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Capital Goods

Thematic Report

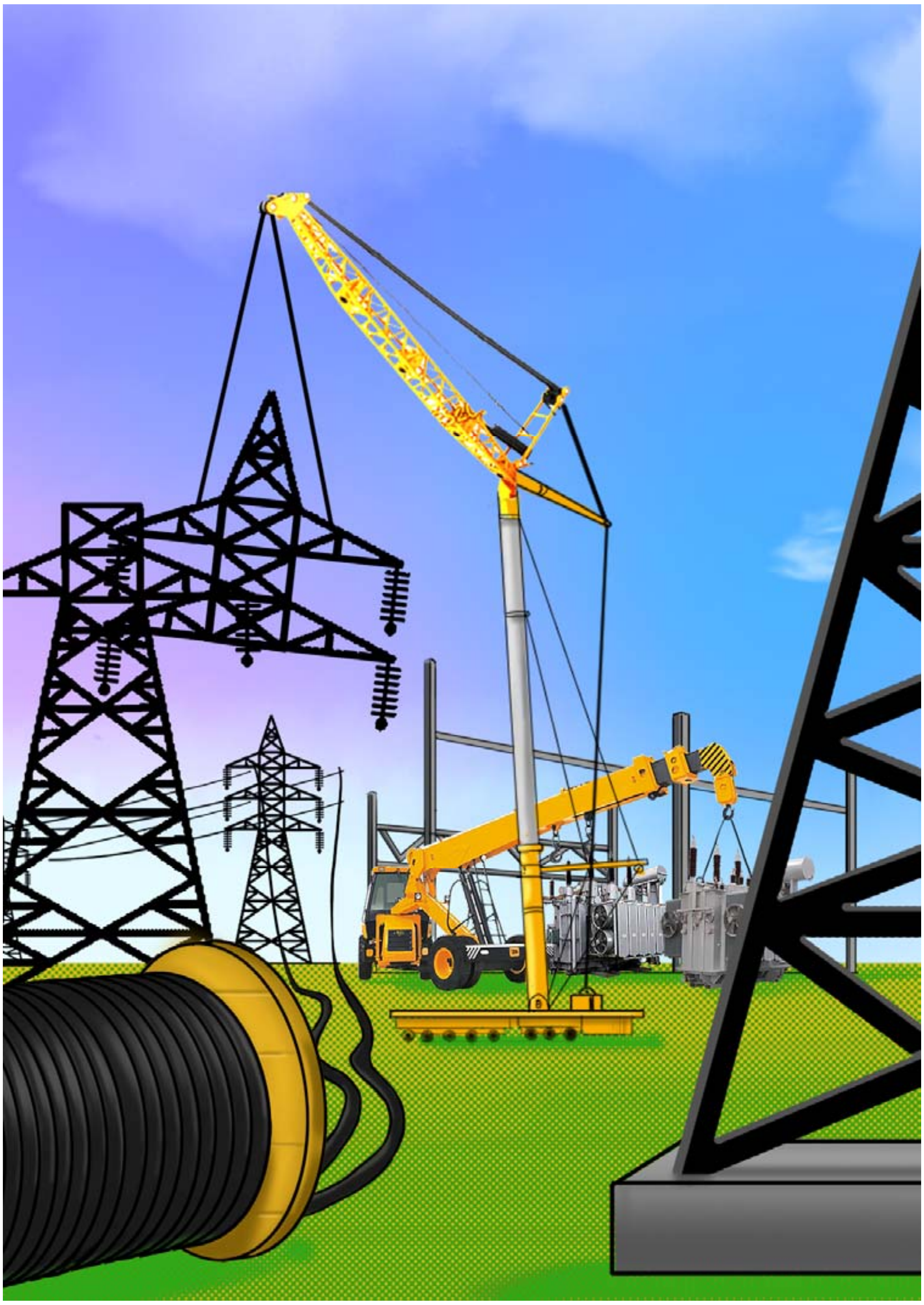
29 September 2015

India Power Transmission

Growth drivers in place

Sensex: 25617

Nifty: 7796



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Growth drivers in place

Our analysis of the power T&D segment reveals a global opportunity of $1trn. In addition, given the inadequate transmission capacities in India, policy-makers are focusing on improving them. As most T&D companies we cover obtain ~50% revenue from exports, these two areas open up opportunities for those such as Techno Electric, KEC International, Kalpataru Power and Skipper.

Global and Indian opportunities ~$1trn. The global T&D sector is likely to attract investment of $1trn over the next 5-6 years. In India, to bridge the gap between generation capacity and transmission infrastructure, we estimate planned investment of $75bn in the next 5-7 years. We expect ₹1trn of transmission projects to come up for bidding in the next 12-18 months. In addition, the green energy corridor (₹430bn), feeder separation (₹1trn) and smart cities will be demand drivers.

Indian T&D operators ready to grab opportunities. Indian T&D operators such as KEC, Kalpataru, L&T, Skipper, etc, have established themselves in developing markets, which will see 70% of global investment in T&D. KEC, Kalpataru and Skipper have ~50% of their order books from fast-growing regions. KEC and Kalpataru are also among the top-10 PGCIL contract awardees. These companies are well-placed to grab the above-mentioned opportunities.

T&D investment a government priority. Power-evacuation constraints and high T&D losses have attracted the attention of policy-makers for more investment in transmission infrastructure to match the investment in power generation. However, there are some challenges ahead, most important being the poor health of the State Electricity Boards (SEBs). The inability of the state-owned distribution utilities to be financially and commercially viable is putting at risk the significant investments being pumped into the electricity sector by private and public players.

Valuation We initiate coverage on Kalpataru Power (Buy, TP ₹300), KEC International (Buy, ₹193), Techno Electric (Buy, TP ₹620), Skipper (Buy, ₹204) and Genus (Buy, ₹50).

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Key Data	Reco	Market cap (₹ bn)	Price (₹)	Price target (₹)	Upside (%)	EPS CAGR (%) (FY15-18e)	PE (x) FY16e	PE (x) FY17e	RoE (%) FY16e	RoE (%) FY17e	PB (x) FY16e	PB (x) FY17e
Kalpataru	Buy	36.8	240	300	25.0	24.9	18.7	14.4	9.2	10.9	1.6	1.5
KEC	Buy	35.7	139	193	38.8	44.0	13.6	10.1	18.8	22.3	2.4	2.1
Techno Electric	Buy	28.5	500	620	24.0	30.7	23.1	19.2	17.0	18.0	3.7	3.3
Skipper	Buy	14.8	145	204	40.7	29.2	13.0	10.1	33.0	32.4	3.8	2.9
Genus Power	Buy	8.2	32	50	56.7	31.6	9.4	6.8	16.6	19.2	1.4	1.2

Source: Bloomberg, Anand Rathi Research ** - All share price as on 24 September 2015*

India Power Transmission

Growth drivers in place

A $1trn global and Indian opportunity

The global T&D sector is likely to attract investment of $1trn over the next 5-6 years. In India, to bridge the gap between generation capacity and transmission infrastructure, we estimate planned investment of $75bn in the next 5-7 years. In FY16 alone we expect transmission projects worth ₹1trn to be up for bidding. In addition, the green-energy corridor (₹430bn), feeder separation (₹1trn) and smart cities would be demand drivers.

$1trn Investment in global T&D

The outlook for the transmission sector, globally, for the next 5-7 years is bright because of rising energy demand in developed and developing markets. This is primarily because of mounting demand for power in Asia and Africa, favourable demographics there, increasing demand for clean energy, cross-border power networks, especially in Europe and Africa, and underdeveloped transmission systems across these areas.

$1trn of global investment in the T&D sector (70% from developing regions) opens up vast opportunities

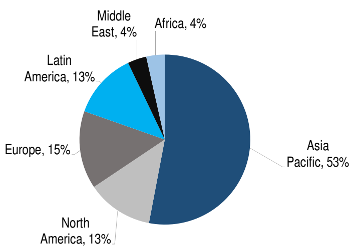
Globally, the power T&D sector experienced 13.7% CAGR over 2006-14, primarily because of strong growth in Asia, America, South-west Asia (the Middle East) and Africa. The sector, globally, is expected to attract investment of $1trn over the next 5-6 years. This growth would mainly be powered by Asia, followed by America, the Middle East and Africa.

Fig 1 - Global T&D investment through 2015-20

	Global	Africa	North America	Middle East	Asia Pacific
Installed capacity (GW, 2013)	5,445	123	1,309	205	2,152
Expected installed capacity (GW, 2020)	7,103	241	1,299	288	3,216
Transmission line length (km, 2013)	3,927,990	138,668	74,7176	137,384	1,819,096
Exp. transmission line length (km, 2020)	4,973,568	203,897	814,969	162,533	2,541,741
Exp. investment in transmission ($ bn)	**1,000**	**37.5**	**134**	**38.7**	**566**

Source: Annual report Kalpataru Power, Anand Rathi Research

Fig 2 - Region-wise investment in power transmission



Source: Annual report Kalpataru Power, Anand Rathi Research

Most power-transmission companies in India (L&T, KEC, Kalpataru Power, Skipper) have clearly identified opportunities in these strongly growing markets and set up bases there, becoming well-established operators. This has been helpful in the past in the form of exports, which kept utilisation high when domestic demand was subdued. Ahead, we expect exports to constitute a significant part of revenue for these companies.

Fig 3 - Exports as percent of revenue

(%)	FY13	FY14	FY15
Kalpataru Power	37.8	45.0	53.0
KEC International	59.0	59.0	52.0
Skipper	NA	NA	4.0

Source: Company data

Fig 4 - International order book as percent of the total order book

(%)	FY13	FY14	FY15
Kalpataru Power	60.0	55.0	56.0
KEC International	50.0	56.0	50.0
Skipper	NA	39.0	47.0

Source: Company data

Transmission investment to surpass generation investment

India's transmission network is around 318,422 circuit km of transmission lines and 614,875 MVA of sub-station capacity. Nearly 72% of this is under state transmission utilities (STUs); about 23% is owned by the Power Grid Corp of India and 5% by private operators. During FY09–15, the Power Grid-owned network expanded at a ~9% CAGR while STU-owned networks expanded by a mere 3-4% CAGR.

On the other hand, in Jun'15 India had 275 GW generation capacity, which has seen a 9.5% CAGR over FY07-15. This indicates that transmission capacity has been lagging power-generation capacity. Thankfully, the winds of change have begun blowing as dedicated efforts are being made by the government to improve India's transmission networks.

During the 12th and 13th Plans, the expected investment is $75bn; however, such investment in the transmission sector is still inadequate. According to industry experts' opinion, power transmission requires investment at least equal to that in power generation. In India, this now is 40:60 or 30:70. To make up for this power-transmission-investment deficit, India needs to invest more in transmission than in generation.

According to the 12th Five-Year Plan (FY13–FY17), investment required in power transmission is about ₹1,800bn, of which about ₹1,000bn is planned to come from the Power Grid and ₹550bn from states. The remaining ₹250bn is expected to come from private operators.

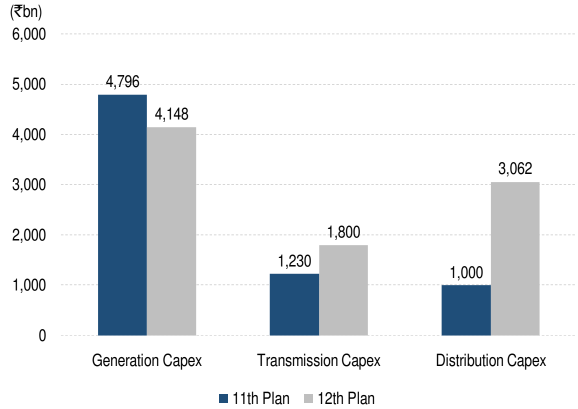
Fig 5 - Investment estimates for transmission-line network in India (₹ m)

	2014	2015	2016e	2017e
Power Grid	210,000	220,000	225,000	225,000
STUs	277,428	266,891	2,66,703	268,662
Total	**487,428**	**486,891**	**491,703**	**4,93,662**

Source Annual report FY14 Kalpataru Power

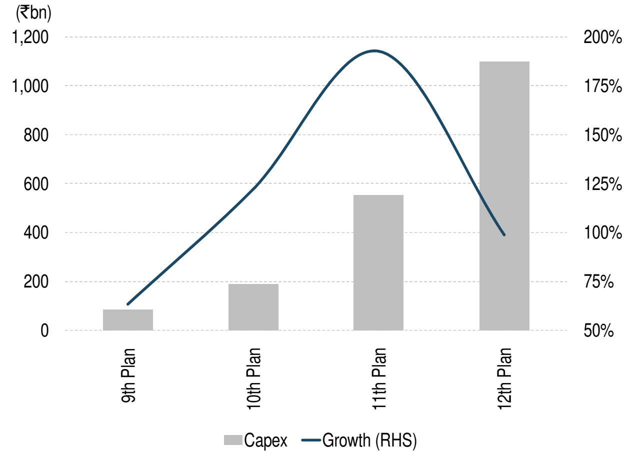
The government's renewed interest has been shown in its willingness to make up the shortfall in transmission capacity. With the government announcing projects worth ₹260bn through tariff-based competitive bidding (TBCB) in FY16, companies such as KEC International, Kalpataru Power, Sterlite Grid, L&T Infrastructure Development, Essel Infra, Tata Projects and Adani Power may capture a larger share in the Indian transmission arena. This would provide product and service opportunities for companies such as Skipper, Techno Electric, etc.

Fig 6 - 12th Plan capital expenditure in the power sector (vs. the 11th Plan)



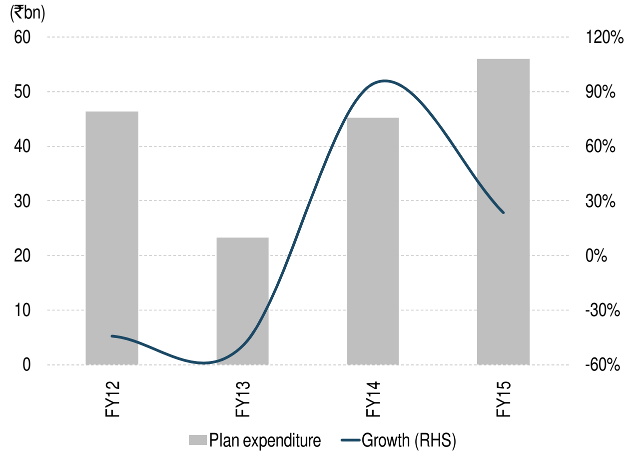
Source: 12th Plan documents

Fig 7 - PGCIL planned investment



Source:12[th] Plan documents

Fig 8 - Budgetary expenditure of the Power Ministry



Source: CMIE

State SEBs need to match PGCIL investment

As intra-state transmission is the responsibility of states, this segment has lacked the requisite investment due to the poor financial health of SEBs. However, greater investment by the Power Grid Corp. for inter-state transmission capacity puts pressure on states to expedite intra-state capacity addition. Major orders are expected from Maharashtra, Rajasthan, Andhra Pradesh, Telangana, Bihar, Karnataka, Tamil Nadu, Gujarat, Madhya Pradesh, etc.

Transmission-project tenders of ₹1trn in the next 12 months

Fig 9 – Transmission projects to be announced in FY16

	Estimated length (km)	Estimated cost (₹ bn)
Raigarh (Chhattisgarh) to Pugalur (Tamil Nadu) HVDC line	2,506	268.0
Inter-regional AC link for transmission to southern region	1,166	85.7
Strengthening transmission system beyond Vemagiri	1,111	70.3
Ajmer-Suratgarh-Moga	534	44.4
Jharsuguda (Sundargarh) to Raipur	380	26.0
North-east system-strengthening scheme-II	550	16.5
Strengthening transmission between India and Bhutan	550	22.4
Evacuation system in Odisha, of 1,320 MW	50	1.5

Source: CEA, Anand Rathi Research

Recently awarded projects such as the transmission system for the Gadarwara STPS (2 x 800 MW) Part A and B, and the transmission-system strengthening for Vindhyachal-V would see award of sub-contracts soon.

Agriculture feeder separation would require investment of ₹1trn

The Indian government has announced a feeder-separation scheme named Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY) with an initial allocation of ₹5bn. This has been launched to augment power supply to rural areas and to strengthen sub-transmission and distribution systems by separating electricity feeders for domestic and agriculture consumption.

According to the CEA's preliminary estimates and its study, ₹1trn is required over five years. This investment is aimed at reducing India's transmission and distribution (T&D) losses by five percentage points (from the present ~23%), which would suffice to recoup such investment.

The proposed investment would benefit companies across the entire power ecosystem—those that manufacture electric conductors, transformers, insulators, poles, towers and capacitors—in addition to construction contractors.

The above scheme is part of a ₹1.1trn comprehensive power-infrastructure up-gradation across India through two schemes: DDUGJY for rural India and an integrated power development scheme (IPDS) for urban India.

Green energy corridor requires investment of ₹430bn over five years

The green-energy corridor is opening up possibilities for renewable power sources. This would impel fresh investment in renewable-energy generation

The 'green-energy corridor' is a term used for power-evacuation infrastructure specially designed and constructed for evacuation of power generated by renewable sources (mainly wind and solar). This is aimed at synchronising electricity produced from renewable sources with conventional power stations in the grid. As renewable energy generation is growing rapidly, the country needs separate infrastructure for this fresh source, which might create an unstable national grid due to its characteristics of intermittency and variability.

With the government's ambitious plans to install 100 GW of solar power capacity by 2022 and 10 GW of wind power every year, evacuation of this would require vast investment on infrastructure. For this purpose the Power Grid Corp has been assigned the task of developing nine high-capacity green-transmission corridors. It has announced a Desert Power Plan 2050, a plan to evacuate solar power from the deserts of Gujarat and Rajasthan. It has been assigned the task of constructing transmission lines and pooling substations for solar parks in seven states.

Fig 10 - Renewable capacity in renewable-energy-rich states in the 12th Plan

	Present capacity (MW)		Addition in the 12th Plan (MW)		Total capacity (MW)	
State	Wind	Solar	Wind	Solar	Wind	Solar
Tamil Nadu	6,370	7	6,000	3,000	12,370	3,007
Karnataka	1,783	6	3,223	160	5,006	166
AP	392	92	5,048	285	5,440	377
Gujarat	2,600	600	5,083	1,400	7,683	2,000
Maharashtra	2,460	17	9,016	905	11,476	922
Rajasthan	2,100	200	2,000	3,700	4,100	3,900
Total	15,705	922	30,370	9,450	46,075	10,372
Total		**16,627**		**39,820**		**56,447**

Source: Ministry of New and Renewable Energy

For the green energy corridor, a Power Grid report says investment of ₹430bn would be required to cover intra-/inter-state transmission-system strengthening, other facilities such as flexible generation, and establishing renewable energy management centres, etc. Germany has committed developmental and technical assistance of €1bn. In FY16, the Power Grid Corp board approved investment of ₹74.3bn in three phases for a green-energy-corridor inter-state transmission scheme (ISTS). And state transmission infrastructure is being developed by the states.

