

Transformer and Rectifier (India) Ltd: Q2FY17 Result Update

Stellar performance
CMP: INR 370
Target: INR 435
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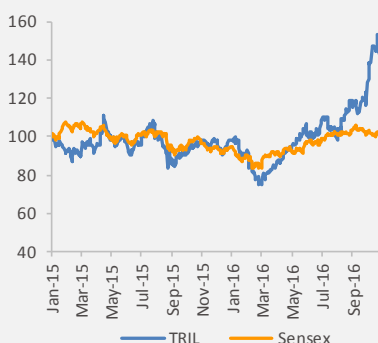
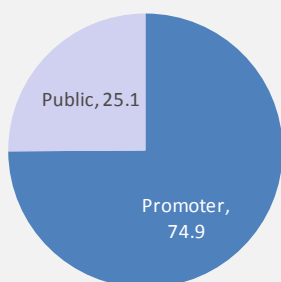
Bloomberg: TRIL:IN

52-week range (INR): 388 / 170

Share in issue (Cr): 1.3

M cap (INR cr): 491

 Avg. Daily Vol. BSE/NSE
 :('000): 10.6/40.4

SHARE HOLDING PATTERN (%)

 Date: 10th November, 2016

Transformers & Rectifiers India Ltd (TRIL) reported Q2FY17 revenue of INR 263 crore (+88.3%, YoY) is above to our expectations of INR 179 crore backed by strong execution of third party order (Vijay Electrical) and strong order inflow from State Transcom & PGCIL. Reported EBITDA of INR 27 crore (+297%, YoY) primarily led by fall in raw material prices and other costs. EBITDA margins at 10.3% improved by 520 bps on YoY as operating leverage plays a role with the increase in volume. Further, we expect high margins in higher kV (220kV-765kV) segment new orders due to fall in competitive intensity as limited players are available in this segment. Adj. PAT is INR 10 crore vs. INR -2 crore on YoY backed by expansion of strong EBITDA margins. However, Interest costs increased by 28.6% YoY due to increase in working capital debt. The company has reported strong order backlog of INR 948 crore (+7.7%, YoY) backed by strong order inflow of INR 342 crore (+92%, YoY). Management has indicated guidance of ~INR 850-900 crore revenue and 10%-11% EBITDA margins for FY17E. The current capacity utilisation is 60%-70% and expected to reach at 80%-82% in next year.

Robust order book (INR 948 crore), 1.2x bill to book ratio

TRIL's current order backlog stands at INR 948 crore (29,622 MVA), imparts robust revenue visibility for FY17E. The company has INR 80 cr of export orders (Arc furnace transformer) from Mexico and South Africa in its kitty; in the overall order backlog, INR 205 cr pertains to third party (domestic player, Vijay Electricals) export orders. Further, INR 95 crore of orders in backlog belongs to Solar power projects. The company has received order inflow of INR 342 crore (+92%) majorly driven by State Transcom orders at end of Q2FY17.

State transcoms' increased spending to buoy prospects

State transcoms' spending on power transformers (33-765 kV) is envisaged to benefit TRIL (product range 33-765kV) over the next two years. The share of state transcoms in overall transformer industry is estimated to catapult to INR 5,700 cr (CAGR 23%) in FY18E from INR 3,000 cr (23%) in FY15. Further, limited players (8-9) above 220 kV will ensure stable pricing for power transformers over the next 2 years. We estimate TRIL to clock order inflow CAGR of 21% over FY16-18E.

GIS technology tie up with Jinke Group for Smart Grid products

In order to grab upcoming opportunities in Smart Cities, the company entered into a Joint venture agreement with Chinese company 'Jinke', for purpose of starting the business of manufacturing and marketing of GIS systems and products from 6.kV to 220kV in sub transmission and distribution segment. This JV has potential to achieve INR 200 crore revenue in next 2-3 years.

Outlook and valuations: Bright; maintain 'BUY'

At CMP of INR 370, TRIL is trading at PE of 12.7x of FY18E EPS of INR 29.2. We recommend 'BUY' with target price of INR 435 (18% upside) after discounting FY18 EPS by 15x.

