

# Transformers and Rectifiers

CMP : ₹391

Target price: ₹594

HP\* : Upto 3 years

The Vriddhi pick for the month of May is Transformers and Rectifiers. The company is benefitting from power generation impetus from the government, and in particular the increase in renewable footprint. It also has very competitive pricing compared to peers which gives it an edge in the market place. We see that the order book historically had southern India dominating the pie. However, regions of UP, Uttaranchal and Himachal Pradesh have slowly increased their share. Also, the company is expanding its product offering and services with JVs.

We see the key levers for the company as growth potential in the power transmission sector, company's turnaround and robust order book at the end of FY17 and its expansion in products and geographies.

The growth in power transmission and renewables will help. We note that company expects renewables to contribute to order book of Rs100cr and expects growth of 20-25% in this space. In this segment, company is seeing higher demand in the 11-13KV segment and, as per the management, it is one of the leading players. Transformers market is also expected to grow at 13.3% CAGR over 2015-19 which should be positive for the company.

**Robust order book and JV to help** - The company has order book of Rs.962 crore as of FY17. If we adjust the export orders worth ~Rs350 crore from order book of ~Rs850 crore, we see that the order book has doubled. We see that the company has been strengthening its marketing team. It has secured order for large power transformers from Australia which is also a high margin business (EBITDA margin 20%). This has helped company to expand in eastern geography and we expect competitive pricing as compared to its peers (EBITDA margin 30%) will lead to further orders.

Also, the company has entered into JV to provide site services and maintenance of transformer and other oils. This is one of its kind service in India and will improve company's capability of adding another revenue line.

**Sufficient capacity to drive growth** - The company currently has a capacity of 32500MVA which however can be scaled up. Also, it plans to expand its capacity in Changodar plant by 7000-8000MVA. We see that the company achieved production of 24,428 MVA in FY17, which provides sufficient room to cater to its order book of Rs.962 crore translating into 30235 MVA.

**Growing in northern regions** - The company as of now has high exposure to southern and western regions. However, the management noted that there has been traction in order inflows from northern states now. It is receiving orders from UP, Uttaranchal and Himachal Pradesh.

## Valuations and outlook

We see that the company has ROE of 3.9% and ROCE of 15.3% as of FY17. We note that the company is trading at P/B of 1.56 which is lower than its peers. Also, considering the turnaround it has seen in the profits, we see P/E of 39.8x to moderate going forward. On FY18 basis, we are targeting company to trade at P/E of 28x. Considering its robust order book growth and momentum in

| Company Details   |                    |
|-------------------|--------------------|
| Industry          | Electric Equipment |
| Chairman          | Jitendra Mamtora   |
| Managing Director | Satyen Mamtora     |
| Company Secretary | Rakesh Kiri        |
| BSE Code          | 532928             |

| Key Market Indicators (Standalone) |             |
|------------------------------------|-------------|
| Latest Date                        | 08-May-2017 |
| Latest Price (Rs)                  | 390.15      |
| Previous Close (Rs)                | 413.30      |
| 1 Day Price Var%                   | -5.60       |
| 1 Year Price Var%                  | 19.86       |
| 52 Week High (Rs)                  | 475.90      |
| 52 Week Low (Rs)                   | 285.00      |
| Beta                               | 1.73        |
| Face Value (Rs)                    | 10.00       |
| Industry PE                        | 26.84       |
| TTM Period                         | 201703      |
| TTM EPS(Rs)                        | 9.82        |
| TTM CEPS(Rs)                       | 19.97       |
| Price/TTM CEPS(x)                  | 19.54       |
| TTM PE (x)                         | 39.72       |
| Price/BV(x)                        | 1.56        |
| EV/TTM EBITDA(x)                   | 7.72        |
| EV/TTM Sales(x)                    | 0.80        |
| Dividend Yield%                    | 0.00        |
| MCap/TTM Sales(x)                  | 0.64        |
| Latest Book Value (Rs)             | 250.89      |
| Market Cap (Rs. In Crores)         | 517.20      |
| EV (Rs. In Crores)                 | 640.48      |
| Latest no. of shares (In Crores)   | 1.33        |

| Share Holding Pattern as on 201703 |       |
|------------------------------------|-------|
| Promoter No of shares (In Crores)  | 0.99  |
| Promoter %                         | 74.90 |
| FII No of Shares (In Crores)       |       |
| FII %                              |       |
| Total No of Shares (In Crores)     | 1.33  |
| Free Float %                       | 25.10 |



earnings, we expect the company to achieve target price of Rs. 594 over the period of three years, an upside of 52% from the current levels.

## Growth in power transmission sector

We see that the government plans to increase total generation capacity to 564 GW, to be achieved through 100 GW of solar capacity, 75 GW of other renewable sources and 86 GW thermal. This would mean additional capacity of 261 GW. However, the change in mix is directed towards renewable energy with expected contribution of 175GW from renewables.

