

May 17, 2011

Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs 144	Rs 141
EPS change FY11E/12E (%)	NA
Target Price change (%)	-42
Nifty	5,439
Sensex	18,137

Price Performance

(%)	1M	3M	6M	12M
Absolute	(4)	(7)	(36)	(46)
Rel. to Nifty	2	(12)	(30)	(49)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Transformer
Bloomberg	INDT@IN
Equity Capital (Rs mn)	106
Face Value(Rs)	10
No of shares o/s (mn)	11
52 Week H/L	293/138
Market Cap (Rs bn/USD mn)	2/45
Daily Avg Volume (No of sh)	12950
Daily Avg Turnover (US\$m)	0.0

Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	74.4	74.4	74.4
FII/NRI	0.7	0.7	0.7
Institutions	1.0	1.0	1.0
Private Corp	4.3	5.0	5.8
Public	19.7	19.0	18.1

Source: Capitaline

Amit Golchha

amit.golchha@emkayglobal.com
+91 22 6624 2408

Nihag Shah, CFA

nihag.shah@emkayglobal.com
+91 22 6624 2486

- Q4FY11 results below estimate, revenues of Rs224mn, (est. Rs677mn) EBITDA loss of Rs70mn (est. loss of Rs11mn) and net loss of Rs76mn (est. loss of Rs9mn) - volumes key culprit
- Expect industry volumes to grow by minimum 15% in FY12E but not sure on Indotech's volume growth - more number of players looking for that pie
- FY11 EBITDA margins dip led by fixed costs (36% of revenues vs 28% in FY10). Thus, scope of operating leverage (break even at 51% utilizations) but depends on volume growth
- Assuming 49/61% capacity utilizations in FY12E/13E & expect Indotech to get into green by H212E. Continuing losses to remain overhang; maintain Hold with PT of Rs141/share

Continues to report losses; volumes is the problem

Indotech's performance continues to decline even on QoQ basis (Q4FY11 net loss of Rs76mn versus Q3FY11 net loss of Rs67mn). It reported 42% yoy decline in revenues to Rs224mn (our expectations Rs677mn), looks like volumes declined significantly. Even at the EBITDA level, losses continue to increase (Rs70mn vs Rs57mn in Q311) - due to low capacity utilizations. In FY11, though ITL's revenues were up 15% yoy, but EBITDA loss increased to Rs217mn (Rs94mn in FY10). Net loss stood at Rs227mn as compared to Rs81mn in FY10.

Scope of operating leverage there but depends on volume growth

In FY11 the company's fixed costs increased from 36% of revenues vs. 28% in FY10 mainly due to lower utilizations - indicating scope for operating leverage. We believe that Indotech is likely to break even (EBITDA level) at 51% capacity utilization level. Though, we expect transformers industry volume to grow by minimum 15% in FY12E but ambiguity persists on Indotech's volume growth - more players chasing the pie. Given ambiguity, we now assume breakeven (EBITDA level) in H2FY12. We cut our earnings from Rs14/Share to loss of Rs1.5/Share in FY12E. We also introduce our FY13E estimate of Rs10.7/share. Capacity utilization (our est. of 49%/61% in FY12E/13E) remains a key monitorable.

Continuing losses to remain overhang; Maintain Hold

We believe that the stock will continue to languish until the company reports pick up in volumes and positive EBITDA. Though the possibility of outsourcing for parent (GE-Prolec is likely to make India, a supply base for Middle East, Africa and rest of Asia) exists but still no clarity on potential and timelines. Thus, in near term the momentum has to come from domestic market. At CMP of Rs144/share, the stock is trading at 1.2x FY13E book of Rs118/share. We maintain 'Hold' rating on the stock with revises price target of Rs141/share.

