

Industrials
 Electrical Equipment
 Equity – India

Overweight (V)

Target price (INR)	190.00
Share price (INR)	140.40
Potential return (%)	35.3

Note: Potential return equals the percentage difference between the current share price and the target price

Performance	1M	3M	12M
Absolute (%)	-19.7	-29.8	-47.7
Relative [^] (%)	-14.0	-20.5	-40.2

Index[^] BOMBAY SE IDX

RIC AREV.BO
 Bloomberg ATD IN

Market cap (USDm) 617
 Market cap (INRm) 33,570

Enterprise value (INRm) 39,297
 Free float (%) 23

Note: (V) = volatile (please see disclosure appendix)

Alstom T&D India (ATD IN)

Upgrade to OW(V): Better outlook, cheaper valuation

- ▶ **Unlike peers, Alstom's order book strengthens; improving execution & positive commentary alleviates concerns**
- ▶ **Stable execution likely to drive margin stability; reducing debt should accelerate EPS growth to c20-25%**
- ▶ **Recent weakness (down c30% in 3mths) offers good entry point; upgrade rating to OW(V) from UW(V); increase TP to INR190 from INR180**

Order book strengthens, improving execution alleviates concerns: Alstom T&D reported a strong set of Q4 FY12 (Mar YE) earnings driven largely by improvement in delivery pick-ups and hence stronger execution. On top of it, the order inflow also saw significant improvement and almost doubled q-o-q in spite of very weak industrial and power generation activity in Q4. This strong performance is quite contrary to that reported by Alstom T&D's peers such as ABB and Siemens, and underlines the benefit of company's relatively better end market mix (i.e. higher gearing to structurally improving transmission capex) at this stage of the cycle. Hence, while Alstom's peers have seen their order book erode, Alstom's order book has increased to a record level of INR46.8bn and provides more visibility (c1.5x FY12 sales) than its peers. This strong backlog is likely to drive a double digit sales growth in FY13-14 even if execution rate remains similar and inflows grow only c10-12% in FY13-14.

Execution drives margin improvement as we'd hoped: A key reason behind Alstom's weak performance in Q3 FY12 was project & delivery pick-up delays, which not only reduced sales but also margins. Thankfully, we saw both improving in the fourth quarter, and management noted that customers were quite supportive in delivery pick-ups and even pricing seems to have bottomed in the recent bids. While we still see downside risk to the latter, we believe improvement in the former is a clear positive. We believe that a stable execution rate and the operational excellence program can help the company offset pricing pressure on new orders if it worsens. Hence, we expect margins to at least remain stable from here on, if not expand significantly. We currently forecast a marginal 30bps improvement during FY13-14. In addition, the P&L should benefit from reducing finance cost as net debt unwinds, thus accelerating EPS growth to c20-25%

Recent weakness offers good entry point, upgrade to OW(V) from UW(V): We have only modestly increased our FY13e EPS to INR7.1 (c5%) and TP to INR190 (c6%). However, the stock is down c30% in last three months, underperforming the sector by c12%. The stock now trades at c19.9x FY13 PE compared to its peers' average of c37.5x and in our opinion provides a good entry point, particularly as the outlook is improving. We believe that a healthier order book, better end market mix and unwinding debt will help Alstom outperform its peers in the medium term; hence we upgrade the stock to OW(V) from UW(V). Our TP is derived from our preferred EVA valuation methodology and implies a 12m forward target multiple of c22.3x PE on FY14e EPS of INR8.5.

18 May 2012

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Issuer of report: HSBC Securities and
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Disclaimer & Disclosures

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it

Financials & valuation

Financial statements

Year to	12/2011a	12/2012e	12/2013e	12/2014e
Profit & loss summary (INRm)				
Revenue	31,378	36,567	40,683	44,306
EBITDA	3,394	4,047	4,543	4,948
Depreciation & amortisation	-768	-780	-800	-825
Operating profit/EBIT	2,626	3,267	3,743	4,123
Net interest	-860	-742	-702	-580
PBT	1,800	2,561	3,082	3,587
HSBC PBT	1,800	2,561	3,082	3,587
Taxation	-609	-871	-1,048	-1,220
Net profit	1,336	1,690	2,034	2,367
HSBC net profit	1,336	1,690	2,034	2,367

Cash flow summary (INRm)

Year to	12/2011a	12/2012e	12/2013e	12/2014e
Cash flow from operations	3,152	949	1,675	2,172
Capex	-686	-700	-800	-900
Cash flow from investment	-686	-700	-800	-900
Dividends	-351	-454	-478	-526
Change in net debt	1,039	205	-396	-746
FCF equity	2,539	249	396	746

Balance sheet summary (INRm)

