visibility the stock price corrected ~33% from a high of Rs 466 in Feb 2012.



Source: Company, Nirmal Bang Research

What happened in Q3FY12 & Q4FY12....

The long overdue order from Indian Railways finally got released and TWL was able to get a significant chunk of that order which boosted its order book to ~Rs 664 cr (~2924 wagons). TWL bagged 2699 wagons order from the 15700 wagons released by Indian Railways in FY12.



Source: Company, Nirmal Bang Research

Titagarh Wagons Ltd

Current Status.....

The current order book of the company stands at Rs 846 cr which includes ~2900 wagons. Despite a high order book since last 2 quarters, the dispatches during Q1FY13 were ~360 wagons due to delay in design finalization from Indian Railways. Realisation for Wagons has also come down by ~20%, YoY. This led to a fall of 57.3%, YoY in revenues. However, TWL was able to bag significant orders in Q1FY13 (~Rs 275 cr orders).

What we feel....

We feel the stock has priced in all the negatives and has limited downside risk from current levels. With increased orderbook we feel that the earnings visibility for the company has increased in the near to medium term. On the back of this we expect the company to post strong results in H2FY13. Expected orders and execution of EMU coaches will help margins to remain in the 15% range (as fall in realization for Wagons will be offset by a certain extent by EMU coaches as this is a high margin (18-19%) business). The Indian Railways is due for placing its order and TWL being a market leader, this should provide a trigger for the stock to move up.

Diversified product stream to support sales growth

TWL is also into manufacturing of Heavy Earth Equipment, Steel Castings and Other Special Projects. Over the recent quarters the revenues from these sectors have provided significant contribution to the topline and have been able to support the growth momentum.

Coaches: With rapid urbanization Coaches offer a good opportunity for the company as there is huge demand of Metro Railways/Mass Rapid Transport System. The company was able to receive a few orders in this segment in Q4FY12 & Q1FY13.

Steel Casting: The steel castings industry has potential owing to increasing demand for Wagons as castings are essential components of Wagon manufacturing.

Heavy Earth Moving Machinery: The need for infrastructure in the country will continue to provide growth opportunities of varying degrees to both established and new players in mining and earth moving machinery space.

Segment	FY09	FY10	FY11	FY12
Wagons & Coaches	650.52	498.04	669.44	826.52
% of total sales	89.4%	76.4%	81.4%	81.8%
HEMM	27.08	25.95	14.13	11.12
% of total sales	3.7%	4.0%	1.7%	1.1%
Steel Castings	46.69	112.96	120.45	138.43
% of total sales	6.4%	17.3%	14.6%	13.7%
Others	2.96	14.84	18.31	34.32
% of total sales	0.4%	2.3%	2.2%	3.4%
Total	727.25	651.79	822.33	1010.39
Less: Intersegment sales	41.39	97.59	97.92	119.46
Net Sales	685.86	554.2	724.41	890.93

Source: Company, Nirmal Bang Research

Titagarh Wagons Ltd

Strong Industry dynamics

For Indian railways to reach a target of 50% market share in freight movement, it will need additional wagons to be procured from the market. Railways have about 2.5 lakh wagons in its fleet out of which 4,500 wagons are being scrapped every year as a wagon has 25 years of shelf life. According to the “Indian Railways: Vision 2020” document by the Ministry of Railways, 2,89,136 new wagons need to be procured by 2020. This translates to more than 30,000 wagons to be procured annually from FY13 onwards.

	Short Term Target (FY11-FY12)	Long Term Target (FY13-FY20)	Total
Procurement of Wagons	33909	255227	289136

Source: Indian Railways:Vision 2020 document

Railways have launched initiatives to promote capital investment by private sector on wagons. Demand from private customers is also expected to increase.

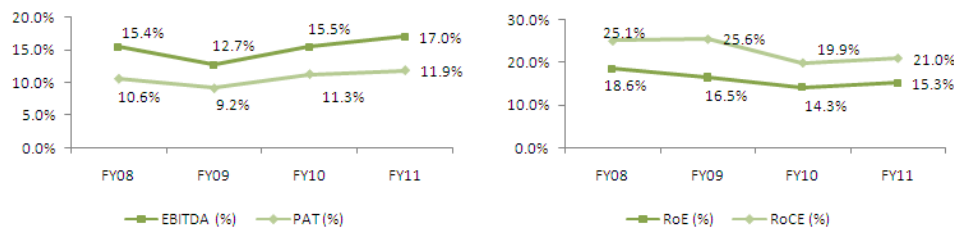
Turnaround in its subsidiaries (CIMMCO & AFR) complete – to aid growth in future