Smart grids – a large opportunity in the long run

Smart-grid technology is essentially an umbrella term covering the modernisation of the transmission and distribution grids. It is in essence a "digital upgrade" of long-distance transmission grids and distribution stations not only to optimise current operations by reducing losses but also opening up new markets for alternative-energy production. It involves processes such as distribution automation, asset management, demand-side management, demand responses, distributed energy management and advanced metering infrastructure that would transform the present infrastructure on to a single, integrated, robust and scalable platform.

At present, the government has allocated in Budget 2015 ₹70.6bn ($1.2bn) for "smart" cities. It plans to set up 100 such smart cities including developing modern satellite towns around existing cities under this plan.

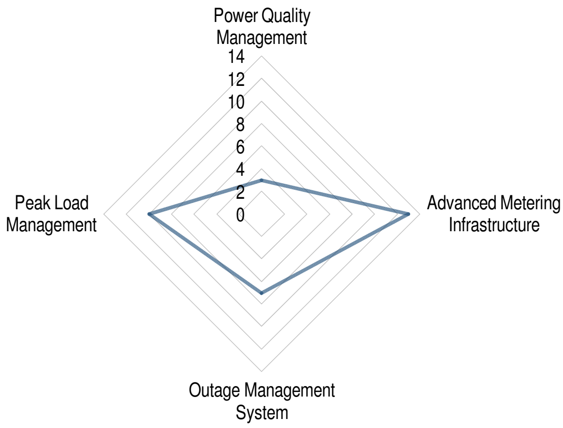
Some of the precedents set forth under this plan are:

1. Electrification of all households, with a minimum of eight hours of power per day by 2017
2. Indigenous development and implementation of a low-cost smart meter, with plans to install 130m such meters by 2021.
3. Establishment of smart-grid test beds and knowledge centres
4. Implementing at least eight smart-grid pilot projects in India, at investment of $10m by 2015.

Present situation of smart-grid technology in India

At present, most of the 14 projects undertaken involve installation of smart meters to reduce transmission losses due to power theft. Management of peak loads, power outages and power quality are not on the priority list of SEBs. We expect to see more demand for high technology equipment for these purposes.

Fig 11 - The functionality covered under these 14 projects are:



Source: Media reports, Anand Rathi Research

Creation of an Infrastructure Investment Trust to meet equity required

In the Union Budget 2015, the government announced the formation of a National Investment and Infrastructure Fund (NIIF) to provide equity support to large-scale infrastructure projects. The government will hold 49% share and provide ₹200bn. We believe that this is a step in the right direction, providing the requisite investment for infra development and investment opportunities to provident funds, endowment and sovereign funds without buying a direct stake in a project. This model of public-private partnership (PPP) is an effective tool in bringing private-sector investments into the infrastructure sector.

Lack of transmission infrastructure

Because of power evacuation constraints, some areas of the country face power shortages; in others parts, plants are running at low plant-load factors (PLFs). To fix this problem, policy-makers are trying to improve power-transmission infrastructure.

Inter-regional transmission capacity needs to be augmented

With its abundant natural resources, India has massive potential to generate electricity. However, since these resources are unevenly dispersed and concentrated in a few pockets, it is imperative to efficiently transfer the electricity generated to the point of consumption.

However, transmission congestion has turned out to be a serious problem in recent times. It occurs when demand for transmission capacity far exceeds the available transmission capability. This congestion, coupled with market splitting (a method of managing congestion by changing the price based on demand and supply) is usually a phenomenon that indicates lack of adequate transmission infrastructure.

Transmission congestion has become a serious problem in recent times

Fig 12 - Power demand, supply, surplus/deficit parameters (region-wise, m units)

Region	Demand	Met	Surplus / Deficit	Generation	Import
Northern	332,453	311,589	-20,864	286,363	25,226
Western	317,367	314,923	-2,444	367,783	-52,860
Southern	285,797	274,136	-11,661	215,865	58,271
Eastern	119,082	117,155	-1,927	163,019	-45,864
North-Eastern	14,224	12,982	-1,242	10,635	2,347
Bhutan import	-	-	-	5,008	-5,008
Total	**1,068,923**	**1,030,785**	**-38,138**	**1,048,673**	**-17,888**

Source: CEA

In 2012-13, the domestic power exchanges(the Indian Energy Exchange and the Power Exchange of India) failed to consummate sales-purchase deals of ~₹14bn, amounting to 15% of traded volumes of power due to transmission constraints. Congestion in transmission is estimated to have caused a loss of nearly 3.1 billion units of electricity on the Indian Energy Exchange in 2014-15. Despite a decrease in this loss by nearly 2.2 billion units, the loss is still equivalent to the energy requirement of Delhi for a month.

Fig 13 - Power demand-supply, surplus/deficit parameters (major states, m units)

State	Generation	Demand	Supply	Surplus /Deficit	Import
Delhi	8,723	29,231	29,106	-125	20,383
Haryana	28,749	46,615	46,432	-183	17,683
Punjab	22,961	48,629	48,144	-485	25,183
Rajasthan	54,186	65,717	65,310	-407	11,124
Uttar Pradesh	111,902	103,179	87,062	-16,117	-24,840
Chhattisgarh	79,711	21,499	21,230	-269	-58,481
Gujarat	105,539	96,235	96,211	-24	-9,328
Madhya Pradesh	75,212	53,374	53,082	-292	-22,130
Maharashtra	107,309	134,897	133,078	-1,819	25,769
Andhra Pradesh	45,245	59,198	56,313	-2,885	11,068
Karnataka	50,163	62,643	59,926	-2,717	9,763
Kerala	8,034	22,459	22,127	-332	14,093
Tamil Nadu	71,418	95,758	92,750	-3,008	21,332
Telangana	40,902	43,337	40,644	-2,693	-258
Bihar	18,272	19,294	18,759	-535	487
Jharkhand	14,622	7,599	7,390	-209	-7,232
Orissa	51,332	26,482	26,052	-430	-25,280
West Bengal	49,742	47,086	46,827	-259	-2,915

Source: CEA

The Eastern and Western regions had a combined generation surplus of ~100bn units, while the Southern region faced a peak-time shortage of 58bn units in FY15

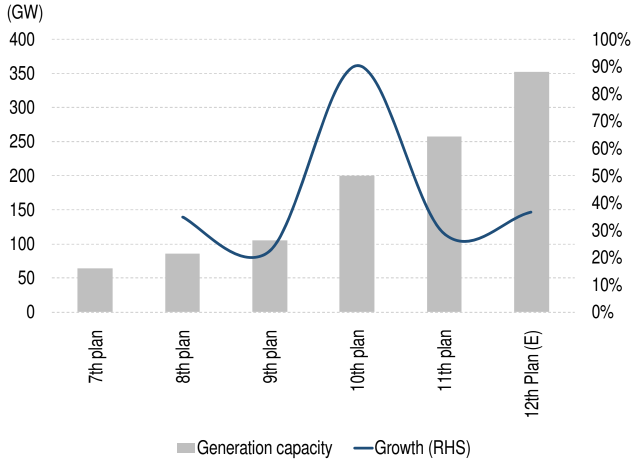
Based on the current supply position, in 2014-15 the eastern and western regions had a combined surplus generation of ~100bn units, while the Southern region faced a peak-time shortage of 58bn units. Delays in commissioning/executing projects such as the 2 GW Kudankulam, 4 GW Krishnapatnam UMPP, 1 GW Tuticorin, 500 MW Neyveli TS-II expansion and the 500 MW Kalpakkam have aggravated this situation. The problem has been compounded by the non-availability of gas for about 7,000 MW in Andhra Pradesh.

The power-transmission constraints do not allow for the Southern grid's shortfall to be met by the surplus in the national grid.

Power-generating states such as Chhattisgarh are also unable to evacuate excess power. With expected power generation capacity of more than 13,000 MW by end-FY15 and expected to be 30,000 MW by the end of the 12th Plan (against the state's peak demand requirement of about 3,800 MW), at present, there is only ~9,000 MW of transmission network capacity available to evacuate power from the state. With a typical transmission project requiring ~4-5 years to be commissioned and inordinate delays expected in securing forest clearance in the region, it seems that the number of projects running below capacity, owing to transmission bottlenecks, would only increase in the near future.

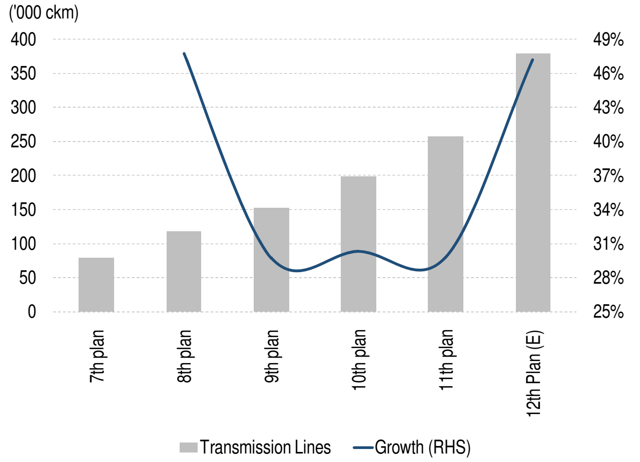
A major factor that has aggravated the issue of congestion is the increase in power-generation capacity, primarily due to the spurt in renewable energy and the de-licensing of generation. With the transmission infrastructure unable to keep up with the pace of power generation, the country has been divided into two segments: the power-surplus north and north-east and the south, plagued with a power deficit. This has led to unsold capacity in some regions, pushing down market prices and resulting in lower plant-load factors.

Fig 14 - Growth of installed generation capacity (GW)



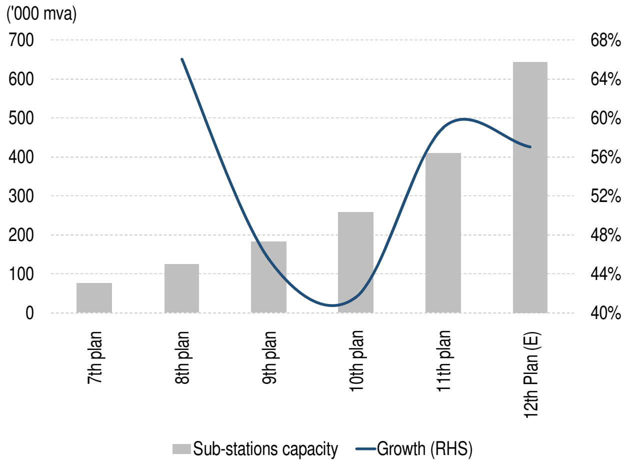
Source: CEA

Fig 15 - Growth of transmission capacity (ckm)



Source: CEA

Fig 16 - Growth of sub-station capacity (MWA)



Source: CEA

The Power Grid Corporation of India, a "*navratna*" company, operating under the Ministry of Power has had the monopoly of the power transmission sector in the country. It is responsible for planning, implementing, operating and maintaining inter-state transmission systems as well as those of the national and regional power grids. However, despite this, the Central Transmission Utility (CTU) has been largely unsuccessful in keeping pace with the growing installed capacity in the country.

Fig 17 - Inter-region power transmission capacity (MW)

Break-up	End of the 10th Plan	End of the 11th Plan	Addition till May'15	End of the 12th Plan (e)
ER - NR	3,430	12,130	3,700	17,930
ER - WR	1,790	4,390	6,300	12,790
ER - SR	3,130	3,630	0	3,630
ER - NER	1,260	1,260	1,600	2,860
Sub-total	**9,610**	**21,410**	**11,600**	**37,210**
WR - NR	2,120	4,220	4,500	16,920
WR - SR	1,720	1,520	4,200	7,920
Sub-total	**3,840**	**5,740**	**8,700**	**24,840**
NR - NER	0	0	0	6,000
132kV (IR)	600	600	0	600
Sub-total	**600**	**600**	**0**	**6,600**
Grand total	**14,050**	**27,750**	**20,300**	**68,650**

Source: CEA

At present, the private sector accounts for less than 5% of transmission, compared to 38% in India's generation. While there have been several PPPs and JVs in this sector, in order to give this sector a much-needed boost, the government is now inviting foreign investment. It also plans to introduce an Integrated Power Development Scheme, which aims to reinforce power transmission and distribution networks in urban areas all over the country. This opens up a wide avenue of opportunity for private operators.

Hurdles ahead...

In order to meet the rapidly evolving demand for power in various regions of the country, the power-transfer capacity of the country's grids have to be enhanced continuously. However, this expansion poses several challenges that can be tackled only through proper planning and implementation of new technology.

Weak financial health of SEBs

The main issue faced by the Indian power sector is the huge amount of losses suffered by distribution companies (DISCOMS), primarily State Electricity Boards. The distribution sector in India is not only the most strained in the value chain but also the most prone to political pressure. The inability of the state-owned distribution utilities to be financially and commercially viable is putting at risk the significant investments being pumped into the electricity sector by private and public operators.

Weak financial health of SEBs is a major bottleneck in the growth of the transmission sector

Transmission and distribution losses in the country are one of the highest, at nearly 23%. This means that most DISCOMS lose the power that they purchase due to poor infrastructure, power theft, non-metered supply, and poor collection efficiency. Besides this, the difference between revenue per unit and cost per unit, combined with overall rising power consumption (in absolute terms), means that losses are multiplying faster.

On an all-India basis, the dependence of state-owned distribution utilities for subsidies in FY15 is expected at ~₹720bn (figures yet to be released), estimated to have increased at a 16% CAGR since FY10.

As a result, most SEBs are in an extremely poor financial state. According to the latest available data

1. A report by the Power Finance Corp. states that, of 90 utilities, 36 had negative net worth
2. The debt-to-equity ratio of these 36 utilities is negative; that of another 20% is nearly 3.5x
3. The combined net worth of all these utilities is negative
4. The accumulated losses of all state distribution utilities (on 31st Mar'12) have been estimated at ₹2.4trn

In order to bail out the ailing state utilities, the government announced a financial-restructuring plan (FRP) providing financial support to ailing SEBs. An FRP requires timely and adequate increases in power tariffs every year; however, we see little progress in this direction.

As mentioned before, this sector is highly susceptible to political pressure especially during elections. The last state elections held in Maharashtra, New Delhi and Haryana led to tariff cuts. Such cuts, despite rising costs, might lead to further severe losses. Even FRPs like the SEB debt-restructuring scheme are largely ineffective due to the domino effect of populism.

Other challenges faced by the sector

Attracting operators

- Stringent qualification requirements for entrants into the market
- In the bid documents there are no requirements in terms of innovation/ technology.

Planning and awards

- The conceptualisation and award phases are extremely protracted
- PSUs are usually given preference when awarding contracts; this often leads to overburdening them with projects.

Project execution and commissioning

- Obtaining forest clearances and right-of-way (RoW) are extremely difficult and tedious
- No impetus is given to technology development and innovation
- There is a lack of a transparent grievance-redressal mechanism in the country
- Also, inadequate incentives are provided to companies for early completion/ commissioning of projects.

Operations and management

- Besides these, there is very limited operational control and management of the grids due to lack of proper infrastructure and control technology.

Project exit

- The government has been largely unsuccessful in attracting FDI into this sector so far
- The holding requirements in these projects are usually discouraging.

Valuation

We have identified five mid-cap companies which are some of the beneficiaries of the coming transmission investment globally (and especially in India). These have not only an established market position in India but have also established themselves in developing transmission markets (where 70% of global T&D investment is to come).

Kalpataru Power has 65% of its order book from the international markets. With significant experience in BOOT/BOOM project ownership and execution, it is likely to benefit from the coming domestic opportunities. On a sum-of-parts valuation, we value the standalone business at 14x FY17e EPS, JMC Projects (a listed entity, KPT's share 67.2%) at market value with a 20% holding-company discount, BOOT projects at 1.4x of equity invested, Thane and Indore projects at book value and Shubham Logistics at an average transaction value (to the TANO fund) at ₹70 a share. **We recommend a Buy, with a target price of ₹300.**

KEC International has 50% of its revenues from international projects and is ready to grab domestic opportunities. It has a ₹105bn order book; in Q1 FY16 it won orders of ₹31bn (~₹9bn in July). It is L1 bidder (the lowest) for bids of ₹30bn and expects them to be converted into orders in the next couple of months. Based on its strong order book and execution capabilities, we value it at **14x FY17e EPS, and recommend a Buy with a price target of ₹193 a share**.

Techno Electric is a strong EPC operator in sub-stations. It is very good in its business domain and has consistently commanded above-average margins due to its experience, management capabilities and strong financials. On a sum-of-parts valuation, **we value it at ₹620 a share and have a Buy recommendation on it. We value the EPC business at 18x FY17e EPS, the wind business investment at the recent transaction price (₹48m per MW) and the projects business at 1.4x of equity invested.**

Skipper is the third-largest manufacturer of transmission towers in India, and an established operator in the NE region in India. Due to its location advantage and focus on core business, it has a 300-400bp higher margin than the industry average. We expect these margins to be maintained. **We have valued Skipper at 14x FY17e EPS and recommend a Buy, with a price target of ₹204**.

Genus Power is a major manufacturer of electricity meters. It has started riding the wave of "smart" meters and will gain from increasing demand for such meters emanating from the government's thrust on AT&C loss-reduction measures. **We value it at 11x FY17e EPS and recommend a Buy, with a price target of ₹50.**

Fig 18 – Valuation

Name	Reco	Market Cap (₹bn)	CMP (₹)	Target (₹)	Upside (%)	EPS CAGR (%) (FY15-18)	PE (x) FY16e	PE (x) FY17e	RoE (%) FY16e	RoE (%) FY17e	PB (x) FY16e	PB (x) FY17e
Kalpataru	Buy	36.8	240	300	25.0	24.9	18.7	14.4	9.2	10.9	1.6	1.5
KEC	Buy	35.7	139	193	38.8	44.0	13.6	10.1	18.8	22.3	2.4	2.1
Techno Electric	Buy	28.5	500	620	24.0	30.7	23.1	19.2	17.0	18.0	3.7	3.3
Skipper	Buy	14.8	145	204	40.7	29.2	13.0	10.1	33.0	32.4	3.8	2.9
Genus Power	Buy	8.2	32	50	56.7	31.6	9.4	6.8	16.6	19.2	1.4	1.2
Alstom T&D	NA	133.1	520	NA	NA	56.4	58.2	34.8	15.2	22.3	8.9	7.6
Power Grid	NA	654.0	125	NA	NA	18.7	11.2	9.7	15.5	16.1	1.6	1.4

Source: Bloomberg, Anand Rathi Research

Company Section

29 September 2015

Kalpataru Power Transmission

Riding the transmission capex infusion; initiating, with a Buy

Rating: **Buy**
Target Price: ₹300
Share Price: ₹240

We initiate coverage on Kalpataru Power Transmission, with a Buy rating and a target price of ₹300. The company has significantly diversified into the international market (65% of its order book). With the domestic sector now ready for take-off and international orders already flowing, the company is set to ride the T&D capex investment.