Year to	12/2011a	12/2012e	12/2013e	12/2014e
Intangible fixed assets	0	0	0	0
Tangible fixed assets	6,686	6,606	6,606	6,681
Current assets	30,662	35,441	39,813	44,058
Cash & others	3,139	3,437	4,206	5,280
Total assets	37,433	42,131	46,503	50,823
Operating liabilities	27,489	30,952	33,767	36,246
Gross debt	0	0	0	0
Net debt	5,606	5,811	5,414	4,668
Shareholders funds	8,764	10,000	11,556	13,398
Invested capital	15,550	16,991	18,150	19,246

Ratio, growth and per share analysis

Year to	12/2011a	12/2012e	12/2013e	12/2014e
Y-o-y % change				
Revenue	-21.9	16.5	11.3	8.9
EBITDA	-23.0	19.2	12.3	8.9
Operating profit	-24.4	24.4	14.6	10.1
PBT	-36.1	42.3	20.3	16.4
HSBC EPS	-28.4	26.5	20.3	16.4

Ratios (%)

Year to	12/2011a	12/2012e	12/2013e	12/2014e
Revenue/IC (x)	2.2	2.3	2.5	2.6
ROIC	11.2	12.7	13.6	14.1
ROE	16.0	16.9	17.6	17.7
ROA	3.3	4.2	4.6	4.9
EBITDA margin	10.8	11.0	11.1	11.1
Operating profit margin	8.3	8.9	9.1	9.2
EBITDA/net interest (x)	3.9	5.5	6.5	8.5
Net debt/equity	64.0	58.1	46.9	34.8
Net debt/EBITDA (x)	1.7	1.4	1.2	0.9
CF from operations/net debt	58.0	16.3	30.9	46.5

Per share data (INR)

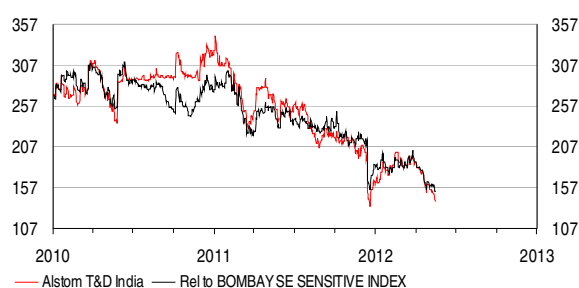
Year to	12/2011a	12/2012e	12/2013e	12/2014e
EPS reported (fully diluted)	5.59	7.07	8.51	9.90
HSBC EPS (fully diluted)	5.59	7.07	8.51	9.90
DPS	1.40	1.54	1.68	1.82
Book value	36.65	41.82	48.33	56.03

Valuation data

Year to	12/2011a	12/2012e	12/2013e	12/2014e
EV/sales	1.2	1.1	1.0	0.9
EV/EBITDA	11.5	9.7	8.6	7.7
EV/IC	2.5	2.3	2.1	2.0
PE*	25.1	19.9	16.5	14.2
P/Book value	3.8	3.4	2.9	2.5
FCF yield (%)	1.4	1.4	1.6	1.8
Dividend yield (%)	1.0	-0.6	1.2	2.2

Note: * = Based on HSBC EPS (fully diluted)

Price relative



Source: HSBC

Note: price at close of 16 May 2012

Key takeaways from the earnings call

Q4 Performance

- ▶ Almost zero activity in the Power Gen and Industrials segment during Q4 FY12 (Mar YE); transmission markets continue to do well
- ▶ Highest ever proportion of 765kV orders in the quarterly order inflow; expect future orders to be increasingly skewed towards extra high voltage (765kV AC and 800kV DC)
- ▶ Improvement in delivery pick-ups by customers drove execution; collections also improved in the quarter driving working capital improvement
- ▶ Pricing seems to have bottomed but limited visibility on any sort of correction; the impact of increasing competition from Chinese is yet to be seen
- ▶ Exports were limited as opportunities remain scarce

Outlook

- ▶ Power Grid capex is likely to drive sector orders; expect ordering activity to be more linear in the 12th plan compared to the backend loaded nature of ordering in previous plans
- ▶ Several SEBs scaling up the substation voltage levels to 200/400kV and some to even 765kV, which is expected to drive demand for Alstom's products
- ▶ Power Grid is likely to work along with SEBs (through JVs or MoUs) to strengthen sub-transmission network (i.e. link between Power Grid and DisComs) which will drive state orders in future
- ▶ Alstom is currently L1 on Champa Kurukshetra 800kV HVDC link, which was bid by Power Grid and being funded by ADB. The final decision is likely to come by Jun-July. The order will be shared with the parent but no details were given
- ▶ Have opened the bid for sale of a couple of land parcels, which may complete over the next quarter; didn't provide the potential sale proceeds

