

January 30, 2010

HOLD

MEDIUM RISK

PRICE Rs.389

TARGET Rs.415

POWER ANCILLARY

EARLIER RECO

BUY

Price	Rs.336
Target	Rs.415
Date	Nov 23, 2009

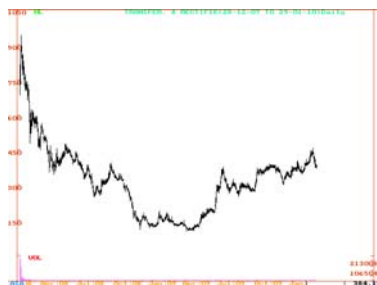
SHARE HOLDING (%)

Promoters	76.8
FII	2.5
FI / MF	4.6
Body Corporates	2.2
Public & Others	13.9

STOCK DATA

Reuters Code	TRNF.BO	
Bloomberg Code	TRIL@IN	
BSE Code	532928	
NSE Symbol	TRIL	
Market Capitalization*	Rs. 5,027 mn US\$ 108 mn	
Shares Outstanding*	12.9 mn	
52 Weeks (H/L)	Rs. 459/ 102	
Avg. Daily Volume (6m)	7,834 Shares	
Price Performance (%)		
1 M	2M	3M
1	19	33
200 Days EMA: Rs. 330		

*On fully diluted equity shares

Part of  Bonanza

ANALYST

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Transformers & Rectifiers Ltd. (TRIL) has registered a strong growth in its top line as well as bottom line for the period ended 31st Dec 2009. We attended the concall of TRIL. Some of the key points pertaining to results and discussed in the concall are summarized below:

Key Highlights of Q3FY10 & 9MFY10 Results

- During Q3FY10, TRIL posted net sales of Rs.1314.9 mn, registering a growth of 35.8% YoY. This was on account of higher growth of 76% YoY in sales volumes to 2847 MVA. However, the average realization has dropped by 14% YoY to 0.42 mn per MVA on account of stiff price competition and execution of orders for higher KV class transformers.
- Its EBITDA grew by 27.5% YoY to Rs. 179 mn and EBITDA margins decreased by 89 bps YoY to 13.6%. Its Interest cost decreased to Rs. 7.2 mn and depreciation increased by 118% YoY to 13.1 mn on account of commissioning of new facility at Moraiya. Its PBT (including other income) grew by 15.5% YoY to Rs. 159.2 mn. APAT stood at Rs. 111.7mn registering a growth of 20.5% YoY.
- During the 9MFY10, TRIL's sales remained flat at Rs.3023 mn, its EBITDA remained flat at Rs.446.8 mn, whereas its EBITDA margins de-grew by 36 bps to 14.8%. Its APAT remained flat at Rs.295.6 mn.

Segmental Analysis

- TRIL's sales has shifted significantly towards Power & Distribution transformers, which contributed 92% to the sales during Q3FY10. 8% of the sales executed during the quarter were contributed by Industrial segment. The Company has not seen a pickup in orders from the industrial segment which still remains a cause of concern. Also, 78% of the sales were contributed by state utilities.

Order book strong but Company to miss the targeted growth.

- As of 31st Dec 2009, TRIL has an order book of Rs.3731.9 mn (9095 MVA) which has remained flat on a YoY basis. It has received another order for Rs.450 mn after 1st Jan 2010 and expects to book orders of about Rs. 1400 mn by March 2010.

The Company has booked sales for 6168 MVA for 9MFY10 and expects to book total sales of about 10,500 MVA for FY10, which means it needs to execute 4332 MVA for the next quarter, Q4FY10. Based on its order book and execution cycle, although the company would be able to achieve its sales in terms of MVA, its targeted sales of about Rs. 5000 mn would be missed due to lower price realization.

Order book break up

Type of Transformer	31st Dec 2009	Transformer Class	31st Dec 2009
Power	3179.8	<= 36 KV	574.3
Distribution	180.6	>36 kV & <=72.5 KV	92.1
Furnace & Rectifier	217.3	>72.5 KV & <= 145 KV	1189.4
		>145 KV & <= 245 KV	1836.1
Export	154.2	>245 KV	40

Source: Company

OUTLOOK & VALUATION

TRIL has a strong order book position and a decent order pipeline, which gives a good business visibility for next 3 to 4 quarters. The Company has witnessed increasing competition with new entrants in 220 KV class transformers and expects the pricing to remain under pressure for at least next few quarters. We had already factored this scenario into our expectations for FY10 & FY11. However, 9MFY10 results have not been in line with our estimates and thus we are reducing our estimates for FY10 but maintaining our estimates for FY11. We have reduced our revenue estimates for FY10 from Rs. 4945 mn to Rs. 4515 mn on back of lower price realizations. We have maintained our EBITDA margins of 15% for full year and reduced our APAT estimates to Rs. 431 mn from Rs.484 mn, in FY10. At the CMP of Rs.389, the stock is trading at 11.7 x its FY10E & 9.4x its FY11E EPS of Rs. 33.4 & Rs.41.5, respectively. We have valued TRIL at Rs.415, i.e. 10x its FY11E Earnings. We change our rating to HOLD on the stock with a target price of Rs.415.