Geographical diversification yielding returns. With 65% of its T&D order book international and $780m of overseas orders being executed, Kalpataru is in a sweet spot. We expect strong orders (a 25% CAGR over FY15-18) from the domestic and international markets to drive standalone revenue, from ₹44bn currently to ₹56bn by FY17. The former is a $75bn opportunity, including ~₹100bn from SEBs; the latter, a $1trn opportunity by 2020.

New orders to improve EBITDA; better cash flow to reduce debt. On executing the past (loss-suffering) orders, margins would improve, helped by better margins in orders in T&D. Greater utilisation in oil & gas and railways, and the commissioning of BOOT projects (roads and infrastructure) would improve cash flow, expected to reduce debt and, consequently, interest outgo.

JMC generating cash flows; listing of SSL to unlock value With three of four road toll projects operational (the fourth to be commissioned by Q2 FY16), little fund infusion is required (funding of operational losses as toll collection is 75-80% of what was estimated). Listing of Kalpataru's 73% subsidiary Shree Shubham Logistics would also unlock value for the former.

Valuation. We value the standalone business at 14x FY17e EPS, JMC Projects at market value with a 20% holding-company discount, BOOT projects at 1.33x of equity invested, development projects at the transaction price and Shubham Logistics at the average transaction value (to the TANO fund) of ₹70 a share. We rate it a Buy with a target price of ₹300.

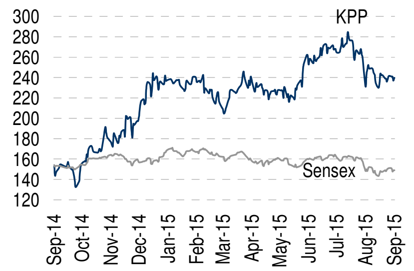
Key financials (YE Mar)	FY14	FY15	FY16e	FY17e	FY18e
Sales (₹ m)	40,552	44,223	49,307	56,210	64,642
Net profit (₹ m)	1,715	1,657	1,974	2,549	3,228
EPS (₹)	11.2	10.8	12.9	16.6	21.0
Growth (%)	24.6	-3.4	19.2	29.1	26.6
PE (x)	21.5	22.2	18.7	14.4	11.4
PBV (x)	1.9	1.8	1.6	1.5	1.3
RoE (%)	9.0	8.2	9.2	10.9	12.4
RoCE (%)	14.6	13.9	14.4	16.2	21.1
Dividend yield (%)	0.6	0.6	0.8	0.8	0.8
Net debt/equity (x)	0.3	0.4	0.4	0.3	0.2

Source: Company, Anand Rathi Research

Key data	KPP IN / KAPT.BO
52-week high / low	₹128 / ₹280
Sensex / Nifty	25617 / 7796
3-m average volume	$0.5m
Market cap	₹36.8bn / $557m
Shares outstanding	153m

Shareholding pattern (%)	Jun'15	Mar'15	Dec'14
Promoters	59.5	59.5	59.5
- of which, Pledged	-	-	-
Free Float	40.5	40.5	40.5
- Foreign Institutions	9.7	9.7	9.7
- Domestic Institutions	21.3	21.8	21.6
- Public	9.5	9.0	9.2

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Net revenues	40,552	44,223	49,307	56,210	64,642
Revenue growth (%)	0.2	0.1	0.1	0.1	0.2
- Oper. expenses	36,439	39,955	44,473	50,453	57,762
EBIDTA	**4,113**	**4,268**	**4,834**	**5,758**	**6,880**
EBITDA margins (%)	10.1	9.7	9.8	10.2	10.6
- Interest	1,460	1,409	1,486	1,613	1,748
- Depreciation	695	852	900	956	1,017
+ Other income	484	522	542	675	776
- Tax	727	873	1,017	1,313	1,663
Effective tax rate (%)	29.8	34.5	34.0	34.0	34.0
+ Associates/(minorities)	-	-	-	-	-
Adjusted PAT	1,715	1,657	1,974	2,549	3,228
+ Extraordinary items	-	-	-	-	-
Reported PAT	1,715	1,657	1,974	2,549	3,228
Adj. FDEPS (₹/sh)	11.2	10.8	12.9	16.6	21.0
Adj. FDEPS growth (%)	24.6	-3.4	19.2	29.1	26.6

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Share capital	307	307	307	307	307
Reserves & surplus	19,235	20,401	22,023	24,221	27,097
Net worth	19,542	20,708	22,330	24,528	27,404
Total debt	6,987	9,106	9,906	10,756	11,656
Minority interest	-	-	-	-	-
Def. tax liab. (net)	138	54	54	54	54
Capital employed	**26,667**	**29,867**	**32,290**	**35,337**	**39,113**
Net fixed assets	5,887	5,567	5,322	5,072	4,761
Intangible assets	31	23	18	12	6
Investments	3,836	3,939	4,039	4,139	4,239
- of which, Liquid	2	4	-	-	-
Working capital	16,266	19,586	21,188	23,116	25,196
Cash	647	753	1,722	2,998	4,910
Capital deployed	**26,667**	**29,867**	**32,290**	**35,337**	**39,113**
Working capital (days)	146	162	157	150	142
Book value (₹/sh)	127.3	134.9	145.5	159.8	178.6

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Adjusted PAT	1,715	1,657	1,974	2,549	3,228
+ Non-cash items	695	852	900	956	1,017
Cash profit	2,410	2,508	2,874	3,505	4,244
- Incr. / (decr.) in WC	1,668	3,320	1,602	1,928	2,081
Operating cash-flow	742	-811	1,271	1,577	2,164
- Capex	1,227	523	650	700	700
Free-cash flow	-485	-1,335	621	877	1,464
- Dividend	264	264	352	352	352
+ Equity raised	-372	-227	0	0	-
+ Debt raised	1,684	2,034	800	850	900
- Investments	485	104	100	100	100
- Misc. items	-	-	-	-	-
Net cash-flow	78	106	970	1,276	1,912
+ Op. cash & bank bal.	569	647	753	1,722	2,998
Cl. cash & bank bal.	647	753	1,722	2,998	4,910

Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis @ ₹240

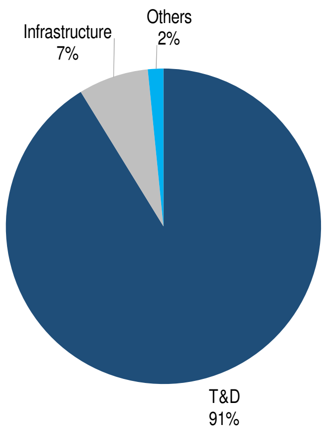
Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
P/E (x)	21.5	22.2	18.7	14.4	11.4
Cash P/E (x)	15.3	14.7	12.8	10.5	8.7
EV / EBITDA (x)	10.5	10.6	9.3	7.7	6.3
EV/sales (x)	1.1	1.0	0.9	0.8	0.7
P/B (x)	1.9	1.8	1.6	1.5	1.3
RoE (%)	9.0	8.2	9.2	10.9	12.4
RoCE (%)	14.6	13.9	14.4	16.2	17.8
Dividend yield (%)	0.6	0.6	0.8	0.8	0.8
Dividend payout (%)	19.0	15.4	15.9	17.8	13.8
Net debt / equity (x)	0.3	0.4	0.4	0.3	0.2
Debtors (days)	139	147	147	147	147
Inventories (days)	49	49	51	51	52
Creditors (days)	158	132	128	124	122
Interest cover (x)	2.7	2.8	3.0	3.4	3.8
Fixed asset T/O (x)	6.9	7.9	9.2	11.1	13.6

Source: Company, Anand Rathi Research

Fig 5 – PE band

Source: Bloomberg, Anand Rathi Research

Fig 6 – FY15 revenue break-up



Source: Company

Geographical diversification yielding returns

Globally, the transmission sector is set for $1trn in investment by 2020. With 65% of its T&D order book from overseas and $780m of overseas orders being executed, Kalpataru has established itself in high-transmission-investment regions. We expect this would help it in securing more orders.

65% of T&D order book international

$780m of overseas order book being executed

With more than three decades' experience and operations in more than 40 countries, 65% of Kalpataru's standalone order book comes from overseas. Twenty-six of that comes from Africa, a high-growth region driven by significant power-generation-capacity-addition plans. (Generation capacity is expected at 240 GW by 2020, from 123 GW in 2013.) Investment of $37.5bn is expected to come by 2020 to strengthen transmission networks. Similarly, North America would attract investment of $134bn by 2020 to modernise the transmission sector and add about 70,000 ckm.

65% of its international order book, especially from high-transmission-growth regions, would be a huge advantage for Kalpataru in securing more orders

Globally, the power T&D sector saw a ~13.7% CAGR over 2006-14, mainly supported by strong growth in Asia, America, the Middle East and Africa. The sector is expected to attract investment of $1trn globally, over the next 5-6 years. This growth would mainly be driven by Asia, followed by America, the Middle East and Africa.

Fig 7 – Global T&D investment needs during 2015-20

	Global	Africa	North America	The Mid-East	Asia Pacific
Installed capacity (GW, 2013)	5,445	123	1,309	205	2,152
Expected installed capacity (GW, 2020)	7,103	241	1,299	288	3,216
Transmission line length (km, 2013)	3,927,990	138,668	747,176	137,384	1,819,096
Expected transmission line length (km, 2020)	4,973,568	203,897	814,969	162,533	2,541,741
Expected investment in transmission	**$1trn**	**$37.5bn**	**$134bn**	**$38.7bn**	**$566bn**

Source: Company, Anand Rathi Research

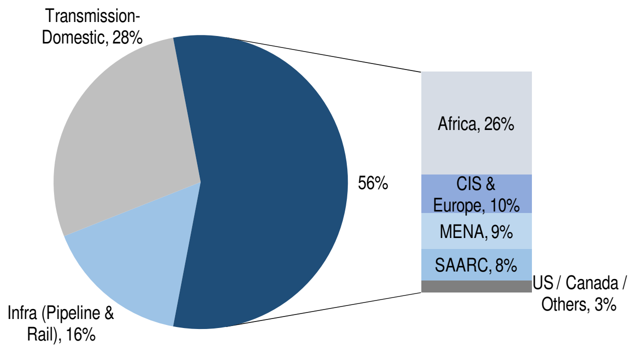
The company's considerable operations in those regions would help it in securing orders there.

Fig 8 – Major international turnkey projects being carried out

Country	Order ($ m)
Congo	265
Ukraine	170
Egypt	105
Bhutan	95
Zambia	84
Thailand	62
Total	**781**

Source: Company, Anand Rathi Research

Fig 9 – International order-book break-up



Source: Company, Anand Rathi Research

Domestic T&D opportunities, a sweet spot

We expect a $75bn opportunity, incl. ₹100bn from SEBs in the domestic market. The green energy corridor (₹430bn), feeder separation (₹1trn) and smart cities are additional planned investments.

We expect a 25% CAGR in T&D orders over FY15-18

In India, a strong pipeline of orders from Power Grid and improved vigour at SEBs to reduce T&D losses and close the demand-supply gap would open a plethora of orders for companies such as Kalpataru.

We expect order inflows at a 25% CAGR over FY15-18, driven by strong domestic T&D capex plans

During the 12th and 13th Plans, expected investment is $75bn. However, investment in the transmission sector is still inadequate. The 12th Five-Year Plan (FY12-FY17) pegs investment required in power transmission at ~$35bn, of which about $19bn is planned to come from Power Grid and ~$5bn from the states. ₹1trn of transmission projects are expected to be announced in FY16 itself. The green energy corridor (₹430bn), feeder separation (₹1trn) and smart cities are additional planned investments.

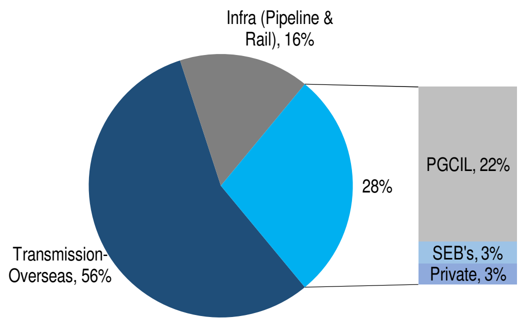
Fig 10 – KPT-focused states' expected order pipeline in the next 3-5 yrs

State	Order pipeline (₹ bn)
Maharashtra	10-15
Rajasthan	7.5-15
Andhra Pradesh / Telangana	7.5 – 10
Bihar	10-15
Karnataka	15
Tamil Nadu	25
Gujarat	5-10
Madhya Pradesh	5
Total	**85-110**

Source: Company, Anand Rathi Research

We expect the company's order inflows at a 25% CAGR over FY15-18, driven by the strong investment plans in its target markets. We have built in orders of ₹45bn and ₹54bn over FY16 and FY17, respectively, against orders of ₹33.5bn in FY15.

Fig 11 – Domestic order-book break-up



Source: Company, Anand Rathi Research

Opportunities in railways, oil & gas

The Indian Railways has planned investment of $160bn for capacity expansion and modernisation. Of this, we expect orders of $30bn to be announced in the next two years. In the oil & gas sector, opportunities of $30bn are likely, of which ~$10bn in the domestic market and ~$20bn from overseas are expected.

The Indian Railways has planned investment of ~$160bn to modernise and expand capacity ($135bn in the next 5-7 years). Of this, ~40% is expected to come from the private sector.

We can expect the following orders in the next five years.

Fig 12 – Planned modernisation and expansion by the Railways

Category	Length (km)
Doubling (including DFC)	11,000
Gauge conversion	9,500
New lines	24,000
Electrification	12,000
World-class stations (bid out / concessions)	38 stations
High-speed corridors	2,000

Source: Company, Anand Rathi Research

We expect orders of $5bn to be announced by the DFC in the next two years

In the next two years we can expect orders of $30bn for doubling/ modernisation of high-density sections.

"Dedicated Freight Corridor" (DFC, 3,300 km) is also expected to award contracts for electrification and signalling projects (Kalpataru's domain). Recently the DFC awarded a ₹51bn EPC contract to a GMR-led consortium to design and construct a 417-km stretch of the project's eastern arm. We expect DFC to award contracts of $5bn in the next two years.

Kalpataru has been bidding for oil and gas projects and those of the Railways, a vast market.

In oil & gas, opportunities for the company would amount to $30bn, of which ~$10bn would be domestic and ~$20bn international.

Fig 13 – Opportunities in oil & gas

Segments / Regions	Order value ($ bn)	Country
Domestic opportunities		
Pipelines	3.3	India
Plants	7.4	India
Overseas opportunities		
The Middle East	12	Iraq, Qatar, the UAE, Oman, Saudi, Kuwait
South-east Africa	5.5	Kenya, Uganda, Sudan, Turkey, Azerbaijan
South-east Asia	3.5	Bangladesh, Myanmar, Thailand, Malaysia

Source: Company, Anand Rathi Research

BOOT projects now operational

Two transmission BOOT projects generating ₹920m revenue

All four road BOOT projects generating revenue

Kalpataru has invested ~₹1.1bn in two transmission projects—Jhajjar KT Transco (a 51% stake, operational from Mar'12) and Kalpataru Satpura Transco (a 100% stake, operational from Apr'15). These two now generate revenue of ₹920m with ~16% IRR.

Four road projects of JMC Projects—Kurukshetra Expressway (a 51% stake, fully commissioned in Q3 FY15), Brij Bhoomi Expressway (a 100% stake, fully commissioned in Q4 FY15), Wainganga Expressway (a 100% stake, fully commissioned in Q4 FY15) and Vindhyachal Expressway (a 100% stake, to be fully operational by Q2 FY16)—have also started generating revenue (however, toll collection is 75-80% of projections).

Operational assets have reduced the need for cash to be infused by the parent company (funding operational losses in the road projects, however, is needed), which provides the financial muscle to bid for forthcoming BOOT/BOOM projects.

The company has sold a 30% stake in its Thane IT Park, for ₹650m, which further improves its cash-flow.

Financials

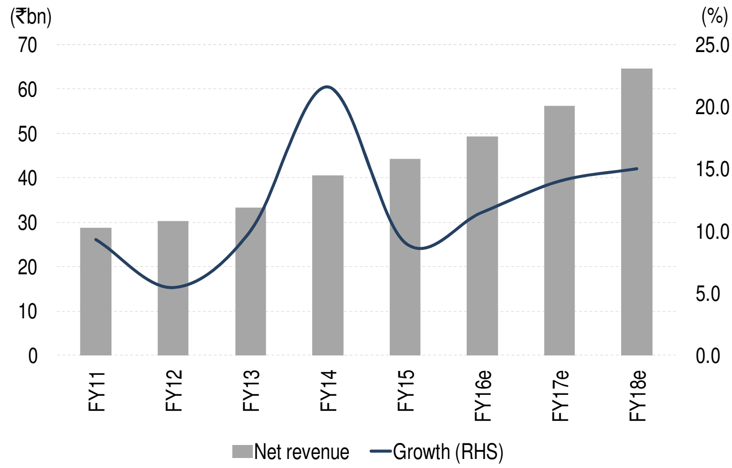
- **Kalpataru's standalone order book at end-2015 was ₹51.5bn. Order prospects in the months ahead are promising. The company has already announced T&D orders of ₹23bn in FY16 and we expect order inflow of ₹43bn in FY16.**
- **We expect revenue of the standalone business would come at a 13% CAGR over FY15-18.**
- **We expect the RoE and RoCE in FY18 to improve to 12.4% and 17.8%, respectively, from 8.2% and 13.9% in FY15.**

Revenue to see a 13% CAGR over FY15-18

Kalpataru's standalone revenue registered an 11% CAGR over FY10-15. We expect this growth to continue, supported by a sturdy order book resulting in a 13% revenue CAGR over FY15-18.

We expect orders of ₹43bn in FY16

Fig 14 – Revenue growth

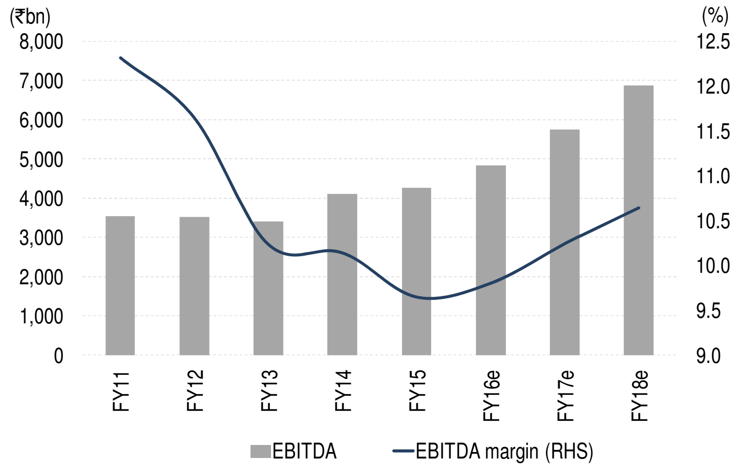


Source: Anand Rathi Research.