Others

- ▶ Order book split remains 50:50 in terms of systems vs. products orders; Power Grid now contributing more than 20% of the order inflows
- ▶ The order book remains well diversified and top 10 customers contribute only c40% while top 20 customers contribute c80%
- ▶ Capex target for FY13 is around INR600-700m, but this may go up in case order inflows are strong
- ▶ Trying to realign production to account for potential delays in customers' project. This is likely to help in optimizing inventories and prioritize/stabilize execution
- ▶ There was a general understanding between Schneider and Alstom at the time of Areva's execution that Schneider would focus on sub-66kV market while Alstom would focus on 66kV and above; however there was no non-compete agreement between the two firms

Q4 FY12 results summary

Below is the summary of the Q4 FY12 (Mar YE) results before the reclassification of P&L items as per the revised schedule VI of Companies Act.

Alstom T&D - Dec YE (INR m)

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Mar-12e	BB Cons Q1CY12e	Act vs HSBC	Act vs Cons
Net Sales	9,914	6,633	7,565	6,789	10,128	9,034	9,105	12.1%	11.2%
EBITDA	837	580	888	570	1,029	885	974	16.2%	5.6%
Profit before tax	431	271	588	278	663	555	673	19.4%	-1.5%
Net Income	288	180	400	302	454	372	453	22.1%	0.3%
EPS	1.2	0.8	1.7	1.3	1.9	1.6	1.9	22.1%	0.0%

Margins & Trend	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Mar-12e	BB Cons Q1CY12e	Act vs HSBC	Act vs Cons
EBITDA mgn	8.4%	8.7%	11.7%	8.4%	10.2%	9.8%	10.7%	36	(54)
PBT mgn	4.3%	4.1%	7.8%	4.1%	6.5%	6.1%	7.4%	40	(85)
NI mgn	2.9%	2.7%	5.3%	4.4%	4.5%	4.1%	5.0%	37	(49)

Source: Source: Company Data, HSBC, Bloomberg

The table below is the summary of Q4 FY12 results after the reclassification of P&L items as per the revised schedule VI of Companies Act.

Alstom T&D - Dec YE (INR m)

	Mar-11	Dec-11	Mar-12
Net Sales	9,914	6,789	10,128
EBITDA	928	638	1,175
Profit before tax	431	278	663
Net Income	288	302	454
EPS	1.2	1.3	1.9

Margins & Trend	Mar-11	Dec-11	Mar-12
EBITDA mgn	9.4%	9.4%	11.6%
PBT mgn	4.3%	4.1%	6.5%
NI mgn	2.9%	4.4%	4.5%

Source: Source: Company Data, HSBC

FY13-15e earnings forecast summary

Below is the summary of our FY13-15 (Mar YE) earnings forecasts. Earlier we had calendar year forecasts for CY12 and CY13 (in accordance with company's earlier reporting period) and hence our new estimates are not exactly comparable, more so as the company has reclassified P&L line items as per the revised schedule VI of Companies Act which has rendered operating margins incomparable. However, on a proportionate basis (i.e. using weighted average of CY12 and CY13) we are increasing our FY13e EPS by c5%.

Alstom T&D India - Dec YE (INR m)

	FY12	New Forecasts			Old Forecasts	
		FY13e	FY14e	FY15e	CY12e	CY13e
Order Backlog	43,356	52,621	58,544	63,758	50,189	58,397
Total Sales	31,560	36,786	40,928	44,572	33,459	38,127
Clean EBITDA	3,394	4,047	4,543	4,948	3,547	4,423
Reported EBITDA	3,394	4,047	4,543	4,948	3,547	4,423
Clean EBIT	2,626	3,267	3,743	4,123	2,722	3,573
Reported EBIT	2,626	3,267	3,743	4,123	2,722	3,573
Other Income	34	37	41	44	67	76
Net Financials	(860)	(742)	(702)	(580)	(550)	(550)
Profit before tax	1,800	2,561	3,082	3,587	2,239	3,099
Income tax	(609)	(871)	(1,048)	(1,220)	(761)	(1,054)
Extraordinary items	145	0	0	0	0	0
Minorities	0	0	0	0	0	0
Reported Net Income	1,336	1,690	2,034	2,367	1,477	2,045
Reported EPS	5.6	7.1	8.5	9.9	6.2	8.6