KEY FINANCIALS

Y/E	Revenue	APAT	AEPS	AEPS	P/E	ROCE	ROE	P/BV
Mar.	(Rs mn)	(Rs mn)	(Rs)	(% Ch.)	(x)	(%)	(%)	(x)
FY08	3019	331	25.6	(2)	15.2	69	27	2.4
FY09	4251	441	34.1	33	11.4	31	20	2.1
FY10E	4515	431	33.4	(2)	11.7	17	16	1.8
FY11E	5647	536	41.5	24	9.4	18	18	1.5

Please refer to important disclosures at the end of the reportFor private Circulation Only.

QUARTERLY STATEMENT

Rs.mn

Y/E March	9MFY09	9MFY10	Q3FY09	Q3FY10
Net sales	2914	3023	968	1315
Growth %	-	4	41	36
Total Expense	2473	2576	828	1136
EBITDA	441	447	140	179
Growth %	-	1	12	27
Margin %	15	15	14	14
Interest	53	28	20	7
Depreciation	18	31	6	13
Other Income	90	45	24	1
PBT	461	433	138	159
Margin %	16	14	14	12
Tax	148	137	45	48
Rate %	32	32	33	30
APAT	313	296	93	112
Margin %	11	10	10	9
Extraordinary items	-	-	-	-
RPAT	313	296	93	112
Margin %	11	10	10	9

PROFIT & LOSS STATEMENT

Rs.mn

Y/E March	FY08	FY09	FY10E	FY11E
Net sales	3019	4251	4515	5647
Raw Material	2105	3091	3242	4122
Employee Cost	67	87	104	120
Other Expenses	295	426	490	558
EBITDA	552	647	679	847
Interest	77	69	55	60
Depreciation	20	25	40	55
Other Income	58	104	55	63
PBT	513	656	639	794
Tax	182	215	208	259
APAT	331	441	431	536
Extraordinary items	-	-	-	-
RPAT	331	441	431	536

BALANCE SHEET STATEMENT

Rs.mn

As on 31 st March	FY08	FY09	FY10E	FY11E
Equity Share Capital	129	129	129	129
Reserves and Surplus	1936	2317	2682	3152
Net worth	2065	2446	2811	3281
Secured Loans	316	551	562	573
Unsecured Loans	27	-	-	-
Deferred tax liability	-	6	6	7
Capital Employed	2409	3003	3380	3861
Net Block	200	393	853	898
Goodwill	12	12	12	12
Cap. WIP	173	385	50	50
Investments	777	782	900	1120
Inventories	614	547	577	734
Sundry Debtors	1244	1531	1707	2011
Cash & Bank Bal	162	151	230	156
Loans & Advances	83	113	90	113
Curr Liab & Prov	844	911	1036	1225
Net Current Assets	1259	1431	1568	1789
Misc Expenditure	0	0	(4)	(8)
Total Assets	2409	3003	3380	3861

KEY RATIOS STATEMENT

Y/E March	FY08	FY09	FY10E	FY11E
Growth (%)				
Net Sales	39	41	6	25
APAT	79	33	(2)	24
EBITDA	64	17	5	25
Profitability (%)				
EBITDA Margin	18	15	15	15
Adj. PAT Margin	11	10	10	9
ROCE	69	31	17	18
ROE	27	20	16	18
Per Share Data (Rs.)				
Adj. EPS	26	34	33	41
Adj. CEPS	27	37	36	46
BVPS	160	189	218	254
Valuations (X)				
PER	15	11	12	9
PEG	(238)	12	(170)	16
P/BV	2	2	2	2
EV / EBITDA	8	7	7	5
EV / Net sales	2	1	1	1
Dividend Yield (%)	1	1	1	1
Turnover Days				
Debtors days	117	119	131	120
Creditors days	134	94	99	90
Gearing Ratios				
Total Debt to Equity	-	-	-	-

Source : Company, Sushil Finance Research Estimates

Rating Scale

This is a guide to the rating system used by our Equity Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	High predictability / Low volatility
Medium Risk	Moderate predictability / volatility
High Risk	Low predictability / High volatility

Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	Over 15 %	Over 20%	Over 25%
Accumulate	10 % to 15 %	15% to 20%	20% to 25%
Hold	0% to 10 %	0% to 15%	0% to 20%
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

Please Note

Recommendations with "Neutral" Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).

** Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.

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