We see that major bottleneck for government is not only generation but also improving its transmission. This would entail requirement of transformers in the renewable space. Transformers industry is expected to grow at a CAGR of 13.3% over FY15-19.

## JVs to boost order book

The company entered into JV with Chinese firm Jiangsu Jingke Smart Electric Company Limited (Jingke) in late Oct 2016 for power transformers. These are the compact power transformers to be installed in congested cities. The JV was set up to manufacture and market GIS/HGIS/TGIS systems and products for 220kV and below and distribution products of 40.5 kV and below in India. The company expects orders from this to flow eventually in early FY18. The company has also entered into the JV to provide site services and maintenance of transformer and other oils. If a transformer was malfunctioning, it had to be brought to the plant and serviced. However, this is the first of its kind service that the company will start in the country. This will help the company meet a large demand for site services. We believe this will be a high margin business and will add incrementally to the margins. We expect revenue from this to start flowing from mid-FY18. For this, however, the company will be leasing Vapour Phase Drying (VPD) systems.

## Financial Performance

In FY17, the net revenue of the company ballooned by 39% to Rs 802cr from Rs 581cr in FY16. It is highest turnover recorded since inception of the company. Its EBITDA margin in FY17 stood at 9% as against 6% of revenue in FY16. The net profit in FY17 was Rs 13cr as against net loss of Rs 8.54cr in FY16. Its PAT margin in FY17 stood at 1.6%.

As for the year, the company's production for FY17 was 24428 MVA which was higher than 16200 in FY16. The export orders completed in FY17 which added Rs367cr to the topline. 72% was derived from the power segment.

## Management Outlook

Management expects the company to grow by 15-20% in revenue in FY18 and by 10-15% in EBITDA. Though being cost-competitive, we expect margins to remain in the range of 10-12%.

## About the Company

Transformers & Rectifiers were established in the year 1994 and is one of the leading manufacturers of power transformers. It manufactures power, furnace and rectifier transformers. Company has plants in Ahmedabad.

Its revenue mix has shifted positively towards third party exports which was contributing below 10% in FY16. Also, the company has reduced its dependency on PGCIL and SEBs. Company is currently operating at 80% of its capacity while industry is at 70%. It has also seen good traction in 765KV transformers and 11-13KV transformers due to renewable growth.

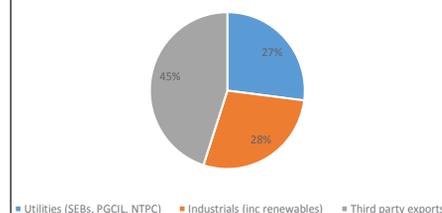


**Transformers industry expected to grow at CAGR of 13.3% over FY15-19**



**JV with Chinese firm Jingke to benefit the company**

FY17 - Revenue Mix



### Quarter On Quarter (Standalone) (Rs in Crore)

| Particulars       | 201703 | 201612 | Q on Q |        | Y on Y |  |
|-------------------|--------|--------|--------|--------|--------|--|
|                   |        |        | Var%   | 201603 | Var%   |  |
| Net Sales         | 188.16 | 190.68 | -1.32  | 248.05 | -24.14 |  |
| Total Expenditure | 166.83 | 175.74 | -5.07  | 220.47 | -24.33 |  |
| PBIDT (Excl OI)   | 21.33  | 15.93  | 33.90  | 27.58  | -22.66 |  |
| PAT               | 0.29   | 2.38   | -87.82 | 10.74  | -97.30 |  |
| PBIDTM% (Excl OI) | 11.34  | 8.31   | 36.46  | 11.12  | 1.98   |  |
| PBIDTM%           | 13.36  | 8.71   | 53.39  | 11.78  | 13.41  |  |
| PATM%             | 0.15   | 1.24   | -87.90 | 4.33   | -96.54 |  |
| Adj. EPS(Rs)      | 0.22   | 1.79   | -87.71 | 8.10   | -97.28 |  |

### Inc/Exp Statement(Standalone) (Rs in Crore)

| Description       | 201703 | 201603 | 201503 | 201403 | 201303 |
|-------------------|--------|--------|--------|--------|--------|
| Net Sales         | 802.24 | 576.37 | 541.69 | 718.26 | 509.68 |
| Total Income      | 808.92 | 581.41 | 545.19 | 722.32 | 514.91 |
| Total Expenditure | 725.91 | 544.13 | 512.86 | 680.11 | 489.80 |
| PBIDT             | 83.01  | 37.28  | 32.34  | 42.21  | 25.11  |
| PAT               | 13.02  | -8.54  | -6.45  | 4.81   | 4.73   |
| Dividend %        | 0.00   |        |        | 7.50   | 7.50   |
| Adj. EPS(Rs)      | 9.82   | -6.44  | -4.87  | 3.62   | 3.30   |