	CY11	New Forecasts			Old Forecasts	
		FY13e	FY14e	FY15e	CY12e	CY13e
Sales visibility (yrs)	1.4	1.4	1.4	1.4	1.5	1.5
Sales growth		17%	11%	9%	7%	14%
Clean EBITDA mgn	10.8%	11.0%	11.1%	11.1%	10.6%	11.6%
Reported EBITDA mgn	10.8%	11.0%	11.1%	11.1%	10.6%	11.6%
Clean EBIT mgn	8.3%	8.9%	9.1%	9.2%	8.1%	9.4%
Reported EBIT mgn	8.3%	8.9%	9.1%	9.2%	8.1%	9.4%
PBT mgn	5.7%	7.0%	7.5%	8.0%	6.7%	8.1%
Reported NI mgn	4.2%	4.6%	5.0%	5.3%	4.4%	5.4%

Source: Source: Company Data, HSBC

Valuation and risks

Driven largely by a modest increase in our FY13e EPS to INR7.1, we are marginally increasing our target price to INR190 from INR180. Our target price is derived from our preferred EVA valuation methodology and is based on target sales growth of c9%, target operating return of c9% and WACC of c12%. Our target price implies that 12 months from now, the stock should be trading at a 12 month forward PE of c22.3x on FY14e EPS of INR8.5.

We note that while we have only modestly increased our estimates and target price, the stock is down c30% in last three months, underperforming the sector by c12%. The stock now trades at c19.9x FY13 PE compared to its peers' average of c37.5x and in our opinion provides a good entry points, particularly as the outlook is improving. We believe that a healthier order book, better end market mix and unwinding debt will help Alstom outperform its peers in the medium term.

Under our research model, for stocks with a volatility indicator, the Neutral band is 10ppts above and below the hurdle rate for India stocks of 11%. Our target price implies a potential return of 35.3%, which is above the Neutral band; therefore, we upgrade our recommendation on the stock to Overweight (V) from Underweight (V). Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated. Downside risks include: excessive pricing pressure; a significant slowdown in transmission orders; and potential delays in delivery pickups.

Disclosure appendix

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For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The price target for a stock represents the value the analyst expects the stock to reach over our performance horizon. The performance horizon is 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, must exceed the required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock must be expected to underperform its required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands are classified as Neutral.

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As of 17 May 2012, the distribution of all ratings published is as follows:

Overweight (Buy)	48%	(26% of these provided with Investment Banking Services)
Neutral (Hold)	38%	(25% of these provided with Investment Banking Services)
Underweight (Sell)	14%	(16% of these provided with Investment Banking Services)

Share price and rating changes for long-term investment opportunities

Alstom T&D India (ALST.BO) Share Price performance INR Vs HSBC rating history



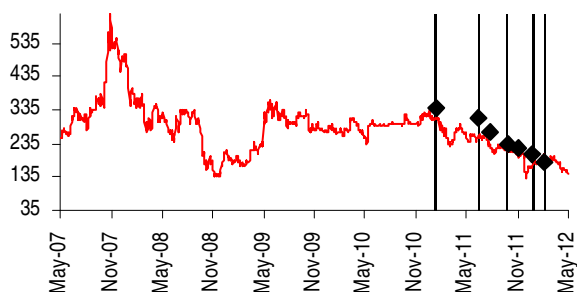
Source: HSBC

Recommendation & price target history

From	To	Date
N/A	Neutral	25 January 2011
Neutral	Overweight	29 June 2011
Overweight	Neutral	11 October 2011
Neutral	Overweight	11 January 2012
Overweight	Underweight (V)	24 February 2012
Target Price	Value	Date
Price 1	340.00	25 January 2011
Price 2	310.00	29 June 2011
Price 3	270.00	12 August 2011
Price 4	235.00	11 October 2011
Price 5	220.00	17 November 2011
Price 6	205.00	11 January 2012
Price 7	180.00	24 February 2012

Source: HSBC

Alstom T&D India (AREV.BO) Share Price performance INR Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
N/A	Neutral	25 January 2011
Neutral	Overweight	29 June 2011
Overweight	Neutral	11 October 2011
Neutral	Overweight	11 January 2012
Overweight	Underweight (V)	24 February 2012
Target Price	Value	Date
Price 1	340.00	25 January 2011
Price 2	310.00	29 June 2011
Price 3	270.00	12 August 2011
Price 4	235.00	11 October 2011
Price 5	220.00	17 November 2011
Price 6	205.00	11 January 2012
Price 7	180.00	24 February 2012

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
ALSTOM T&D INDIA	AREV.BO	140.40	16-May-2012	2,5,6,7

Source: HSBC

- 1 HSBC* has managed or co-managed a public offering of securities for this company within the past 12 months.
- 2 HSBC expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3 At the time of publication of this report, HSBC Securities (USA) Inc. is a Market Maker in securities issued by this company.
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- 1 This report is dated as at 18 May 2012.
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