EBITDA to come at a 17% CAGR over FY15-18

The company has maintained an EBITDA margin of over 10% in the past. We expect it to maintain its margin above 10% in the coming years. The margin would improve in the next two years once past projects are completed. We expect a 10.6% EBITDA margin in FY18. The "escalation clause" while bidding would help the company to manage commodity price volatility for new projects.

Fig 15 – EBITDA and EBIDTA margin

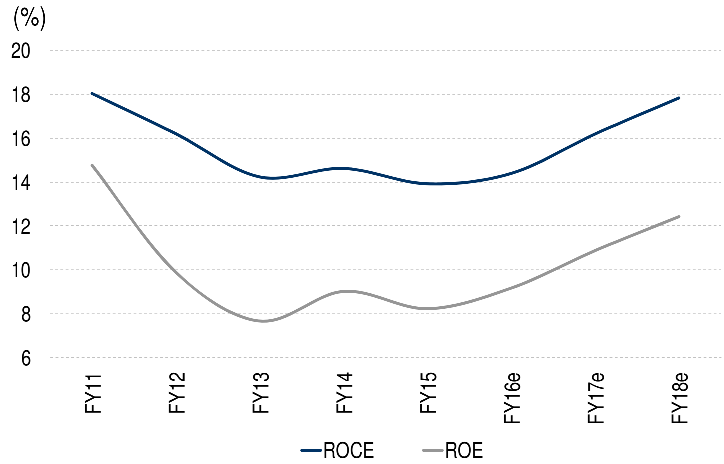


Source: Company, Anand Rathi Research

EPS to register a more-than-25% CAGR over FY15-18

The improved economic outlook, streamlining of operations, better realisation terms, lower capex and reduced interest outgo would help the company expand its EPS at a 25% CAGR, from ₹10.8 in FY15 to ₹21 in FY18. Subsequently, its RoE would improve—from 8.2% in FY15 to 12.4% in FY18.

Fig 16 – RoE and RoCE trend



Source: Company, Anand Rathi Research

Fig 17 – Income statement (₹ m)

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Net revenues	40,552	44,223	49,307	56,210	64,642
Other op revenues	-	-	-	-	-
Revenues	**40,552**	**44,223**	**49,307**	**56,210**	**64,642**
Growth (%)	*21.6*	*9.1*	*11.5*	*14.0*	*15.0*
Material cost	-18,704	-18,865	-21,202	-23,889	-27,473
Employee cost	-2,602	-3,136	-3,449	-3,967	-4,562
Manufacturing cost	-11,124	-12,188	-14,299	-16,301	-18,423
Marketing cost	-505	-	-740	-843	-776
Administrative cost	-2,341	-5,372	-3,205	-3,710	-4,525
Energy cost	-221	-	-345	-337	-388
Other cost	-941	-393	-1,233	-1,405	-1,616
Sector specific expense	-	-	-	-	-
EBITDA	**4,113**	**4,268**	**4,834**	**5,758**	**6,880**
Growth (%)	*20.5*	*3.8*	*13.3*	*19.1*	*19.5*
EBITDA margin (%)	*10.1*	*9.7*	*9.8*	*10.2*	*10.6*
Other income	484	522	542	675	776
Operating profit	**4,597**	**4,790**	**5,377**	**6,432**	**7,655**
Depreciation	-695	-852	-900	-956	-1,017
EBIT	**3,902**	**3,938**	**4,477**	**5,476**	**6,639**
Interest cost	-1,460	-1,409	-1,486	-1,613	-1,748
PBT	**2,442**	**2,529**	**2,991**	**3,863**	**4,890**
Tax	-727	-873	-1,017	-1,313	-1,663
Effective tax rate	*29.8*	*34.5*	*34.0*	*34.0*	*34.0*
PAT	**1,715**	**1,657**	**1,974**	**2,549**	**3,228**
Minority interest	-	-	-	-	-
Associate profit	-	-	-	-	-
Consol PAT	**1,715**	**1,657**	**1,974**	**2,549**	**3,228**
Growth (%)	*24.6*	*-3.4*	*19.2*	*29.1*	*26.6*
PAT margin (%)	*4.2*	*3.7*	*4.0*	*4.5*	*5.0*
Extra-ordinary income	-	-	-	-	-
Dividends (incl Tax)	-264	-264	-352	-352	-352
Transferred to reserves	**1,451**	**1,393**	**1,622**	**2,198**	**2,876**
Per share data					
FDEPS (₹)	11.2	10.8	12.9	16.6	21.0
DPS (₹)	1.5	1.5	2.0	2.0	2.0
Adj BV (₹)	127.3	134.9	145.5	159.8	178.6
CEPS (₹)	15.7	16.3	18.7	22.8	27.7
Valuation ratio					
P/E (x)	21.5	22.2	18.7	14.4	11.4
P/adj BV (x)	1.9	1.8	1.6	1.5	1.3
P/C (x)	15.3	14.7	12.8	10.5	8.7
Dividend Yield (%)	0.6	0.6	0.8	0.8	0.8
EV/S (x)	1.1	1.0	0.9	0.8	0.7
EV/E (x)	10.5	10.6	9.3	7.8	6.3
Quality ratio					
Dividend payout (%)	15.4	15.9	17.8	13.8	10.9
Other income/PBT (%)	19.8	20.7	18.1	17.5	15.9
Interest cover (x)	2.7	2.8	3.0	3.4	3.8
Operating CF/EBITDA (x)	0.2	-0.2	0.3	0.3	0.3

Source: Company, Anand Rathi Research

Fig 18 – Balance Sheet (₹ m)

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Equity	307	307	307	307	307
Reserves	19,235	20,401	22,023	24,221	27,097
Minority interests	-	-	-	-	-
Less: Misc exp	-	-	-	-	-
Networth	**19,542**	**20,708**	**22,330**	**24,528**	**27,404**
Equity (% of CE)	*73.3*	*69.3*	*69.2*	*69.4*	*70.1*
LT debt	6,938	7,095	7,595	8,095	8,595
ST debt	49	2,011	2,311	2,661	3,061
DTL (net)	138	54	54	54	54
Total debt	**7,125**	**9,160**	**9,960**	**10,810**	**11,710**
Net D/E (x)	*0.3*	*0.4*	*0.4*	*0.3*	*0.2*
Capital employed	26,667	29,867	32,290	35,337	39,113
Gross block	9,281	9,840	10,394	11,044	11,744
Acc depreciation	-3,543	-4,304	-5,204	-6,160	-7,177
Net block	**5,738**	**5,535**	**5,190**	**4,884**	**4,567**
CWIP	180	54	150	200	200
Fixed assets	**5,918**	**5,590**	**5,340**	**5,084**	**4,767**
Investments	3,836	3,939	4,039	4,139	4,239
Cash equivalents	647	753	1,722	2,998	4,910
Inventories	5,438	5,989	6,918	7,848	9,146
Debtors	15,417	17,836	19,860	22,640	26,036
Loans & advances	9,753	9,672	9,865	10,063	10,264
Other current assets	4,952	4,164	4,247	4,332	4,419
Current assets	**36,206**	**38,413**	**42,613**	**47,881**	**54,775**
Creditors	-17,581	-15,967	-17,295	-19,060	-21,661
Provisions	-1,712	-2,108	-2,408	-2,708	-3,008
Other current liabilities	-	-	-	-	-
Current liabilities	**-19,293**	**-18,075**	**-19,703**	**-21,768**	**-24,668**
Net current assets	**16,913**	**20,338**	**22,910**	**26,114**	**30,107**
Capital deployed	**26,667**	**29,867**	**32,290**	**35,337**	**39,113**
FA/CE (%)	*22.2*	*18.7*	*16.5*	*14.4*	*12.2*
Investments/CE (%)	*14.4*	*13.2*	*12.5*	*11.7*	*10.8*
Liquid assets/CE (%)	*2.4*	*2.5*	*5.3*	*8.5*	*12.6*
Working capital/CE (%)	*61.0*	*65.6*	*65.6*	*65.4*	*64.4*

Source: Company, Anand Rathi Research

Fig 19 – Cash-flow statement (₹ m)

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Cash Profit	2,410	2,508	2,874	3,505	4,244
Chg in WC	-1,668	-3,320	-1,602	-1,928	-2,081
Operating CF	742	-811	1,271	1,577	2,164
Capex	-1,227	-523	-650	-700	-700
Free CF	-485	-1,335	621	877	1,464
Equity	-372	-227	0	0	-
Debt	1,684	2,034	800	850	900
Investments	-485	-104	-100	-100	-100
Dividends	-264	-264	-352	-352	-352
Misc inflows	-	-	-	-	-
Net change in cash	78	106	970	1,276	1,912
Opening cash	569	647	753	1,722	2,998
Closing cash	647	753	1,722	2,998	4,910

Source: Company, Anand Rathi Research

Fig 20 – Ratio analysis @ ₹240

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Dupont Analysis					
Margins (%)	9.6	8.9	9.1	9.7	10.3
Capital turn (x)	1.6	1.6	1.6	1.7	1.7
RoCE (%)	15.4	13.9	14.4	16.2	17.8
Leverage factor(x)	1.3	1.4	1.4	1.4	1.4
Interest burden (x)	0.6	0.6	0.7	0.7	0.7
Tax burden (x)	0.7	0.7	0.7	0.7	0.7
Consol factor (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	9.0	8.2	9.2	10.9	12.4
Working capital (Days)					
Inventories	49	49	51	51	52
Debtors	139	147	147	147	147
Loans & advances	88	80	73	65	58
Other CA	45	34	31	28	25
Creditors	-158	-132	-128	-124	-122
Provisions	-15	-17	-18	-18	-17
Other CL	-	-	-	-	-
Net WC	146	162	157	150	142
Other ratios					
Op CF/Rev (%)	1.8	-1.8	2.6	2.8	3.3
FCF/Rev (%)	-1.2	-3.0	1.3	1.6	2.3
Intangibles/GB (%)	0.3	0.2	0.2	0.1	0.1
Intangibles/CE (%)	0.1	0.1	0.1	0.0	0.0
Revenue/GB (x)	4.4	4.5	4.7	5.1	5.5
Revenue/FA (x)	6.9	7.9	9.2	11.1	13.6
CWIP/GB (x)	0.0	0.0	0.0	0.0	0.0

Source: Company, Anand Rathi Research

Valuation and Risks

Based on a sum-of-parts valuation, we peg the standalone business at 14x FY17e EPS, JMC Projects (a listed entity, Kalpataru's share: 67.2%) at market value with a 20% holding company discount, BOOT projects at 1.4x equity invested, the Thane and Indore projects at the recent sale value and Shubham Logistics at the average transaction value (to the TANO fund) at ₹70 a share. We recommend a Buy, with a target price of ₹300.

Fig 21 – Sum-of-parts valuation

	Value (₹m)	₹ / share	Comments
Standalone business	**35,690**	**233**	14x FY17e profit
JMC Projects	**3,131**	**20**	A 20% discount to the market cap
BOOT / BOOM projects	**1,515**	**10**	1.4x of equity invested (a 16% IRR at a 12% CoE)
Jhajjar KT Transco	610	4	A 51% share
Kalpataru Satpura	904	6	A 100% share
Projects	**2,517**	**16**	
Thane project	1,517	10	At the recent sale value of ₹650m for a 30% stake
Indore project	1,400	9	Equity invested
Shubham Logistics	**2,509**	**16**	Kalpataru's 73% stake, at an average transaction price of ₹70 a share
Total	**45,762**	**298**	

Source: Bloomberg, Anand Rathi Research

Risk

- Slower project announcements in the transmission sector may impact order inflows, which may ultimately affect profitability.
- Right-of-way issues regarding transmission projects may delay the projects, which may impact the IRR.

Company Background & Management

Company overview

A part of the Kalpataru group, Kalpataru Power Transmission is a leading diversified global EPC operator in power transmission and distribution, with over three decades' experience. Being an EPC operator, it provides a complete array of services from testing to procurement, in-house design, and erection and installation of transmission line across the country.

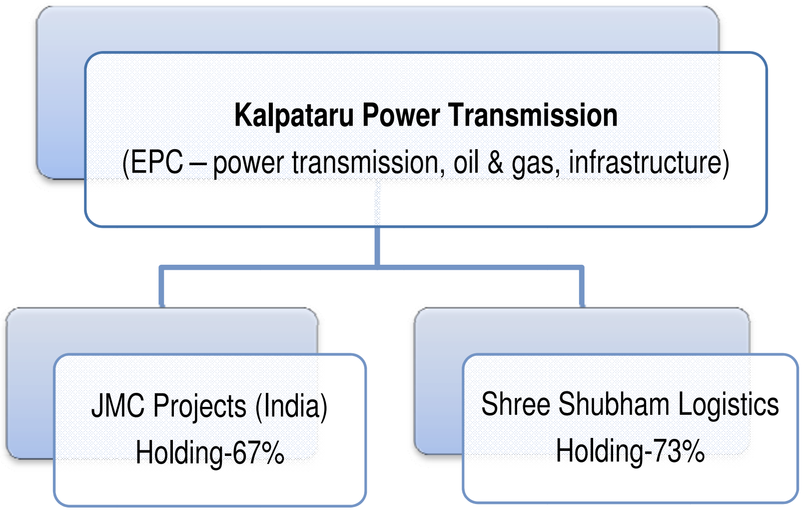
It also operates in oil & gas (laying pipelines), the Railways, infrastructure development, civil contracting through its subsidiary JMC Projects and in agri-logistics and warehousing through its subsidiary Shree Shubham Logistics.

It also operates four road and two power transmission projects through a BOOT model. It has expanded its operations throughout the globe including Africa, the Middle East, the SAARC region, Australia, North America, Eastern Europe and the CIS. It has operations in more than 42 countries, and directly or indirectly has a workforce of more than 15,000.

Kalpataru has diversified into the fast-growing infrastructure business. It is led by an experienced management

Its business structure:

Fig 22 – Kalpataru has majority stakes in JMC and Shree Shubham



Source: Company, Anand Rathi Research

Business overview

The company has a strong standalone order book of ₹51.5bn; consolidated, ₹108bn. Its primary clients are the Adani group companies, Mahavitran, Power Grid, GAIL, IOCL, ADAG companies, etc.

About major divisions, subsidiaries

- **Power transmission & distribution:** The company has installed 14,000 km of transmission lines and supplied 90,000 tonnes of towers. It has integrated manufacturing capacity of over 180,000 tonnes in Gujarat and Chhattisgarh.
- **JMC Projects** is a leading civil manufacturing company executing works for buildings, factories, roads and highways. It owns four BOOT projects on a toll basis. It has a strong order book of ₹56.5bn.
- **Oil & gas pipelines:** The company is currently executing six projects

of GAIL, IOC and OIL with an order value of around ₹6bn. It has completed laying 2,500 km of oil & gas pipelines.

- **Railways:** It is mostly into track laying, signalling and telecommunications, and overhead electrification. It is executing six projects of around ₹2bn.
- **Shree Shubham Logistics** is one of the largest private warehousing and agri-logistics operators. It has 149 warehouses in Rajasthan, Gujarat, Madhya Pradesh and Maharashtra of 9.39m sq.ft. of storable floor space. It also undertakes procurement, trading, collateral management & funding facilitation besides primary processing.
- **Biomass energy generation:** Kalpataru has two operational biomass plants in Rajasthan—one, of 7.8 MW in Ganganagar district; the other, of 8 MW in Tonk district.
- **Development projects:** The company has two other projects: an IT Park in Thane (project cost: ₹1.5bn) and a commercial complex in Indore (project cost not yet finalized). The Thane IT Park has been completed; the Indore complex will be completed in FY18.

Fig23 – Management profile

Name	Designation	Profile
Mofatraj P. Munot	Chairman	Over 17 years' experience in real estate, property and civil contracting industries
Manish Mohnot	Managing director	CA, ICWA with over 2 decades' experience in power, oil & gas and infrastructure
Parag Munot	Promoter director	MBA from Carnegie Mellon University, with 18 years' experience in real estate and property development
Kamal Jain	Director and CFO	CA with more than 30 years' experience in strategic finance, accounts & taxation
Sanjay Dalmia	Director	CA and CS with more than 30 years' experience in textiles, mining and EPC

Source: Company

ANANDRATHI

India I Equities

Capital goods

Initiating Coverage

29 September 2015

KEC International

Domestic orders to improve margins; initiating, with a Buy

Rating: **Buy**
Target Price: ₹193
Share Price: ₹139

We initiate coverage on KEC International, with a Buy rating and a target price of ₹193. KEC obtains 50% of its revenue from the international market, expected to see 70% of global T&D investment. The domestic segment also has a strong order pipeline. This would take the company's profitability to its past highs.

Domestic sector set to expand with controlled competition. In India power transmission has a strong order pipeline of ~₹1trn in the next one and a half years and a $40bn opportunity in the next 5-7 years. "Rational" bidding rules of PGCIL (like award of contracts, post-capacity audit) are expected to manage keen competition. International and domestic growth should lead to a 17% CAGR in orders for KEC and a ~10% CAGR in its order book over FY15-18, in our view.

International market offers a $6.5trn opportunity over 2015-35. KEC's stronghold (Asia, Africa and the Americas) will spend ~70% of global T&D investment, throwing up $6.5trn in opportunities by 2035. Of this, ~$700bn would come by 2020.

Newer business to improve revenue. KEC's diversification to the Railways and water (10% of its order backlog in FY15) offers significant opportunities in the years ahead. However, these businesses have been a drag on its margins (5-6%), which we expect to come down on completion of its past orders (by H2 FY16). An 11% CAGR in revenue over FY15-18 is expected to give a 17% EBITDA and 35% PAT growth, which would take the RoE to near past levels of over 20%, in our view.

Valuation. We value the company at 14x FY17e EPS and recommend a Buy with a price target of ₹193 (a ~40% potential). **Risks:** Slowdown in domestic orders, keener competition in T&D and delay in execution in the Railways and water (low-margin) businesses are major risks.