Financial Snapshot

YE-	Rs Mn									
	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
FY10	981	(94)	(9.6)	(81)	(7.6)	(119.6)	(5.7)	(18.9)	(13.8)	1.1
FY11P	1,124	(217)	(19.3)	(227)	(21.4)	NA	(18.0)	(6.7)	(6.9)	1.3
FY12E	1,822	(4)	(0.2)	(15)	(1.5)	NA	(1.4)	(98.9)	(385.4)	1.3
FY13E	2,391	190	8.0	114	10.7	NA	9.6	13.4	8.7	1.2

Quarterly Results

Rs mn	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	FY10	FY11	YoY (%)
Revenue	386	265	303	332	224	-42.1	-32.7	993	1,124	13.3
Expenditure	-487	-296	-363	-389	-294	-39.7	-24.5	-1,080	-1,342	24.2
as % of sales	-126.3%	-111.5%	-119.8%	-117.1%	-131.5%			-108.9%	-119.4%	
Consumption of RM	-349	-205	-256	-284	-191	-45.4	-32.7	-807	-935	15.8
as % of sales	-90.5%	-77.2%	-84.3%	-85.3%	-85.4%			-81.4%	-83.2%	
Power and Fuel	0	0	0	0	0			0	0	
as % of sales	0.0%	0.0%	0.0%	0.0%	0.0%			0.0%	0.0%	
Other Mfg Expenses	0	0	0	0	0			0	0	
as % of sales	0	0	0	0	0			0	0	
Employee Cost	-51	-36	-43	-40	-47	-9.1	17.6	-109	-166	52.3
as % of sales	-13.3%	-13.6%	-14.3%	-11.9%	-20.9%			-11.0%	-14.7%	
Other expenditure	-87	-55	-64	-66	-56	-35.1	-14.6	-164	-241	46.9
as % of sales	-22.4%	-20.8%	-21.2%	-19.8%	-25.1%			-16.5%	-21.5%	
EBITDA	-101	-31	-60	-57	-70	-30.7	23.8	-88	-218	147.6
Depreciation	-10	-11	-10	-10	-9	-9.2	-9.2	-39	-39	1.8
EBIT	-111	-42	-70	-67	-79	-28.8	18.9	-127	-257	103.0
Other Income	0	0	0	0	0			0	0	#DIV/0!
Interest	7	3	11	0	2	-65.7	-2400.0	13	16	24.2
PBT	-105	-39	-59	-67	-77	-26.4	15.3	-114	-241	111.9
Total Tax	10	12	1	0	0	-100.0		31	13	-59.8
Adjusted PAT	-95	-27	-58	-67	-77	-18.6	15.3	-83	-229	176.4
Extra ordinary items	0	0	0	0	2			0	2	
Reported PAT	-95	-27	-58	-67	-75	-20.2	13.0	-83	-227	174.6
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			0	0	
PAT after MI	-95	-27	-58	-67	-75	-20.2	13.0	-83	-227	174.6
Reported EPS	-8.9	-2.5	-5.5	-6.3	-7.2	-18.6	15.3	-7.8	-21.4	174.6

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	-26.3	-11.5	-19.8	-17.1	-31.5	-518	-1436	-8.9	-19.4	-1050
EBIT	-28.8	-15.7	-23.0	-20.0	-35.4	-663	-1539	-12.8	-22.9	-1011
EBT	-27.1	-14.6	-19.4	-20.1	-33.7	-666	-1366	-11.5	-21.4	-998
PAT	-24.5	-10.1	-19.2	-20.1	-34.4	-993	-1433	-8.3	-20.2	-1187
Effective Tax rate	9.6	31.0	0.9	0.0	0.0	-957	0	27.3	5.2	-2214

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Net Sales	981	1,124	1,822	2,391
<i>Growth (%)</i>	-52.6	14.6	62.1	31.3
Expenditure	1,074	1,341	1,826	2,201
Raw Materials	801	935	1,511	1,907
Construction Exp	140	0	0	0
Employee Cost	109	166	216	249
Other Exp	24	241	100	45
EBITDA	-94	-217	-4	190
<i>Growth (%)</i>	-115.1	131.5	-98.1	-4,679.2
EBITDA margin (%)	-9.6	-19.3	-0.2	8.0
Depreciation	39	39	38	36
EBIT	-133	-256	-42	154
EBIT margin (%)	-13.5	-22.8	-2.3	6.4
Other Income	29	24	27	27
Interest expenses	12	8	8	8
PBT	-116	-240	-23	173
Tax	-35	-13	-8	59
<i>Effective tax rate (%)</i>	30.1	5.4	34.0	34.0
Adjusted PAT	-81	-227	-15	114
(Profit)/loss from JV's/Ass/MI	0	0	0	0
Adjusted PAT after MI	-81	-227	-15	114
<i>Growth (%)</i>	-119.6	180.7	-93.2	-837.9
Net Margin (%)	-8.3	-20.2	-0.8	4.8
E/O items	0	0	0	0
Reported PAT	-81	-227	-15	114
<i>Growth (%)</i>	-120.7	180.7	-93.2	-837.9