Year to March (INR Cr)	Q2FY17	Q2FY16	YoY (%)	Q1FY17	QoQ (%)	FY16	FY17E	FY18E
Net Revenue	263	140	88%	159	65%	576	809	954
Revenue Growth(%)						6%	40%	18%
EBITDA	27	7	297%	12	125%	29	65	95
EBITDAM (%)	10%	5%		8%		5%	8%	10%
Adj. PAT	10	-2	-	1	-	-9	15	39
Growth(%)						-	-	162%
Adj. Diluted EPS (INR)	7.2	-1.8		0.6		-7	11	29
Diluted P/E (x)						-47.1	33.2	12.7
EV/EBITDA (x)						18.9	9.7	6.4
RoCE (%)						4	11	15

Q2FY17 Result Highlights

(INR Crore)	Q2FY17	Q2FY16	%Change	Q1FY17	%Change	H1FY17	H1FY16	%Change
Net Revenues	263	140	88%	159.2	65%	422	202	-52%
Operating Expenses	236	133	78%	147.1	61%	383	204	-62%
EBITDA	27	7	297%	12.0	125%	39	-2	-69%
Depreciation	3	3	4%	3.4	3%	7	7	-51%
EBIT	24	3	576%	8.7	172%	32	-9	-73%
Interest expenses	10	8	29%	8.4	21%	19	15	-55%
Other income	1	1	41%	0.9	43%	2	2	-59%
PBT	15	-4	-	1.2	-	16	-22	-
Tax	5	-1	-	0.4	-	5	-7	-
Reported PAT	10	-2	-	0.8	-	10	-15	-
EoI	0	0	-	0.0	-	0	0	-
Adj. PAT aft EoI	10	-2	-	0.8	-	10	-15	-
Equity Capital	13.3	13.3		13.3		13.3	13.3	
No of Shares	1.3	1.3		1.3		1.3	1.3	
EPS	7.2	-1.8		0.6		7.8	-11.2	
EBITDA Margin	10.3%	4.9%		7.6%		9.2%	-1.0%	
PAT Margin	3.6%	-1.7%		0.5%		2.5%	-7.4%	
Tax Rate	34.6%	33.0%		34.8%		34.7%	32.0%	

(INR Cr)	Q2FY17	Q2FY16	YoY (%)	Q1FY17	QoQ (%)
Revenues	263	140	88.3%	159	65.4%
EBITDA	27	7	297.1%	12	124.8%
EBITDAM (%)	10%	5%		8%	
Adj. PAT	10	-2	-	1	-
Order backlog	948	880	7.7%	868	9.2%
Order Inflow	342	178	92%	181	89.4%

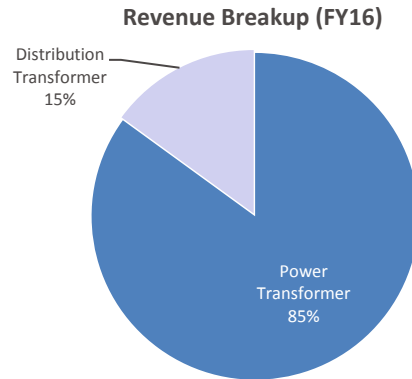
Company Background

TRIL, incorporated in 1994, manufactures power, distribution, furnace and specialty transformers. The company has three manufacturing facilities in Changodhar, Odhav and Moraiya. Currently, it has the second-largest installed capacity (33,000 MVA) in India. SEBs, PGCIL and NTPC are major clients and comprise ~85% of the company's overall order backlog (33-765 kV). TRIL's current order book stands at INR 868 cr (30,761 MVA), ~1.5x TTM sales.

Product Portfolio

Type of Transformer	Range
Power Transformer	33 kV to 765 kV (5 MVA to 500 MVA)
Distribution Transformer	11KV to 33KV (0.315 MVA to 5 MVA)

Substantial 85% revenue contributed by power transformers



Source: Company, Edel Invest Research

Financials

Income Statement					(INR cr)
Year to March	FY14	FY15	FY16	FY17E	FY18E
Income from operations	718	542	576	809	954
Direct costs	593	431	464	631	730
Employee costs	24	23	23	32	38
Other expenses	65	61	61	81	91
Total operating expenses	682	515	548	744	859
EBITDA	36	27	29	65	95
Depreciation and amortisation	9	12	13	14	15
EBIT	27	15	15	51	81
Interest expenses	23	28	33	34	28
Other income	4	4	5	5	5
Profit before tax	8	-10	-13	22	58
Provision for tax	3	-3	-4	7	19
Core profit	4	-7	-9	15	39
Extraordinary items	0	0	0	0	0
Profit after tax	4	-7	-9	15	39
Minority Interest	0	0	0	0	0
Share from associates	0	0	0	0	0
Adjusted net profit	4	-7	-9	15	39
Equity shares outstanding (Crore)	1.3	1.3	1.3	1.3	1.3
EPS (INR) basic	3.3	-5.2	-6.7	11.1	29.2
Diluted shares (mn)	1.3	1.3	1.3	1.3	1.3
Cash EPS (INR)	10.3	3.9	3.4	21.7	40.4
Dividend per share	0.7	0.0	0.0	0.0	2.0
Dividend payout (%)	7.5	0.0	0.0	0.0	20.0
Common size metrics- as % of net revenues					
Year to March	FY14	FY15	FY16	FY17E	FY18E
Operating expenses	95.0	95.1	95.0	92.0	90.0
Depreciation	1.3	2.2	2.3	1.7	1.6
Interest expenditure	3.2	5.1	5.7	4.2	2.9
EBITDA margins	5.0	4.9	5.0	8.0	10.0
Net profit margins	0.6	(1.3)	(1.6)	1.8	4.1
Growth metrics (%)					
Year to March	FY14	FY15	FY16	FY17E	FY18E
Revenues	40.9	(24.6)	6.4	40.3	18.0
EBITDA	100.5	(26.7)	8.1	125.3	47.5
PBT	26.0	(225.5)	30.5	(276.0)	162.0
Net profit after MI	1.4	(256.3)	30.5	(265.2)	162.0
EPS	(1.2)	(256.3)	30.5	(265.2)	162.0