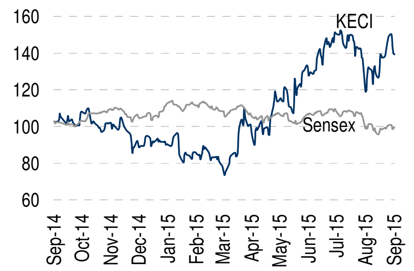
Key financials (YE Mar)	FY14	FY15	FY16e	FY17e	FY18e
Sales (₹ m)	79,018	84,678	91,680	104,173	119,841
Net profit (₹ m)	849	1,610	2,631	3,547	4,852
EPS (₹)	3.3	6.3	10.2	13.8	18.9
Growth (%)	30.3	89.6	63.4	34.8	36.8
PE (x)	42.1	22.2	13.6	10.1	7.4
PBV (x)	3.0	2.7	2.4	2.1	1.7
RoE (%)	7.3	12.8	18.8	22.3	25.7
RoCE (%)	17.7	19.7	22.7	25.2	28.1
Dividend yield (%)	0.4	0.6	2.9	2.9	2.9
Net debt/equity (x)	1.7	1.5	1.3	1.1	0.8

Source: Company, Anand Rathi Research

Key data	KECI IN / KECL. BO
52-week high / low	₹161 / ₹72
Sensex / Nifty	25617 / 7796
3-m average volume	$3m
Market cap	₹35.7bn / $540m
Shares outstanding	257.1m

Shareholding pattern (%)	Jun '15	Mar'15	Dec'14
Promoters	50.4	50.1	50.0
- *of which, Pledged*	-	-	-
Free Float	49.6	49.9	50.0
- Foreign Institutions	4.7	4.7	5.9
- Domestic Institutions	25.5	26.2	28.0
- Public	19.4	19.0	16.1

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Net revenues	79,018	84,678	91,680	104,173	119,841
Revenue growth (%)	13.2	7.2	8.3	13.6	15.0
- Op. expenses	73,452	78,899	84,626	95,663	1,09,334
EBIDTA	**5,566**	**5,779**	**7,054**	**8,510**	**10,507**
EBITDA margins (%)	7.0	6.8	7.7	8.2	8.8
- Interest	3,326	3,760	3,886	3,962	4,114
- Depreciation	705	881	955	1,174	1,325
+ Other income	198	1,472	1,834	2,083	2,397
- Tax	883	1,001	1,417	1,910	2,613
Effective tax rate (%)	51.0	38.3	35.0	35.0	35.0
+ Associates/(Minorities)	-0	0	-	-	-
Adjusted PAT	849	1,610	2,631	3,547	4,852
+ Extraordinary items	-182	-	-	-	-
Reported PAT	667	1,610	2,631	3,547	4,852
Adj. FDEPS (`/share)	3.3	6.3	10.2	13.8	18.9
Adj. FDEPS growth (%)	30.3	89.6	63.4	34.8	36.8

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Share capital	514	514	514	514	514
Reserves & surplus	11,402	12,784	14,001	16,135	19,574
Net worth	11,916	13,298	14,515	16,649	20,088
Total debt	21,296	22,153	22,153	22,953	23,753
Minority interest	-	-	-	-	-
Def. tax liab. (net)	514	527	577	627	677
Capital employed	**33,725**	**35,978**	**37,246**	**40,230**	**44,518**
Net fixed assets	12,145	11,354	9,960	9,889	9,717
Intangible assets	1,555	1,399	2,839	2,835	2,832
Investments	-	0	-	-	-
- of which, Liquid	-	-	-	-	-
Working capital	18,585	21,162	21,049	22,584	24,296
Cash	1,440	2,063	3,398	4,921	7,674
Capital deployed	**33,725**	**35,978**	**37,246**	**40,230**	**44,518**
Working capital (days)	86	91	84	79	74
Book value (₹/sh)	46.3	51.7	56.5	64.8	78.1

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Adjusted PAT	849	1,610	2,420	3,337	4,642
+ Non-cash items	705	881	955	1,174	1,325
Cash profit	1,554	2,491	3,375	4,511	5,967
- Incr./(decr.) in WC	4,865	2,576	-113	1,535	1,712
Operating cash-flow	-3,311	-85	3,488	2,976	4,256
- Capex	898	-65	1,000	1,100	1,150
Free cash-flow	-4,209	-20	2,488	1,876	3,106
- Dividend	180	272	1,203	1,203	1,203
+ Equity raised	-43	45	-	-0	0
+ Debt raised	4,498	871	50	850	850
- Investments	-	0	-0	-	-
- Misc. items	182	-	-	-	-
Net cash-flow	-116	623	1,335	1,523	2,752
+ Op. cash & bank bal.	1,556	1,440	2,063	3,398	4,921
Cl. cash & bank bal.	1,440	2,063	3,398	4,921	7,674

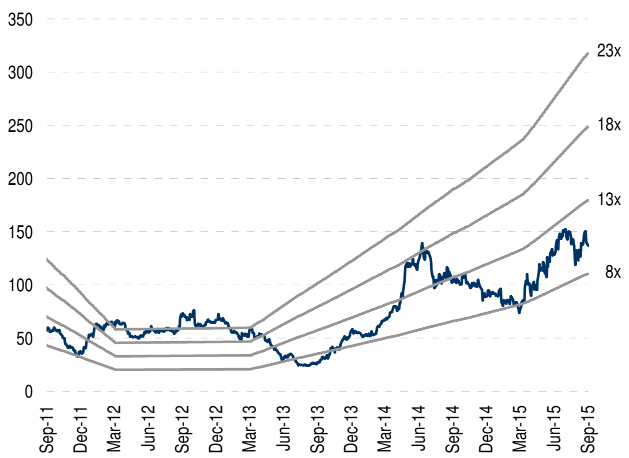
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis @ ₹139

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
P/E (x)	42.1	22.2	14.8	10.7	7.7
Cash P/E (x)	23.0	14.3	10.6	7.9	6.0
EV/EBITDA (x)	10.0	9.7	7.7	6.3	4.9
EV/sales (x)	0.7	0.7	0.6	0.5	0.4
P/B (x)	3.0	2.7	2.5	2.1	1.8
RoE (%)	7.3	12.8	17.4	21.4	25.3
RoCE (%)	16.2	18.3	21.7	24.3	27.3
Dividend yield (%)	0.4	0.6	2.9	2.9	2.9
Dividend payout (%)	21.3	16.9	49.7	36.1	25.9
Net debt/equity (x)	1.7	1.5	1.3	1.1	0.8
Debtor (days)	180	170	167	170	172
Inventory (days)	23	21	23	23	23
Payables (days)	180	173	178	177	176
Interest cover (x)	1.5	1.7	1.9	2.2	2.6
Fixed asset T/O (x)	2.4	2.4	2.5	2.6	2.8

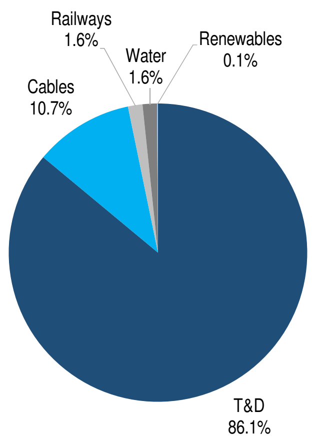
Source: Company, Anand Rathi Research

Fig 5 – PE band



Source: Bloomberg, Anand Rathi Research

Fig 6 – FY15 revenue break-up



Source: Company

Domestic sector, bright prospects

Fifty percent of KEC International's ₹105bn order book arises from the domestic sector, which offers a vast order pipeline following the ₹1trn of expected contracts to be announced in the T&D sector, including ~₹210bn capex of Power Grid in FY16.

₹1trn of T&D contracts in 12-18 months

Policy-makers have identified vast requirements in the T&D sector: huge investments needed due to the vast losses in T&D, long duration power cuts, low PLF of generating units due to evacuation constraints.

Opportunities of ₹1trn in the domestic T&D sector are likely to arise in the next 12-18 months

Fig 7 - Power demand, supply and surplus/deficit (region-wise)

Region	Demand (m units)	Met (m units)	Surplus / Deficit	Generation in million units	Imports
Northern	332,453	311,589	-20,864	286,363	25,226
Western	317,367	314,923	-2,444	367,783	-52,860
Southern	285,797	274,136	-11,661	215,865	58,271
Eastern	119,082	117,155	-1,927	163,019	-45,864
North-Eastern	14,224	12,982	-1,242	10,635	2,347
Bhutan Imports	-	-	-	5,008	-5,008
Total	**1,068,923**	**1,030,785**	**-38,138**	**1,048,673**	**-17,888**

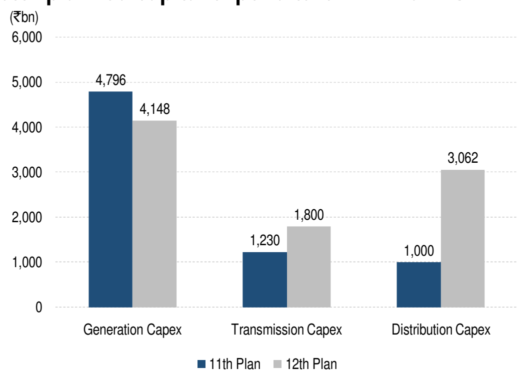
Source: CEA, Anand Rathi estimates

To tackle these issues, policymakers have planned the following investments in the transmission sector.

₹1.8trn of investment in transmission during the 12th Plan

The 12th Five-Year Plan pegs investment required in power transmission at ~₹1.8trn. Of this, ~₹1.1trn is planned to come from Power Grid and ₹550bn from states. The remaining ₹250bn is expected to come from private operators.

Fig 8 - Power sector planned capital expenditure: 12th Plan vs. 11th Plan



Source: 12th Plan documents

Fig 9 - Investment estimates for transmission-line networks in India

(₹ m)	2014	2015	2016e	2017e
Power Grid	210,000	220,000	225,000	225,000
STUs	277,428	266,891	266,703	268,662
Total	**487,428**	**486,891**	**491,703**	**493,662**

Source: Company, Media reports, Plan documents

Power Grid plans capex of ₹1.1trn in the 12th Plan

The Power Grid Corp of India's investment in transmission has been in line with the 12th Plan and we expect this to continue (against the shortfall in the past). Power Grid is expected to spend ₹210bn-225bn in FY16 and FY17 on developing transmission infrastructure.

Green energy corridor requires investment of ₹430bn in five years

To evacuate power generated from renewable resources, "green energy corridors" are being planned. With the government's ambitious plans to install 100 GW of solar power capacity by 2022 and 10 GW of wind power every year, evacuation would require large investment on infrastructure. For this purpose Power Grid has been assigned the work of developing nine high-capacity green transmission corridors.

KEC has been among the top-10 awardees of Power Grid contracts

KEC International has been a very important operator in India's transmission sector. It has consistently been among the top-10 contract awardees of Power Grid contracts. We expect this trend to continue.

Fig 10 – Top-10 contract winners for Power Grid orders

FY13	FY14	FY 15
Alstom Grid, UK (15%)	**KEC International (9%)**	Alstom Grid, UK (16%)
KEC International (14%)	Tata Projects (8%)	Tata Projects (8%)
Larsen & Toubro (8%)	**Kalpataru Power Transmission (7%)**	Larsen & Toubro (7%)
Kalpataru Power Transmission (8%)	Emco (6%)	New Northeast Electric Group (6%)
Larsen & Toubro (4%)	Pinggao Group Co (6%)	Hyosung Corp (6%)
Gammon India (3%)	Hyosung Corp (5%)	**Kalpataru Power Transmission (5%)**
New Northeast Electric Group (3%)	Larsen & Toubro (4%)	**KEC International (4%)**
Bajaj Electricals (3%)	Hindustan Vidyut Products (4%)	Emco (4%)
Emco (3%)	Godrej & Boyce Mfg. Co. (4%)	Gupta Power Infrastructure (3%)
Siemens (3%)	A JV of the Alstom group (4%)	Bajaj Electricals (3%)

Source: PGCIL data

Orders of ₹31bn in Q1 FY16 with ₹35bn pipeline for Q2 FY16

The company received orders of ₹31bn in Q1 FY16. Of this, 49% arose in the domestic sector. The company has a significantly large pipeline of L1 orders (of ₹35bn) at end-Q1 FY15. In transmission, the state boards' share of its order book has also increased to 20-25%, against 0-5% in the past. Private operators have also been securing large projects (Sterlite: one project; Adani: three in FY16), which would see order announcement in coming days. The company has invested in GIS sub-station capacity building, which offers large opportunities with restricted competition for growth. Its order book, at present, has ₹15bn of sub-stations.

Fig 11 - Orders won by KEC International in FY16

Order Date	Awarder	Value (₹ m)	State	Scope of Work
06-04-2015	West Bengal State Electricity Transmission Co.	10,000	West Bengal	Supply and construction of transmission lines in West Bengal
22-04-2015	Power Grid Corp. of India	21,900	Rajasthan	Tower package for 765 kV D/C Chittorgarh-Ajmer transmission line (Part - III)
24-04-2015	Power Grid Corp. of India	10,500	Rajasthan	Tower Package for 400 kV D/C Ajmer and 400 kV D/C Chittorgarh transmission lines
08-05-2015	Power Grid Corp. of India	10,200	Multi States	Tower Packages for balance of work of the 765 kV D/C Srikakulam-pooling-station-to-Angul transmission line
12-05-2015	Power Grid Corp. of India	8,100	Tripura	Turnkey tower package for 400 kV D/C Surjyamaninagar-Indo-Bangladesh border
15-05-2015	Power Grid Corp. of India	6,800	Multi States	Turnkey tower package for Solapur (NTPC)-Solapur (PG) 400 kV D/C quad line
04-06-2015	Power Grid Corp. of India	12,100	Multi States	Tower package for 400 kV D/C (quad) Kurukshetra-Jind transmission line (95 km)
09-06-2015	Karnataka Power Transmission Corp.	8,600	Karnataka	Construction of transmission lines and substation in Southern India
27-07-2015	Power Grid Corp. of India	21,600	Multi States	Tower Package for 765 kV D/C Banaskantha-Chittorgarh transmission line (Part - IV)
03-08-2015	Power Grid Corp. of India	12,000	Rajasthan	Transmission line tower package for 400kV D/C transmission line from Kota LILO point to Jaipur

Source: Company, Media reports

International segment a strong back-up

With ~50% of its order book coming from international markets, KEC has significantly diversified its business to fast-developing areas.

70% of global T&D investment to come from developing countries

Globally, the power T&D sector experienced a ~13.7% CAGR over 2006-14, primarily backed by strong growth in Asia, America, the Middle East and Africa. The sector is expected to attract investment of $1trn globally over the next 5-6 years. This growth would mainly be driven by Asia, followed by America, the Middle East and Africa.

KEC has diversified to high-transmission-investment regions, which are expected to see 70% of global investment in transmission

Fig 12 - Global T&D investment required during 2015-20

	Global	Africa	North America	Middle East	Asia Pacific
Installed Capacity (GW, 2013)	5,445	123	1,309	205	2,152
Expected Installed Capacity (GW, 2020)	7,103	241	1,299	288	3,216
Transmission Line Length (km, 2013)	3,927,990	138,668	74,7176	137,384	1,819,096
Expected transmission line length (km, 2020)	4,973,568	203,897	814,969	162,533	2,541,741
Expected investment in transmission	**$1trn**	**$37.5bn**	**$134bn**	**$38.7bn**	**$566bn**

Source: Company data, Media reports, Anand Rathi research

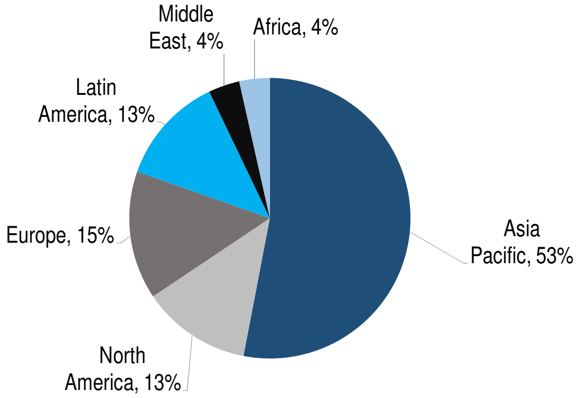
KEC has strong operations in high-T&D-investment regions

KEC's strategy of diversifying to export regions to mitigate a domestic order inflow risk has worked well in the past and helped it record a 17% revenue CAGR over FY10-15 during a weak investment phase in the domestic market.

Its JV in Saudi Arabia has done well in terms of orders, and offers bright prospects for the future. The company has an order book of ₹20bn (KEC's share of the JV) with ₹30bn in L1 orders. In coming months the company will bid for orders of ₹45bn as well.

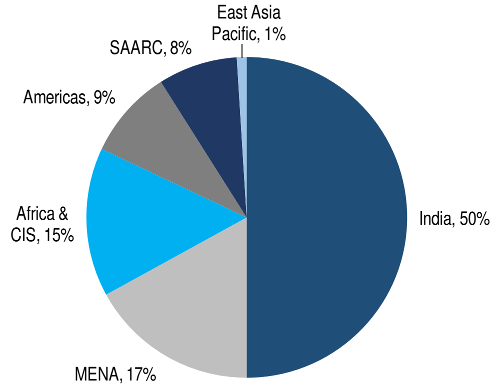
The impact of falling crude prices on infrastructure spending is not yet visible. Low crude and commodity prices have helped KEC expand its margins (as most of its contracts are fixed-price contracts).

Fig 13 - Investment in power transmission, region-wise



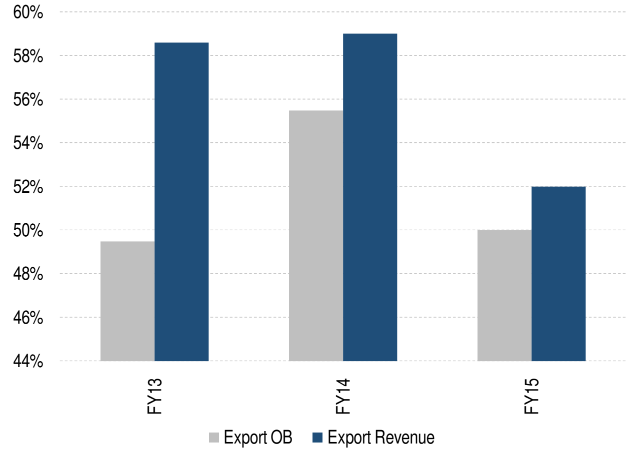
Source: Company, Media reports, Anand Rathi Research

Fig 14 – KEC's order book



Source: Company, Anand Rathi Research

Fig 15 - KEC's export revenue and order book



Source: Company, Anand Rathi Research

Railways and water, fresh opportunity

- Orders of $30bn to double/modernise high-traffic-density sections are expected in the next two years.
- Planned investment in the water treatment segment of ₹1,703.6bn over 15 years
- Newer businesses to increase revenue.

Railways

The Indian Railways plans to invest ~$160bn for modernisation and ($135bn for capacity expansion in the next 5-7 years. Of this, ~40% is expected to come from the private sector.

We can expect the following orders in the next five years.

We anticipate $30bn of project announcements from the Railways in the next two years

Fig 16 – Capacity augmentation and renovation plans of the Railways

Category	Length (km)
Doubling (including DFC)	11,000
Gauge conversion	9,500
New lines	24,000
Electrification	12,000
World-class stations (Bid out / concession)	38 stations
High-speed corridors	2,000

Source: Company, Media reports, Plan documents

In the next two years we can expect orders of $30bn to double/ modernise high-traffic-density sections.