TWL became co-promoters for revival of Cimmco Ltd. in 2010. It successfully turned around the company in a period of 9 months. TWL currently holds 36% stake in Cimmco Ltd through Cimco Equity Holdings Pvt Ltd. Cimmco is in the business of Railway Wagons and Heavy Engineering Projects / Products. The company manufactures wagons, coaches, underframe 2240 Vehicular Units (VUs) and Industrial Machinery 14200 MT per annum. The Industrial Machinery segment caters to greenfield projects as well as replacement requirements in various Industrial segments viz. cement plant, fertiliser plant, chemical plant, steel plant etc. TWL plans to use Cimmco’s existing capabilities to build equipment for cement, coal and other plants and build a portfolio of products to target the Hydro Mechanical Division.

TWL’s first ever overseas acquisition Arbel Fauvet Rail (AFR) has a capacity to produce 2000 wagons per annum. TWL paid €1.92 million for the entire assets without any liability; book value of assets was € 60 million. AFR turned profitable in FY12 and had an order book of € 65 million. This is expected to aid TWL growth in FY13.

Strong Financials and low valuations make the company attractive

TWL has been a consistent performer in terms of its margins over the years. The management has maintained a guidance of ~15% EBITDA levels in the near term. The company has shown improvement in terms of its RoE and RoCE in FY12 and this is likely to continue going forward. As on FY12 the D:E stands at 0.2 which is relatively very low for a manufacturing company. This shields the company from a high interest rate scenario in terms of interest payments.



Source: Company, Nirmal Bang Research

Titagarh Wagons Ltd

Valuation & Outlook

At CMP, the stock is available at 11.5x on TTM basis. On the back of good order book in Q1FY13 we expect TWL to post good set of numbers in H2FY13. With the turnaround in its overseas subsidiary (AFR) complete, this will aid in growth of the company in FY13. Indian Railways in due place its order for FY13 & FY14 at one go and this can provide a trigger for the stock to move up from current levels. Focus on high margin products (EMUs) will help maintain the operating margins in the 15% range. There was a fire at one of TWL's factories, however we do not see any major impact of that on the company's operations. We recommend Buy on TWL with potential upside of 15-20% from current levels.

Company Profile

Titagarh Wagons Limited (TWL) is one of the leading private sector wagon manufacturers in India. Incorporated in 1997-98 TWL is primarily engaged in the business of manufacturing Railway Wagons & EMUs (Coaches), Bailey Bridges, Heavy Earth Moving and Mining Equipment, Steel and iron castings of moderate to complex configuration etc. As an Industry Partner to the Defence Research and Development Establishment, Ministry of Defence (DRDO), TWL also manufactures certain products for the Indian defence establishment, such as special wagons, shelters and other engineering equipments.

Besides being the leading manufacturer of Wagons in India as a Group, TWL has recently marked its presence in International markets by setting up Titagarh Wagons AFR, a subsidiary in France having acquired assets and business of manufacture of Rolling Stock.

Products & Services

1. Wagons – Product range covers Hopper Wagons, Covered Wagons, Open Top Wagons, Container Flat Wagons, Tank Wagon, Flat Wagon and Special Purpose Wagon.
2. Heavy Earth Moving & Mining Equipment Division – Product range includes Hydraulic Excavator, Crawler Mounted Crane. This division also provides product support in terms of spares and services.
3. Special Projects Division – This division includes making of Bailey Bridges, Other Modular steel bridges and specialize equipment for defence sector.
4. Foundry Division - The steel foundry located at the Uttarpara unit is on RSDO approved Grade-A foundry capable of producing of Liquid Metal 16800 MT annually and Fix Casting 10000 MT annually.

Risks & Concerns

The company's business is significantly dependent on Indian Railways. Any further slowdown by the Railways in giving out wagon orders cannot be ruled out completely. This has a direct impact on the company's earnings visibility.

Continued high interest scenario will lead to slowdown in capex from private as well as PSU companies. This will dry up order inflows coming in from companies other than Indian Railways.