Balance Sheet		(INR cr)				
As on 31st March	FY14	FY15	FY16	FY17E	FY18E	
Equity share capital	13	13	13	13	13	
Warrants	0	0	0	0	0	
Reserves & surplus	323	315	307	321	357	
Shareholders funds	336	328	320	334	370	
Secured loans	157	138	141	156	161	
Unsecured loans	6	12	14	12	12	
Borrowings	163	150	155	168	173	
Minority interest	0	0	0	0	0	
Sources of funds	510	485	480	506	547	
Gross block	185	229	236	254	271	
Depreciation	41	54	68	82	97	
Net block	144	175	168	172	174	
Capital work in progress	26	11	11	10	10	
Total fixed assets	169	186	179	182	184	
Goodwill	0	0	0	0	0	
Investments	2	6	6	6	6	
Inventories	120	156	180	190	200	
Sundry debtors	381	236	300	354	392	
Cash and equivalents	19	33	34	31	51	
Loans and advances	54	50	48	48	48	
Other current assets	40	27	14	15	16	
Total current assets	614	502	576	638	707	
Sundry creditors and others	273	207	281	319	350	
Provisions	2	1	1	1	1	
Total CL & provisions	276	208	282	320	351	
Net current assets	339	293	293	318	356	
Net Deferred tax	0	0	0	0	0	
Misc expenditure	0	0	0	0	0	
Uses of funds	510	485	479	506	547	
Book value per share (INR)	253	247	241	252	279	
Operating cash Flow						
Year to March	FY14	FY15	FY16	FY17E	FY18E	
EBIT	27	15	15	51	81	
Depreciation	9	12	13	14	15	
Tax	3	(3)	(4)	7	19	
Chg in WC	68	(58)	(1)	28	19	
CFO	(35)	88	34	30	58	

Profit & Efficiency Ratios

Year to March	FY14	FY15	FY16	FY17E	FY18E
ROAE (%)	1.3	-2.1	-2.8	4.4	10.5
ROACE (%)	5.6	3.3	3.5	10.7	15.4
Debtors (days)	194	159	190	160	150
Current ratio	2.2	2.4	2.0	2.0	2.0
Debt/Equity	0.5	0.5	0.5	0.5	0.5
Inventory (days)	61	105	114	110	100
Payable (days)	194	159	190	160	150
Cash conversion cycle (days)	61	105	114	110	100
Debt/EBITDA	4.5	5.6	5.4	2.6	1.8
Adjusted debt/Equity	0.5	0.5	0.5	0.5	0.5

Valuation parameters

Year to March	FY14	FY15	FY16	FY17E	FY18E
Diluted EPS (INR)	3.3	(5.2)	(6.7)	11.1	29.2
Y-o-Y growth (%)	(1.2)	(256.3)	30.5	(265.2)	162.0
CEPS (INR)	10.3	3.9	3.4	21.7	40.4
Diluted P/E (x)	27.5	(44.2)	(47.1)	33.2	12.7
Price/BV(x)	0.4	0.9	1.3	1.5	1.3
EV/Sales (x)	0.4	0.8	0.9	0.8	0.6
EV/EBITDA (x)	7.3	15.8	18.9	9.7	6.4
Diluted shares O/S	1.3	1.3	1.3	1.3	1.3
Cash EPS	10.3	3.9	3.4	21.7	40.4
Cash PE (x)	8.8	59.0	93.1	17.1	9.1
Dividend yield (%)	0.8%	0.0%	0.0%	0.0%	0.5%

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Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period

TRIL 5 years price chart



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