The dedicated freight corridor project (of 3,300 km) is also expected to award contracts for electrification and signalling projects. Recently, the DFC awarded, to a GMR-led consortium, a ₹51bn EPC contract to design and construct a 417-km stretch of the project's eastern arm. We expect DFC to award contracts of $5bn in the next two years.

KEC has recently secured two orders of ₹2.5bn for railway electrification. In Q1 FY16, the division recorded ~95% yoy revenue growth (on a low base of ₹2.32bn); however in FY15 revenues declined 21%. The company has some past orders in this division, which are expected to be completed by end-Q2/Q3. After that, we expect better margins in this segment.

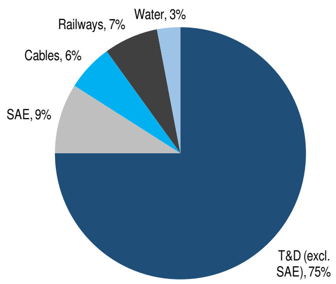
Water

With planned investment of ₹1,703.6bn over 15 years (source: The Ganga River Basin Management Plan) for sewage systems and sewage treatment plants, zero liquid discharge plants, waste water recycle/ reuse tertiary treatment plants, the water segment is expected to see large order inflows in coming years.

KEC has been focusing on technology projects like waste-water treatment (WWT), which have higher margins. At present, it is executing four waste-water treatment projects—in Karnataka and Uttarakhand.

KEC's diversification to the Railways and water (10% of its order backlog in FY15) offers significant opportunities in coming years. We expect the proportion of these business to grow in the years ahead.

Fig 17 - Railways and water divisions are fast-growing business



Source: Company

Financials

We estimate 12% revenue CAGR for FY15-18 led by strong order inflows (19% CAGR) from the domestic transmission sector, brighter prospects from the Railways and high capacity utilisation in the cable business.

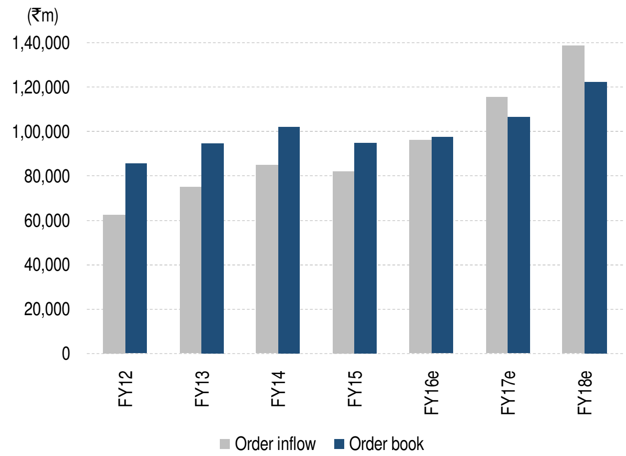
Improved capacity utilisation would lead to 8%+ EBITDA margins by FY18.

Order inflow CAGR of 19% for FY15-18e

At end-Q1 FY16, KEC's order book stood at ₹105bn, most of it (81%) in T&D. With a strong pipeline of orders in the domestic segment and support from exports, we expect it to register a 19% CARG in orders during FY15-18. However, its order book would see a 9% CAGR during the same period due to quicker execution.

A strong order inflow pipeline would translate to a 19% CAGR in orders

Fig 18 – KEC's order inflows to see a 19% CAGR



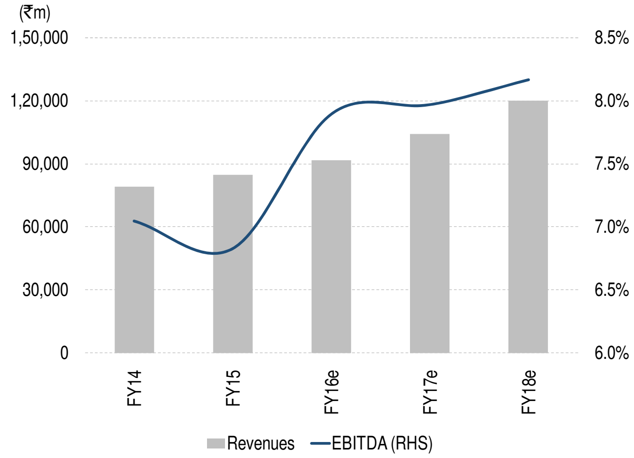
Source: Company, Anand Rathi Research

A 12% revenue CAGR over FY15-18, with 8%+ margins by FY18

We expect KEC to record a 12% revenue CAGR for FY15-18, following strong orders in the domestic transmission sector, brighter prospects from the Railways and high capacity utilisation in the cable business (which registered ~90% utilisation in Q1 FY16).

In the past, margins deteriorated due to past projects and cost overruns in fixed-price contracts. The company also suffered some losses in rural electrification projects. However, ahead, the completion of past orders, favourable commodity prices and greater utilisation of cable capacities should help expand margins.

Fig 19 - Margins to cross 8% by FY18



Source: Company, Anand Rathi Research

The debt-equity ratio has risen over the years from 1.1 in FY09 to 1.5 in FY15. This was due to sluggishness in the power sector, deferred payments and, in some cases, deferment of deliveries. Ahead, with cash flows from operations we expect a steady reduction in debt as no major capex has been planned. We expect net D/E of 1.2x by end-FY17.

Fig 20 – Income statement (₹m)

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Net revenues	79,018	84,678	91,680	104,173	119,841
Other op revenues	-	-	-	-	-
Revenues	**79,018**	**84,678**	**91,680**	**104,173**	**119,841**
Growth (%)	*13.2*	*7.2*	*8.3*	*13.6*	*15.0*
Material cost	-43,953	-48,685	-52,716	-59,170	-67,830
Employee cost	-5,661	-5,865	-6,451	-7,096	-7,806
Manufacturing cost	-15,837	-15,886	-16,961	-19,793	-22,770
Marketing cost	-2,034	-1,723	-1,650	-2,083	-2,397
Administrative cost	-3,214	-3,191	-3,364	-3,718	-4,157
Energy cost	-835	-948	-1,008	-1,094	-1,258
Other cost	-1,918	-2,601	-2,475	-2,708	-3,116
Sector specific expense	-	-	-	-	-
EBITDA	**5,566**	**5,779**	**7,054**	**8,510**	**10,507**
Growth (%)	*29.2*	*3.8*	*22.1*	*20.6*	*23.5*
EBITDA margin (%)	*7.0*	*6.8*	*7.7*	*8.2*	*8.8*
Other income	198	1,472	1,834	2,083	2,397
Operating profit	**5,764**	**7,251**	**8,888**	**10,593**	**12,904**
Depreciation	-705	-881	-955	-1,174	-1,325
EBIT	**5,059**	**6,370**	**7,933**	**9,419**	**11,579**
Interest cost	-3,326	-3,760	-3,886	-3,962	-4,114
PBT	**1,733**	**2,611**	**4,047**	**5,457**	**7,465**
Tax	-883	-1,001	-1,417	-1,910	-2,613
Effective tax rate	*51.0*	*38.3*	*35.0*	*35.0*	*35.0*
PAT	**849**	**1,610**	**2,631**	**3,547**	**4,852**
Minority interest	-	-	-	-	-
Associate profit	-0	0	-	-	-
Consol PAT	**849**	**1,610**	**2,631**	**3,547**	**4,852**
Growth (%)	*30.3*	*89.6*	*63.4*	*34.8*	*36.8*
PAT margin (%)	*1.1*	*1.9*	*2.9*	*3.4*	*4.0*
Extra-ordinary income	-182	-	-	-	-
Dividends (incl Tax)	-180	-272	-1,203	-1,203	-1,203
Transferred to reserves	**487**	**1,338**	**1,428**	**2,344**	**3,649**
Per share data					
FDEPS (₹)	3.3	6.3	10.2	13.8	18.9
DPS (₹)	0.6	0.9	4.0	4.0	4.0
Adj BV (₹)	46.3	51.7	57.3	66.4	80.6
CEPS (₹)	6.0	9.7	13.9	18.4	24.0
Valuation ratio					
P/E (x)	42.1	22.2	13.6	10.1	7.4
P/adj BV (x)	3.0	2.7	2.4	2.1	1.7
P/C (x)	23.0	14.3	10.0	7.6	5.8
Dividend yield (%)	0.4	0.6	2.9	2.9	2.9
EV/S (x)	0.7	0.6	0.6	0.5	0.4
EV/E (x)	9.5	9.5	7.8	6.2	4.8
Quality ratio					
Dividend payout (%)	21.3	16.9	45.7	33.9	24.8
Other income/PBT (%)	11.4	56.4	45.3	38.2	32.1
Interest cover (x)	1.5	1.7	2.0	2.4	2.8
Operating CF/EBITDA (x)	-0.4	-0.3	0.3	0.5	0.5

Source: Company, Anand Rathi Research

Fig 21 – Balance Sheet (₹ m)

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Equity	514	514	514	514	514
Reserves	11,402	12,784	14,001	16,135	19,574
Minority interests	-	-	-	-	-
Less: Misc exp	-	-	-	-	-
Networth	**11,916**	**13,298**	**14,515**	**16,649**	**20,088**
Equity (% of CE)	35.3	37.0	39.0	41.4	45.1
LT debt	21,296	22,153	22,153	22,953	23,753
ST debt	-	-	-	-	-
DTL (net)	514	527	577	627	677
Total debt	**21,809**	**22,680**	**22,730**	**23,580**	**24,430**
Net D/E (x)	1.7	1.6	1.3	1.1	0.8
Capital employed	**33,725**	**35,978**	**37,246**	**40,230**	**44,518**
Gross block	17,803	17,336	18,100	19,100	20,200
Acc depreciation	-4,283	-4,747	-5,701	-6,876	-8,201
Net block	**13,520**	**12,589**	**12,398**	**12,224**	**11,999**
CWIP	180	164	400	500	550
Fixed assets	**13,700**	**12,753**	**12,798**	**12,724**	**12,549**
Investments	-	0	-	-	-
Cash equivalents	1,440	2,063	3,398	4,921	7,674
Inventories	5,052	4,764	5,877	6,643	7,593
Debtors	39,059	39,464	42,020	48,614	56,591
Loans & advances	5,402	7,415	7,415	7,415	7,415
Other current assets	9,243	10,812	10,812	10,812	10,812
Current assets	**60,197**	**64,518**	**69,523**	**78,406**	**90,085**
Creditors	-32,131	-33,248	-44,664	-50,489	-57,704
Provisions	-1,251	-1,219	-412	-412	-412
Other current liabilities	-6,789	-6,827	-	-	-
Current liabilities	**-40,171**	**-41,294**	**-45,075**	**-50,901**	**-58,116**
Net current assets	**20,025**	**23,225**	**24,447**	**27,506**	**31,970**
Capital deployed	**33,725**	**35,978**	**37,246**	**40,230**	**44,518**
FA/CE (%)	40.6	35.4	34.4	31.6	28.2
Investments/CE (%)	-	0.0	-	-	-
Liquid assets/CE (%)	4.3	5.7	9.1	12.2	17.2
Working capital/CE (%)	55.1	58.8	56.5	56.1	54.6

Source: Company, Anand Rathi Research

Fig 22 – Cash-flow statement (₹ m)

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Cash profit	1,554	2,491	3,375	4,511	5,967
Chg in WC	-4,865	-2,576	113	-1,535	-1,712
Operating CF	**-3,311**	**-85**	**3,488**	**2,976**	**4,256**
Capex	-898	65	-1,000	-1,100	-1,150
Free CF	-4,209	-20	2,488	1,876	3,106
Equity	-43	45	-	-0	0
Debt	4,498	871	50	850	850
Investments	-	-0	0	-	-
Dividends	-180	-272	-1,203	-1,203	-1,203
Misc inflows	-182	-	-	-	-
Net change in cash	**-116**	**623**	**1,335**	**1,523**	**2,752**
Opening cash	1,556	1,440	2,063	3,398	4,921
Closing cash	**1,440**	**2,063**	**3,398**	**4,921**	**7,674**

Source: Company, Anand Rathi Research

Fig 23 – Ratio analysis @ ₹139

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Dupont Analysis					
Margins (%)	6.4	7.5	8.7	9.0	9.7
Capital turn (x)	2.5	2.4	2.5	2.7	2.8
RoCE (%)	16.2	18.3	21.7	24.3	27.3
Leverage factor(x)	2.7	2.8	2.6	2.5	2.3
Interest burden (x)	0.3	0.4	0.5	0.5	0.6
Tax burden (x)	0.5	0.6	0.7	0.7	0.7
Consol factor (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	7.3	12.8	17.4	21.4	25.3
Working capital (days)					
Inventories	23	21	23	23	23
Debtors	180	170	167	170	172
Loans & advances	25	32	30	26	23
Other CA	43	47	43	38	33
Creditors	-180	-173	-178	-177	-176
Provisions	-6	-5	-2	-1	-1
Other CL	-31	-29	-	-	-
Net WC	54	62	84	79	74
Other ratios					
Op CF/Rev (%)	-4.2	-0.1	3.8	2.9	3.6
FCF/Rev (%)	-5.3	-0.0	2.7	1.8	2.6
Intangibles/GB (%)	8.7	8.1	15.7	14.8	14.0
Intangibles/CE (%)	4.6	3.9	7.6	7.0	6.4
Revenue/GB (x)	4.4	4.9	5.1	5.5	5.9
Revenue/FA (x)	5.8	6.6	7.2	8.2	9.5
CWIP/GB (x)	0.0	0.0	0.0	0.0	0.0

Source: Company, Anand Rathi Research

Valuations

KEC International Considering its significant diversification into global markets, strong operations in its home market, and a strong pipeline of orders from Power Grid, SEBs and private operators, we value KEC International at 14x FY17e EPS, and recommend a Buy, with a price target of ₹193 a share.

Risk:

- Slowdown in domestic orders, keener competition in T&D and delay in execution in the Railways and water (low-margin) businesses are major risks.

Company Background & Management

Company overview

KEC International is the flagship company of the RPG group, acquired in 1952, and operating in five key verticals: power transmission & distribution, cables, Railways, water and renewables (solar). It has rich experience of over seven decades, executing projects in extreme climatic conditions and environments such as deserts, forests, mountains, oceans, rivers and snowfields.

It has ability to manufacture and supply power transmission lines of up to 1,200 kv and sub-stations of up to 1,150 kv. It has more than 5,000 employees. It is the only company in the world to have four tower-testing facilities (three in India, one in Brazil). It operates in more than 61 countries with project pipelines in more than 30 nations, and 25 offices across the globe.

It has 311,200 tonnes of transmission-tower-manufacturing capacity at five locations (three in India, two outside).

Fig 24 – Business structure

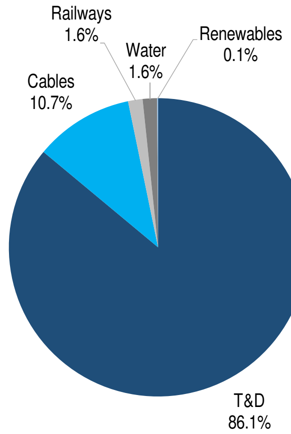
Source: Company

KEC secures a major portion of Power Grid's T&D orders. It possesses specific domain knowledge that enables it to serve the EPC needs of the country. It has eight manufacturing plants strategically located. It manufactures towers, cables, poles and hardware.

SAE Towers, United States

A wholly-owned subsidiary and a leading manufacturer of lattice transmission towers in America, SAE Towers manufactures steel poles and hardware. SAE has 100,000 tonnes of transmission-tower-manufacturing capacity (Mexico 35,000 tonnes, Brazil 65,000 tonnes).

Fig 25 – Business segments



Source: Company

Business Overview

The company provides end-to-end solutions in power transmission and distribution. It is a global leader in power transmission, with experience of more than six decades. It undertakes EPC projects for sub-stations, distribution networks and the electrical balance-of-plant, industrial electrification and cabling. It is one of the leading EPC operators to provide optical-fibre-cable laying and optical-ground-wire stringing. It has executed several turnkey telecoms projects.

Its largest client is the Power Grid Corp of India. It is slowly making inroads into the renewables arena.

Fig 26 – Management and Board

Name	Designation	Profile
Vimal Kejriwal	MD and CEO	Over 32 years' diversified experience across sectors
Rajeev Agarwal	CFO	Over 25 years' experience in infrastructure and core sectors
V. Narasimha	Executive director	25 years' experience in manufacturing
Nikhil Gupta	Executive director	Three decades' experience in consultancy and manufacturing
Rakesh Gaur	Chief executive	More than three decades' experience in infrastructure

Source: Company

29 September 2015

Techno Electric & Engineering

Execution takes off in core business; initiating, with a Buy

Rating: **Buy**
Target Price: ₹620
Share Price: ₹500

We initiate coverage on Techno Electric and Engineering, with a Buy rating and a target of ₹620. This is a leading transmission sub-station EPC operator with ~₹20bn in orders, generating EBITDA of over 15%. It has experience of owning transmission assets and is best placed to take up opportunities in the Indian T&D sector.

Order book growth to drive execution. A ~55% CAGR of order growth during FY13-15 led to ~69% yoy growth in the order book at end-FY15. This strong growth would now translate into a ~44% increase in EPC revenue for FY16. Ahead, with a healthy pipeline of order announcements from Power Grid and some SEBs, we expect 25% growth in orders and 24% growth in the order book over FY15-18.

EBITDA margin of over 15% sustainable; may improve in FY17. EPC revenue would be nearly ₹10bn in FY16 since the company has orders of ~₹20bn in hand. Forthcoming opportunities, together with the company's vast experience, give it the option to cherry-pick low-execution-risk projects (with better margins). This would lead to EPC margin betterment.

Poised for BOOT/BOOM opportunities. With experience of project ownership and sub-station execution, the company aims to execute one BOOT/BOOM project annually for a portfolio of 3-4 projects by 2017. This would give it the dual advantage of EPC and O&M revenue and steady annuity income. Strong balance sheet and cash surplus from selling of its wind assets would give it the financial muscle to take up projects of up to ₹14bn (seven times the Patran project).

Valuation On a sum-of-parts method, we value the company at ₹620 and recommend a Buy. We value the EPC business at 18x FY17e EPS, the wind business at the recent transaction price and the projects at 1.4x of equity invested. **Risks:** Slower execution and order announcements.