Titagarh Wagons Ltd

Financials

Profitability (Rs. In Cr)					Financial Health (Rs. In Cr)				
	FY09	FY10	FY11	FY12		FY09	FY10	FY11	FY12
Revenues - Net	685.9	554.2	724.4	890.9	Share Capital	18.4	18.8	18.8	20.1
% change	23%	-19%	31%	23%	Reserves & Surplus	372.6	423.2	488.5	583.0
EBITDA	86.9	83.6	112.4	140.6	Net Worth	391.0	442.0	507.3	603.0
Interest	5.5	7.15	5.54	17.59	Total Loans	11.8	158.0	134.1	149.0
Depreciation	2.9	4.5	8.4	10.8	Deferred Tax Liabilities	0.7	0.0	0.0	2.3
Other Income	18.6	21.7	18.6	24.5	Minority Interest	0.0	0.6	19.4	28.9
Prior period Items	0.0	0.0	0.2	0.0	Total Liabilities	403.6	600.6	660.7	783.2
Exceptional	0.0	0.0	3.2	12.4	Goodwill	0.3	23.0	24.6	22.4
Extraordinary	0.0	0.0	1.9	0.0	Net Fixed Assets	63.8	83.6	142.4	170.3
PBT	97.1	93.7	111.7	124.3	CWIP	15.8	27.6	21.0	16.5
Tax	33.0	33.5	39.2	40.1	Investments	0.2	5.9	2.6	33.2
PAT	64.1	60.2	72.5	84.2	Inventories	143.2	228.0	248.5	240.7
Adj PAT	64.1	60.2	76.4	95.6	Debtors	56.6	96.7	143.8	98.1
Adj EPS	34.8	32.0	40.6	47.6	Cash	98.2	115.1	127.8	222.9
DPS	4.60	4.69	7.50	8.00	Loans & Advances	146.2	184.2	151.5	147.9
					Other Current Assets	3.9	6.3	8.3	40.6
					Current liability & Prov	124.8	172.1	214.1	211.6
					Net Current Assets	323.3	458.2	465.7	538.5
					Total Assets	403.6	600.6	660.7	783.2
					Cash Flow (Rs. In Cr)	FY09	FY10	FY11	FY12
					Operating Income	86.9	83.6	112.4	140.6
					Change in WC	-109.3	-117.9	5.1	22.4
					Taxes Paid	-33.0	-33.5	-39.2	-40.1
					Other Adj	1.6	31.6	14.1	15.1
					CF from Operation	-53.7	-36.2	92.3	138.0
					Capex	-38.3	-92.7	-61.1	-34.2
					Investment	0.1	-5.7	3.4	-30.6
					Total Investment	-38.2	-98.4	-57.7	-64.8
					Dividend Paid	-10.8	-11.0	-17.5	-18.1
					Share Capital	2.1	0.4	0.0	1.3
					Premium / Reserve	9.1	1.3	6.4	17.0
					Borrowing	-42.7	146.2	-23.9	14.9
					Interest	-5.5	-7.2	-5.5	-17.6
					Other Income	18.6	21.7	18.6	24.5
					Total Financing	-29.3	151.5	-22.0	21.9
					Net Chg. in Cash	-121.2	16.9	12.7	95.1
					Cash at beginning	219.4	98.2	115.1	127.8
					Cash at end	98.2	115.1	127.8	222.9

Quarterly (Rs. In Cr)				
	Sep-11	Dec-11	Mar-12	Jun-12
Revenue	178.47	129.00	130.06	93.47
EBITDA	26.68	21.68	26.08	14.37
Interest	-4.37	-2.80	4.51	4.97
Dep	1.38	1.38	1.49	1.70
Other Inc.	0.96	0.02	0.10	0.00
PBT	30.63	23.12	20.18	7.70
Tax	9.64	7.55	7.22	2.89
PAT	20.99	15.57	12.96	4.81
EPS (Rs.)	11.15	8.27	6.88	2.40

Operational Ratio				
	FY09	FY10	FY11	FY12
EBITDA margin (%)	12.7%	15.1%	15.5%	15.8%
PAT margin (%)	9.1%	10.5%	9.8%	9.2%
Price Earnings (x)	9.5	10.3	8.1	6.9
ROE (%)	16.4%	13.6%	14.3%	14.0%
ROCE (%)	25.4%	16.8%	18.6%	19.7%
Debt Equity Ratio (x)	0.0	0.4	0.3	0.2
EV / EBITDA (x)	6.64	8.46	5.96	4.20

Source: Company, Nirmal Bang Research

Titagarh Wagons Ltd

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