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
PBT (Ex-Other income)	-145	-264	-50	146
Depreciation	39	39	38	36
Interest Provided	12	8	8	8
Other Non-Cash items	0	0	0	0
Chg in working cap	461	0	-131	-215
Tax paid	-559	13	12	-55
Operating Cashflow	-192	-204	-123	-80
Capital expenditure	-10	-10	0	0
Free Cash Flow	-202	-214	-123	-80
Other income	29	24	27	27
Investments	0	0	0	0
Investing Cashflow	19	14	27	27
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	-55	0	0	0
Interest Paid	-12	-8	-8	-8
Dividend paid (incl tax)	0	0	0	0
Income from investments	-27	0	0	0
Others	0	0	0	0
Financing Cashflow	-95	-8	-8	-8
Net chg in cash	-268	-198	-104	-61
Opening cash position	595	327	129	24
Closing cash position	327	129	24	-37

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	106	106	106	106
Reserves & surplus	1,274	1,046	1,031	1,145
Net worth	1,380	1,152	1,137	1,251
Minority Interest	0	0	0	0
Secured Loans	96	96	96	96
Unsecured Loans	0	0	0	0
Loan Funds	96	96	96	96
Net deferred tax liability	11	11	11	11
Total Liabilities	1,487	1,260	1,244	1,358
Gross Block	962	972	972	972
Less: Depreciation	168	207	246	282
Net block	794	765	727	690
Capital work in progress	0	0	0	0
Investment	0	0	0	0
Current Assets	960	762	1,064	1,328
Inventories	218	218	210	275
Sundry debtors	281	281	456	598
Cash & bank balance	327	129	24	-37
Loans & advances	134	134	374	491
Other current assets	0	0	0	0
Current lia & Prov	267	267	546	660
Current liabilities	260	260	535	645
Provisions	7	7	11	14
Net current assets	693	495	518	668
Misc. exp & Def. Assets	0	0	0	0
Total Assets	1,487	1,260	1,244	1,358

Key Ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
Profitability (%)				
EBITDA Margin	-9.6	-19.3	-0.2	8.0
Net Margin	-8.3	-20.2	-0.8	4.8
ROCE	-8.5	-18.7	-3.4	11.8
ROE	-5.7	-18.0	-1.4	9.6
RoIC	-12.0	-22.4	-3.6	11.8
Per Share Data (Rs)				
EPS	-7.6	-21.4	-1.5	10.7
CEPS	-4.0	-17.7	2.1	14.2
BVPS	129.9	108.5	107.0	117.8
DPS	0.0	0.0	0.0	0.0
Valuations (x)				
PER	-18.9	-6.7	-98.9	13.4
P/CEPS	-36.2	-8.1	67.0	10.2
P/BV	1.1	1.3	1.3	1.2
EV / Sales	1.3	1.3	0.9	0.7
EV / EBITDA	-13.8	-6.9	-385.4	8.7
Dividend Yield (%)	0.0	0.0	0.0	0.0
Gearing Ratio (x)				
Net Debt/ Equity	-0.2	0.0	0.1	0.1
Net Debt/EBIDTA	2.5	0.1	-17.3	0.7
Working Cap Cycle (days)	136	119	99	108

Recommendation History: Indotech Transformers – INDT IN

Date	Reports	Reco	CMP	Target
05/08/2010	Indotech Transformers Q1FY11 Result Update	Hold	255	245
27/05/2010	Indotech Transformers Q4FY10 Result Update	Hold	250	245
30/10/2009	Indotech Transformers Q2FY10 Result Update	Reduce	266	277
20/05/2009	Indotech Transformers Q4FY09 Result Update	Sell	264	204

Recent Research Reports

Date	Reports	Reco	CMP	Target
17/05/2011	Jaiprakash Power Q4FY11 Result Update	Hold	47	47
13/05/2011	Bharat Bijlee Q4FY11 Result Update	Accumulate	998	1,110
12/05/2011	NTPC Q4FY11 Concall Update	Buy	177	204
10/05/2011	NTPC Q4FY11 Result Update	Accumulate	180	204

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

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