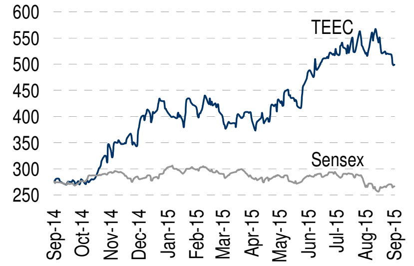
Key financials (YE Mar)	FY14	FY15	FY16e	FY17e	FY18e
Sales (₹ m)	5,941	6,891	9,823	12,173	15,545
Net profit (₹ m)	699	847	1,237	1,486	1,889
EPS (₹)	12.3	14.8	21.7	26.0	33.1
Growth (%)	15.4	21.1	46.1	20.1	27.1
PE (x)	40.8	33.7	23.1	19.2	15.1
PBV (x)	4.6	4.2	3.7	3.3	2.8
RoE (%)	11.7	12.9	17.0	18.0	20.0
RoCE (%)	12.0	14.8	19.7	23.5	28.6
Dividend yield (%)	0.1	0.8	1.1	1.3	1.7
Net debt/equity (x)	0.2	0.2	0.2	0.1	0.0

Source: Company, Anand Rathi Research

Key data	TEEC IN / TEEC.BO
52-week high / low	₹570 / ₹250
Sensex / Nifty	25617 / 7796
3-m average volume	$0.4m
Market cap	₹28.5bn / $431m
Shares outstanding	57.1m

Shareholding pattern (%)	Jun '15	Mar '15	Dec '14
Promoters	58.0	58.0	58.0
- of which, Pledged	-	-	-
Free Float	42.0	42.0	42.0
- Foreign Institutions	6.6	5.1	5.6
- Domestic Institutions	14.9	15.1	13.5
- Public	20.5	21.8	22.9

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Net revenues	5,941	6,891	9,823	12,173	15,545
Revenue growth (%)	7.7	16.0	42.5	23.9	27.7
- Oper. expenses	5,055	5,796	8,343	10,321	13,126
EBIDTA	**886**	**1,095**	**1,479**	**1,852**	**2,419**
EBITDA margins (%)	14.9	15.9	15.1	15.2	15.6
- Interest	207	168	169	133	72
- Depreciation	151	135	137	142	149
+ Other income	209	240	373	487	622
- Tax	38	185	309	578	930
Effective tax rate (%)	5.1	18.0	20.0	28.0	33.0
+ Associates/(minorities)	-	-	-	-	-
Adjusted PAT	699	847	1,237	1,486	1,889
+ Extraordinary items	-	-	-	-	-
Reported PAT	699	847	1,237	1,486	1,889
Adj. FDEPS (₹/sh)	12.3	14.8	21.7	26.0	33.1
Adj. FDEPS growth (%)	15.4	21.1	46.1	20.1	27.1

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Share capital	114	114	114	114	114
Reserves & surplus	6,120	6,734	7,610	8,661	9,997
Net worth	6,234	6,849	7,724	8,775	10,111
Total debt	1,614	1,457	1,357	857	457
Minority interest	-	-	-	-	-
Def. tax liab. (net)	9	7	7	7	7
Capital employed	**7,857**	**8,313**	**9,088**	**9,639**	**10,576**
Net fixed assets	2,066	1,930	1,843	1,801	1,802
Intangible assets	8	6	6	6	6
Investments	4,389	4,335	4,335	4,335	4,335
- of which, Liquid	5	-	-	-	-
Working capital	972	1,847	2,849	3,396	4,190
Cash	422	195	56	102	243
Capital deployed	**7,857**	**8,313**	**9,088**	**9,639**	**10,576**
Working capital (days)	60	98	106	102	98
Book value (₹/sh)	109.2	120.0	135.3	153.7	177.1

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY14	FY15e	FY16e	FY17e	FY18e
Adjusted PAT	699	847	1,237	1,486	1,889
+ Non-cash items	151	135	137	142	149
Cash profit	851	982	1,374	1,628	2,038
- Incr./(decr.) in WC	-97	875	1,002	547	794
Operating cash-flow	948	107	373	1,081	1,243
- Capex	14	-2	50	100	150
Free-cash flow	934	109	323	981	1,093
- Dividend	33	267	362	435	552
+ Equity raised	-143	35	-	-	-
+ Debt raised	-489	-159	-100	-500	-400
- Investments	465	-54	-	-	-
- Misc. items	-	-	-	-	-
Net cash-flow	-196	-227	-139	46	141
+ Op. cash & bank bal.	618	422	195	56	102
Cl. Cash & bank bal.	422	195	56	102	243

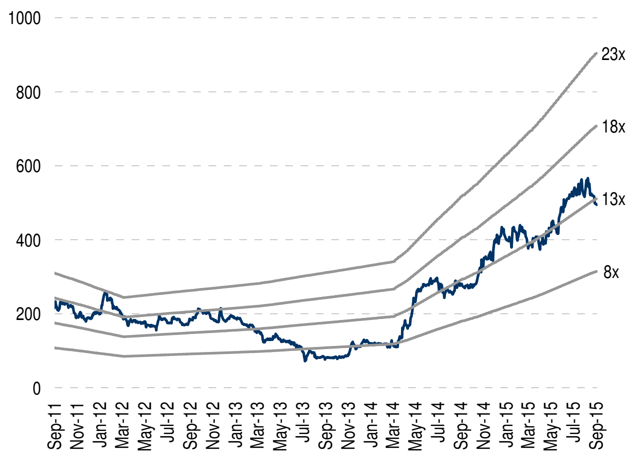
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis @ ₹500

Year-end: Mar	FY14	FY15e	FY16e	FY17e	FY18e
P/E (x)	40.8	33.7	23.1	19.2	15.1
Cash P/E (x)	33.5	29.1	20.8	17.5	14.0
EV/EBITDA (x)	33.5	27.2	20.2	15.8	11.9
EV/sales (x)	5.0	4.3	3.0	2.4	1.9
P/B (x)	4.6	4.2	3.7	3.3	2.8
RoE (%)	11.7	12.9	17.0	18.0	20.0
RoCE (%)	12.0	14.8	19.7	23.5	28.6
Dividend yield (%)	0.1	0.8	1.1	1.3	1.7
Dividend payout (%)	4.8	31.6	29.2	29.2	29.2
Net debt/equity (x)	0.2	0.2	0.2	0.1	0.0
Debtor (days)	117	164	170	170	170
Inventory (days)	7	3	9	9	9
Payables (days)	54	65	95	95	94
Interest cover (x)	4.6	7.1	10.2	16.5	40.0
Fixed asset T/O (x)	0.8	0.8	1.1	1.3	1.5

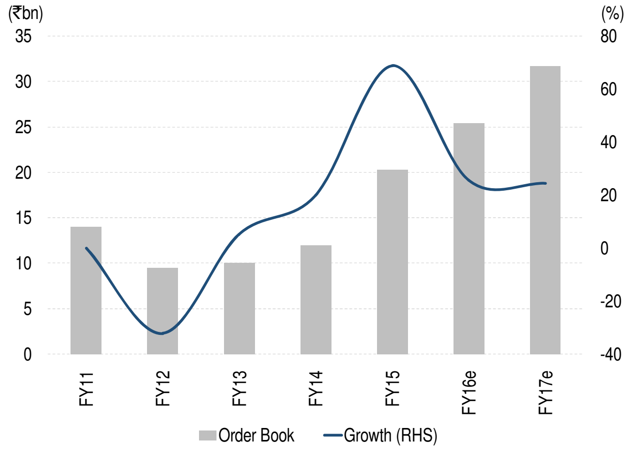
Source: Company, Anand Rathi Research

Fig 5 – PE band



Source: Bloomberg, Anand Rathi Research

Fig 6 – Order-book and growth



Source: Company, Anand Rathi Research

Order-book growth to drive revenue

Techno Electric's order inflows in past years had led to its ~₹20bn order book at end-FY15. This would now lead to healthy execution. We expect ~47% of the end-FY15 order book to be executed in FY16. This would translate to a ~44% increase in EPC revenue for FY16.

A ~55% CAGR of order growth during FY13-15 led to ~69% yoy growth in the order book at end-FY15. We expect that this strong growth in orders would soon translate into healthy execution. As the order cycle of most EPC projects is 18-24 months, we expect~45-50% of that end-FY15 order book to be executed in FY16. This would translate to a ~44% increase in EPC revenue for FY16.

Ahead, with a healthy pipeline of order announcements likely from Power Grid and some SEBs, we expect a 25% CARG in order inflows and 24% in Techno's order book over FY15-18.

This growth in the order book should translate to a ~32% revenue CAGR over FY15-FY18, in our view.

We estimate a 32% revenue CAGR driven by a 25% CAGR in orders

Fig 7 – EPC business estimates for Techno Electric

(₹ m)	FY13	FY14	FY15	FY16e	FY17e	FY18e
Orders of	5,659	8,205	11,700	14,040	17,971	23,003
Growth (%)	*122.8*	*45.0*	*42.6*	*20.0*	*28.0*	*28.0*
Order book	10,000	12,000	20,250	24,689	30,715	38,409
Growth (%)	*5.3*	*20.0*	*68.8*	*21.9*	*24.4*	*25.0*
Book-to-bill	1.9	2.1	3.0	2.6	2.6	2.5
Revenue	5,159	5,705	6,681	9,601	11,945	15,310
Execution rate %	*34.0*	*31.3*	*28.2*	*28.0*	*28.0*	*28.5*
Revenue growth (%)	*-26.7*	*10.6*	*17.1*	*43.7*	*24.4*	*28.2*

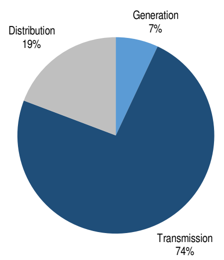
Source: Company, Anand Rathi Research

Fig 8- Techno Electric's FY15 order book on 30th Jun'15

Customer	Amount (₹ m)	% of order book
Power Grid Corporation of India	9,262	43.8
North Bihar Power Distribution	3,463	16.4
Bihar State Power Transmission	2,947	11.8
Patran Transmission	1,750	8.3
Rajasthan Rajya Vidyut Prasharan	1,447	6.8
Aptransco, Hyderabad	748	3.5
NTPC	533	2.5
MCC PTA India Corp Pvt. Ltd.	650	3
Others	807	3.8
Total	**21,157**	**100**

Source: Company, Anand Rathi Research

Fig 9 – Break-up of order book (FY15-end)



Source: Company

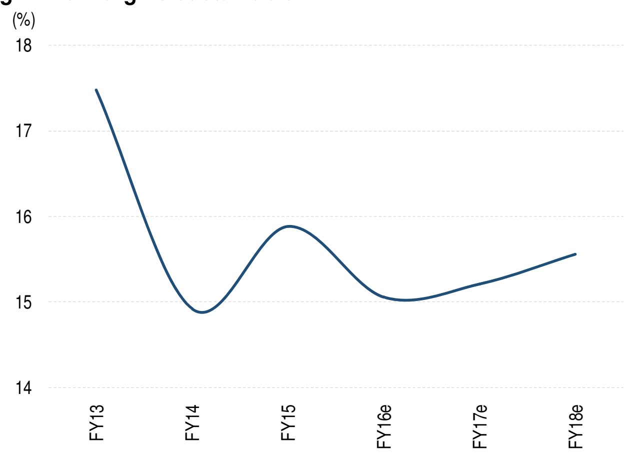
High EBITDA margin >15% sustainable

The company has an order book of more than ₹20bn. This gives it the possibility of choosing higher-margin orders, which would lead to better EPC margins.

In the past four years Techno has been seeing EPC revenue of ₹5bn-7bn. For the first time its EPC revenue in FY16 is expected to be nearly ₹10bn. It has orders of more than ₹21bn and a strong pipeline of orders from Power Grid and SEBs. This would allow it to choose better-margin orders, which would lead to better EPC margins. Its vast experience would also help in cherry-picking low-execution-risk projects (with better margins).

However, initially it may experience a slight increase in employee cost and admin expenses, which may impact its (standalone) EBITDA margin by 80bps in FY16 (from 15.9% in FY15).

Fig 10 – High EPC margins sustainable



Source: Company, Anand Rathi Research

EPC : The way to success

The segment's order book at end-Jun'15 was ₹21bn. Besides, it has L1 orders of ₹3bn, expected to materialise shortly. The government is considering projects of ₹430bn in the green-energy corridor, which would help the flow of renewable energy into the nation's grid. Techno was among the few successful companies to have secured an order (of ₹3.7bn) from this. The order is for a sub-station package at Chittorgarh, Tuticorin and Ajmer. The company is expecting more orders in this line.

STATCOM installation: The government is planning investment of ₹80bn over the next 3-5 years to install 50 Static Synchronous Compensators. Techno, along with a Chinese partner, Rongxin, is L1 for STATCOM installation of 400kv substations. Techno's share in the order is worth ₹2.7bn. This would help it obtain more orders as the company is an innovator in STATCOM installations.

Also, investment of ₹150bn has been sanctioned by Power Grid to build sub-transmission systems of 220/132kv in six north-eastern states. Techno, being an expert in the transmission segment, will secure orders in this vertical.

Poised for BOOT/BOOM opportunities

A strong order book and the expected cash from selling off its wind assets (management has indicated its intention to pull out of this business) would provide it the financial muscle to take up BOOT/ BOOM projects of ₹14bn (seven times the size of the Patran project).

Techno is a JV partner in the operational Jhajjar KT (Haryana) project and is executing the Patran (Punjab) project on its own. Backed by its experience in these projects and its experience in sub-station execution, it aims to execute one project annually for a portfolio of 3-4 projects by 2017.

These projects have the dual advantage of EPC and O&M revenue for the parent company and steady annuity income for the JV. The strong balance sheet allows it to venture into these projects, with the surplus cash generating a ~16-17% IRR.

Management has indicated its intention to move out of the wind business when the opportunity arises. Cash from the sale of its wind assets would be utilised to repay debt and to invest in equity in its BOOT/BOOM projects.

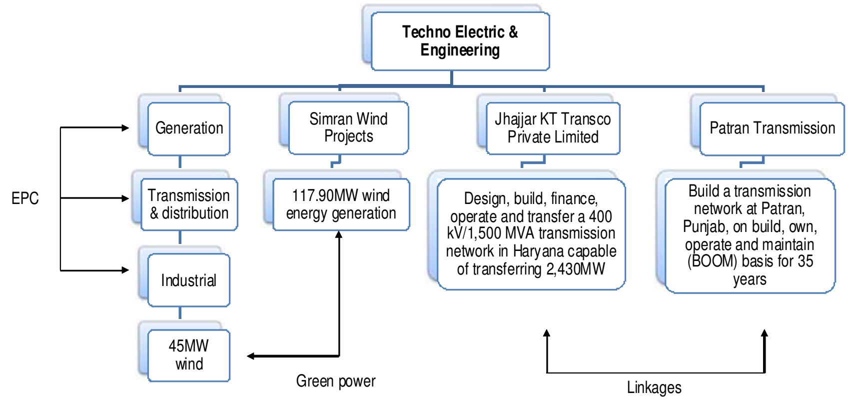
The company has wind assets of almost ₹8bn (at the valuation of the recently sold assets) and net debt (at end-FY15) of ₹4.5bn. So, if it sells its entire wind assets and repays its debt, it would still be left with ₹3.5bn in cash. This gives it the financial strength to take BOOT/BOOM projects of up to ₹14bn (seven times the size of its Patran project).

Understanding the business

Incorporated in 1963 as an EPC (engineering, procurement and construction) company and headquarter at Kolkata, Techno Electric & Engineering has become a leading EPC company in India's power sector. It is structured thus.

Techno owns ~162 MW of wind assets. We value these at ₹138 a share

Fig 11 – Business structure



Source: Company, Anand Rathi Research

The EPC division, more orders to come

Poised to benefit from growth in expenditure on transmission in India

In 1980 the company entered the power transmission sector and commissioned India's first commercial low-sulphur, heavy-stock (LSHS) handling system for the Durgapur steel plant. It now provides EPC services to all three segments of India's power sector—generation, transmission and distribution. It also provides EPC services to the steel, fertiliser, metallurgical and petrochemical sectors, among others.

Besides, it offers customised solutions to large power-plant installations. The segment accounts for 84% of its revenue. Its clients include PGCIL, NTPC, BHEL, state utilities, among others. It operates under an asset light business model, which helps it achieve economies of scale. In the past this segment has generated more than a 60% RoCE.

Fig 12 – Business divisions of Techno Electric

Power Generation	Transmission and distribution	Industrial sector
Captive power plants, turnkey solutions	EHV sub-stations up to 765 kV	Fire-fighting systems
Balance-of-Plant work	Distribution systems management (APDRP)	Fuel oil systems
	Rajiv Gandhi Gramin Vidyutikaran Yojna	Offsite piping systems
		AC/DC sub-station for aluminium plants
		Power distribution systems
		Plant electrical systems
		Illumination systems
		High-intensity power systems
		Aluminium smelter pots (360 KA)

Source: Company, Anand Rathi Research

Generation: Wind energy

Techno ventured into renewable power generation in 2009 by acquiring the following two companies.

Fig 13 – Wind assets

Company	Location	Capacity (MW)	Acquired in	Investment (₹ m)	Techno's share
Simran Wind Projects	Karnataka, Tamil Nadu	6+111.9	6 MW in FY10 +112 MW commissioned in FY12	6,700 for 112MW	96.62%
Super Wind Projects	Karnataka & Tamil Nadu	12+33	FY10	~₹50m per MW	100%

Source: Company, Anand Rathi Research

The company has sold 44.45 MW capacity acquired in FY10 for ₹2.15bn which was equal to the invested amount. It entered this segment in 2009 for asset creation and to add value to its portfolio. It acquired 45MW of wind assets from Suzlon for ₹2.5bn. It has further invested in development of 50.45 MW in TN and Karnataka through its wholly-owned subsidiary, Simran Wind Projects Pvt. Ltd. Further, it commissioned 111.9 MW on its own in TN. Due to lack of demand from renewable energy certificates (REC) and poor cash flows in the wind assets segment, it sold 44.45 MW of wind assets for ₹2.15bn in FY15 and intends to divest the remaining assets to focus on EPC and transmission. At present, it has 162.9 MW of wind assets.

Fig 14 - Current status of wind assets

	Techno Electric	Simran Wind Project	
Capacity (MW)	45	6	111.90
Date of acquisition/ commissioning	During 2009-10	During 2009-10	31st Mar'11 - 24th Feb'12
Location	Karnataka (12 MW), Tamil Nadu (33 MW)	Karnataka	Tamil Nadu (111.90 MW)
No. of turbines	30 at three wind farms	Four at two wind farms	67 at two wind farms
Capacity	1.5 MW each	1.5 MW each	48 turbines of 1.5 MW each; 19 turbines of 2.1 MW each
PLF (%)	18 - 26	19 - 26	19 - 26
Tariff per unit	₹3.40 (Karnataka), ₹3.39 (Tamil Nadu)	Preferential tariff – ₹3.40	APPC tariff – ₹2.63 (TN) for 111.90 MW
Project cost	–		₹6.65bn
O&M	Free for the first five years; 5% escalation from ₹1m/ MW	Free for the first five years;; 5% escalation from ₹1m/ MW	Free for the first 4.5 years; 5% escalation from ₹1 m/MW
CDM benefit	33 MW registered with UNFCC	-	111.9 MW registered with UNFCC
GBI benefit	-	-	111.9 MW registered with IREDA

Source: Company, Anand Rathi Research

The company is monetising its investment in wind assets, which are no more lucrative, and investing the amount to bid for EPC business

Management has indicated its intention to withdraw from the remaining wind-power assets. This would strengthen its balance sheet to focus on its core strength: EPC projects.

Fig 15 - Incentives and other benefits of green-energy projects

Incentive	Mode	Price Range (₹)	FY15 benefits
Renewable energy certificates (REC)	1,000 units of green energy = 1 REC	1,500 to 3,300	Sold 77,000 RECs @ ₹1,500
Generation-based incentives (GBI)	Higher tariff for 10 years from commissioning	₹0.5/kwh for a maximum of 6.2m/MW	₹85m attributable to GBI
Clean development mechanism (CDM)	Entitled to 325,000 CER/ year	-	-

Source: Company, Anand Rathi Research

BOOT and BOOM Projects

Techno has invested in the following two BOOT/BOOM projects, as follows:

Currently it has a portfolio of two annuity-based road assets. The Patran Project is expected to be commissioned this year

Fig 16 - Current status of transmission assets

Name	Jhajjar KT – Haryana	Patran, Punjab
Project type	400 kV transmission double-circuit, Quad Moose line	400 kV transmission system
Project size	Jharli to Kabulpur (35 km) and Kabulpur to Dipalpur (64 km)	1,000 MVA evacuation capacity
Commissioning	Mar-12	May-16
Project cost (₹ m)	4,440	2,000
Equity (₹ m)	760	500
Debt (₹ m)	2,760	1,500
Central grant (₹ m)	920	0
Techno's stake	49% (51%, Kalpataru Power)	100%
Project life (years)	25+10	35
Terminal value	60 months of revenue (after 25 yrs)	
Revenue (FY15, ₹ m)	₹540m	Expected: ₹300m annually + 12.5% EPC margin + ₹20m O&M revenue

Source: Company, Anand Rathi Research

The company is currently executing the Patran project, expected to be commissioned by May'16. It is hopeful of executing at least one BOOT/BOOM project annually. Due to Techno's experience in EPC services, it is able to complete these projects even before the scheduled time. It is expecting 3-4 BOOT/BOOM projects by FY17. Techno has planned to bid for only those projects which involve a considerable EPC portion, enabling it to recover most of its equity investment via EPC businesses during the construction phase itself.

Financials

At end-2015 Techno's order book was ₹20bn, its highest till now, indicating revenue assurance for the next 2-3 years.

It has improved its consolidated debt-equity ratio over the years—from 0.9 in FY12 to 0.5 in FY15. Ahead, we believe it can further ease its debt and shrink the ratio to 0.1 by FY17 through internally-generated cash since no major capex has been planned. The monetisation of its wind assets could remove the entire debt at one go; however, the timing of this is uncertain.

We expect the RoE and RoCE in FY18 to improve to 22% and 22.2%, respectively, from 12% and 11.9% in FY15.

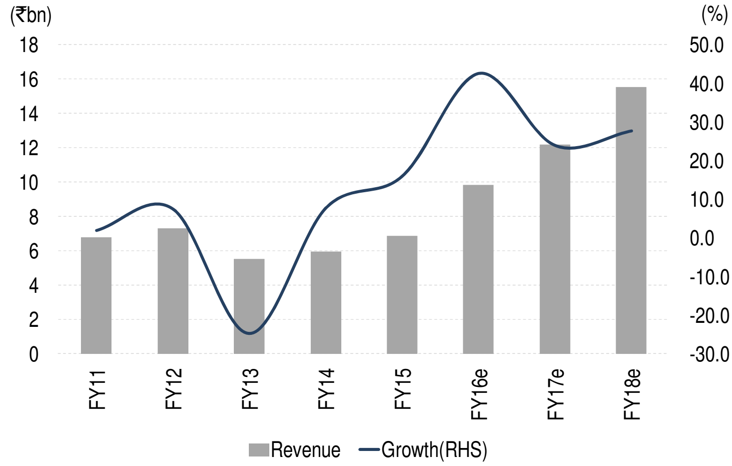
Steady revenue growth over FY16-17

Looking at the chunky order book, we expect standalone revenue to come at a 32% CAGR over FY15-18

Over FY10-15, Techno's revenue has come at a mere 2% CAGR due to lack of helpful measures by the government and the sick position of power companies. But, we believe its revenue would now register a 32% CAGR over FY15-18 as many steps have been taken by the government to address the situation. Also, greater allocation for T&D has been made. We believe Techno is favourably positioned to benefit from the situation. Its two BOOT/ BOOM projects (Jhajjar and Patran) would be commissioned by end-FY16, and generate annuity income. We estimate order intake to register a 25% CAGR over FY15-18.

During the year, the company sold 44 MW of wind assets at ₹2.2bn and will utilise this cash to repay debt and bid for projects under the BOOT/BOOM models. At present, it has one international order in hand; we expect more such orders.

Fig 17 – Revenue growth

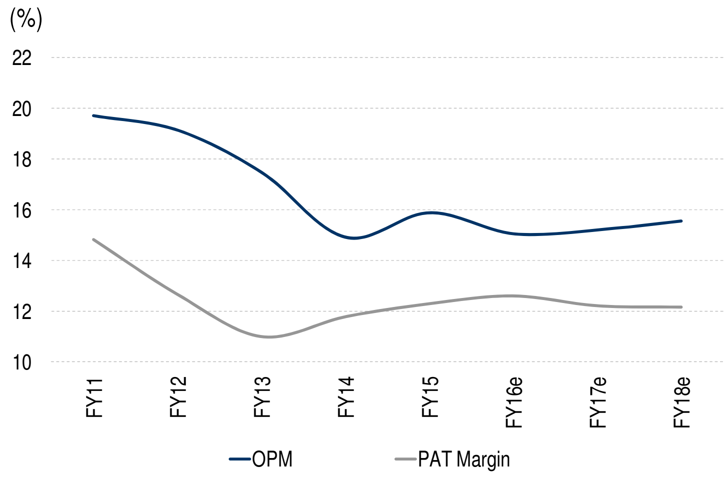


Source: Company, Anand Rathi Research

Stable margins

Over the years Techno has maintained its (standalone) operating margin at more than 15%. We believe this would improve in future, backed by strong revenue growth. The company has a selective approach in picking up orders, which would help it maintain margins of over 15%.

Fig 18 – OPM and PAT margin



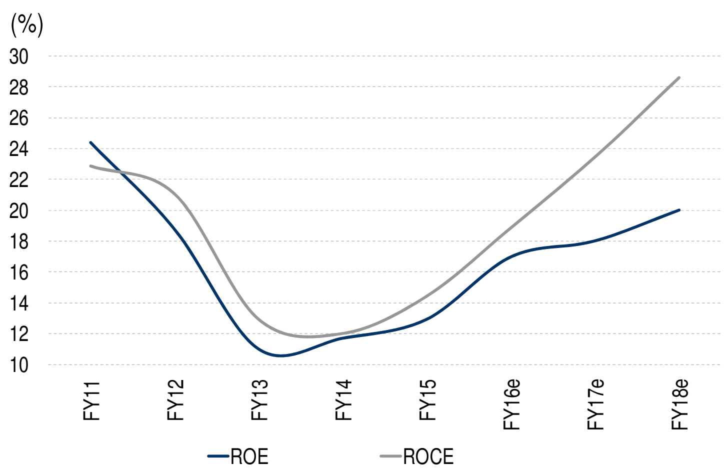
Source: Company, Anand Rathi Research

Better performance to expand return ratios

Because of its beter revenue growth and operating performance, we expect higher return ratios. Techno's plans to be asset light would help it increase its RoE and RoCE. The Jhajjar unit would be operational in a few months.

We expect the consolidated RoE and RoCE to rise from 12.1% and 11.9%, respectively, in FY15 to 22.2% and 21.7% in FY18.

Fig 19 – Return ratios



Source: Company, Anand Rathi Research

Fig 20 – Income statement (₹m)

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Net revenues	5,941	6,891	9,823	12,173	15,545
Other op revenues	-	-	-	-	-
Revenues	**5,941**	**6,891**	**9,823**	**12,173**	**15,545**
Growth (%)	*7.7*	*16.0*	*42.5*	*23.9*	*27.7*
Material cost	-4,260	-5,022	-7,151	-8,825	-11,239
Employee cost	-278	-265	-377	-467	-597
Manufacturing cost	-0	-51	-	-	-
Marketing cost	-65	-68	-108	-128	-163
Administrative cost	-205	-188	-344	-414	-513
Energy cost	-27	-21	-49	-61	-70
Other cost	-221	-181	-314	-426	-544
Sector specific expense	-	-	-	-	-
EBITDA	**886**	**1,095**	**1,479**	**1,852**	**2,419**
Growth (%)	*-8.0*	*23.5*	*35.1*	*25.2*	*30.6*
EBITDA margin (%)	*14.9*	*15.9*	*15.1*	*15.2*	*15.6*
Other income	209	240	373	487	622
Operating profit	**1,095**	**1,335**	**1,853**	**2,338**	**3,041**
Depreciation	-151	-135	-137	-142	-149
EBIT	**944**	**1,200**	**1,715**	**2,196**	**2,892**
Interest cost	-207	-168	-169	-133	-72
PBT	**737**	**1,032**	**1,546**	**2,064**	**2,819**
Tax	-38	-185	-309	-578	-930
Effective tax rate	*5.1*	*18.0*	*20.0*	*28.0*	*33.0*
PAT	**699**	**847**	**1,237**	**1,486**	**1,889**
Minority interest	-	-	-	-	-
Associate profit	-	-	-	-	-
Consol PAT	**699**	**847**	**1,237**	**1,486**	**1,889**
Growth (%)	*15.4*	*21.1*	*46.1*	*20.1*	*27.1*
PAT margin (%)	*11.8*	*12.3*	*12.6*	*12.2*	*12.2*
Extra-ordinary income	-	-	-	-	-
Dividends (incl Tax)	-33	-267	-362	-435	-552
Transferred to reserves	**666**	**580**	**875**	**1,051**	**1,336**
Per share data					
FDEPS (Rs)	12.3	14.8	21.7	26.0	33.1
DPS (Rs)	0.5	4.0	5.4	6.5	8.3
Adj BV (Rs)	109.2	120.0	135.3	153.7	177.1
CEPS (Rs)	14.9	17.2	24.1	28.5	35.7
Valuation ratio					
P/E (x)	40.8	33.7	23.1	19.2	15.1
P/adj BV (x)	4.6	4.2	3.7	3.3	2.8
P/C (x)	33.5	29.1	20.8	17.5	14.0
Dividend Yield (%)	0.1	0.8	1.1	1.3	1.7
EV/S (x)	2.2	1.9	1.4	1.0	0.8
EV/E (x)	14.9	12.1	9.0	6.9	5.1
Quality ratio					
Dividend payout (%)	4.8	31.6	29.2	29.2	29.2
Other income/PBT (%)	28.3	23.3	24.1	23.6	22.1
Interest cover (x)	4.6	7.1	10.2	16.5	40.0
Operating CF/EBITDA (x)	1.1	0.1	0.3	0.6	0.5

Source: Company, Anand Rathi Research

Fig 21 – Balance Sheet (₹ m)

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Equity	114	114	114	114	114
Reserves	6,120	6,734	7,610	8,661	9,997
Minority interests	-	-	-	-	-
Less: Misc exp	-	-	-	-	-
Networth	**6,234**	**6,849**	**7,724**	**8,775**	**10,111**
Equity (% of CE)	*79.3*	*82.4*	*85.0*	*91.0*	*95.6*
LT debt	1,000	700	700	300	-
ST debt	614	757	657	557	457
DTL (net)	9	7	7	7	7
Total debt	**1,623**	**1,464**	**1,364**	**864**	**464**
Net D/E (x)	*0.2*	*0.2*	*0.2*	*0.1*	*0.0*
Capital employed	**7,857**	**8,313**	**9,088**	**9,639**	**10,576**
Gross block	2,927	2,894	2,944	3,044	3,194
Acc depreciation	-854	-958	-1,095	-1,237	-1,386
Net block	**2,073**	**1,936**	**1,849**	**1,807**	**1,808**
CWIP	-	-	-	-	-
Fixed assets	**2,073**	**1,936**	**1,849**	**1,807**	**1,808**
Investments	4,389	4,335	4,335	4,335	4,335
Cash equivalents	422	195	56	102	243
Inventories	118	63	232	287	365
Debtors	1,912	3,099	4,584	5,681	7,254
Loans & advances	1,352	703	703	703	703
Other current assets	53	7	7	7	7
Current assets	**3,857**	**4,067**	**5,582**	**6,779**	**8,572**
Creditors	-885	-1,224	-2,549	-3,154	-4,011
Provisions	-786	-128	-128	-128	-128
Other current liabilities	-791	-673	-	-	-
Current liabilities	**-2,462**	**-2,025**	**-2,677**	**-3,281**	**-4,138**
Net current assets	**1,394**	**2,042**	**2,905**	**3,498**	**4,433**
Capital DEPLOYED	**7,857**	**8,313**	**9,088**	**9,639**	**10,576**
FA/CE (%)	*26.4*	*23.3*	*20.3*	*18.7*	*17.1*
Investments/CE (%)	*55.8*	*52.1*	*47.7*	*45.0*	*41.0*
Liquid assets/CE (%)	*5.4*	*2.3*	*0.6*	*1.1*	*2.3*
Working capital/CE (%)	*12.4*	*22.2*	*31.3*	*35.2*	*39.6*

Source: Company, Anand Rathi Research

Fig 22 – Cash-flow statement (₹ m)

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Cash profit	851	982	1,374	1,628	2,038
Chg in WC	97	-875	-1,002	-547	-794
Operating CF	**948**	**107**	**373**	**1,081**	**1,243**
Capex	-14	2	-50	-100	-150
Free CF	**934**	**109**	**323**	**981**	**1,093**
Equity	-143	35	-	-	-
Debt	-489	-159	-100	-500	-400
Investments	-465	54	-	-	-
Dividends	-33	-267	-362	-435	-552
Misc inflows	-	-	-	-	-
Net change in cash	**-196**	**-227**	**-139**	**46**	**141**
Opening cash	618	422	195	56	102
Closing cash	**422**	**195**	**56**	**102**	**243**

Source: Company, Anand Rathi Research

Fig 23 – Ratio analysis @ ₹500

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Dupont Analysis					
Margins (%)	15.9	17.4	17.5	18.0	18.6
Capital turn (x)	0.8	0.9	1.1	1.3	1.5
RoCE (%)	12.0	14.8	19.7	23.5	28.6
Leverage factor(x)	1.3	1.2	1.2	1.1	1.1
Interest burden (x)	0.8	0.9	0.9	0.9	1.0
Tax burden (x)	0.9	0.8	0.8	0.7	0.7
Consol factor (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	11.7	12.9	17.0	18.0	20.0
Working capital (Days)					
Inventories	7	3	9	9	9
Debtors	117	164	170	170	170
Loans & advances	83	37	26	21	17
Other CA	3	0	0	0	0
Creditors	-54	-65	-95	-95	-94
Provisions	-48	-7	-5	-4	-3
Other CL	-49	-36	-	-	-
Net WC	60	98	106	102	98
Other ratios					
Op CF/Rev (%)	16.0	1.6	3.8	8.9	8.0
FCF/Rev (%)	15.7	1.6	3.3	8.1	7.0
Intangibles/GB (%)	0.3	0.2	0.2	0.2	0.2
Intangibles/CE (%)	0.1	0.1	0.1	0.1	0.1
Revenue/GB (x)	2.0	2.4	3.3	4.0	4.9
Revenue/FA (x)	2.9	3.6	5.3	6.7	8.6
CWIP/GB (x)	-	-	-	-	-

Source: Company, Anand Rathi Research

Valuations

We use a sum-of-parts method to arrive at a fair value. We assign the EPC business 18x FY17e EPS (a premium to its average of ~14x prior to the wind-business acquisition), given the better book-to-bill, superior margin and above-industry return ratios.

We value the wind business at the latest transaction value of ₹48m per MW and the BOOT projects at 1.4x book value. Thus, we arrive at a fair value of ₹620 a share, a 24% potential upside from the current level. We initiate coverage on the stock, with a Buy recommendation and a target price of ₹620.

Fig 24 – Valuation table

Valuation	Value (₹m)	Per share (₹)	Remarks
EPC business	26,744	468	18x FY17e profit
Wind assets	7,897	138	At recent transaction valuation
BOOT/BOOM project investment	837	15	17% IRR with 12% cost of capital
Total	**35,478**	**620**	
Upside		24%	At current price of ₹500

Source: Anand Rathi Research

Risks

1. Slower execution could hurt profitability and margins.
2. Deferment of Power Grid orders, delay in the government's Plan expenditure in the T&D segment may impact order inflows.
3. Restriction on inter-state sale of power from wind-power plants would impact PLF and profitability.
4. Delay in BOOT projects could affect cash flows.

Company Background & Management

Company overview

Incorporated in 1963 by the Mohankas to provide comprehensive engineering, procurement and construction services to core sector industries in India, Techno-Electric went public in 1973. Headquartered in Kolkata, it has a respected position in power generation, transmission and distribution following its rich experience and the expertise of its experienced team of more than 382 professionals (including engineers, post-graduates, etc.). It has executed more than 315 projects across India. More than 80% of its business comes from past customers, which indicates its focus on quality and timely execution.

Fig 25 – Management and Board

Name	Designation	Profile
T. Indira Subbarami Reddy	Chairperson	Over 17 years' experience in construction
T. V. Sandeep Kumar Reddy	Managing director	Master's in construction engineering; over 22 years' experience in construction
V. L. Moorthy	Independent non-executive director	Master's in science, doctorate in philosophy. 42 years' experience in paper and pulp
Ch. Hari Vittal Rao	Independent non-executive director	CAIIB from The Indian Institute of Bankers, over 49 years' banking experience
G. Siva Kumar Reddy	Independent non-executive director	Post-graduate in commerce. 27 years' experience in civil construction

Source: Company

29 September 2015

Skipper

Grabbing domestic opportunities; making a global presence; Buy

Rating: **Buy**
Target Price: ₹204
Share Price: ₹145

We initiate coverage on Skipper, with a Buy rating and a target of ₹204. It is a leading manufacturer of transmission towers, with a 10-15% market share and 175,000 tpa capacity. It plans to expand CPVC capacity from 20,000 tpa to 100,000 tpa.

Revenue growth driven by robust order book and order pipeline. With orders of ₹24bn in hand (1.9x of FY15 revenue), Skipper is set for a 25% CAGR over FY15-18. In India T&D orders of ₹1trn are expected in the next 12-18 months, including ~₹220bn-240bn in planned capex from Power Grid. More than 50% of Skipper's order book arises from the latter. Skipper is expected to receive ~₹20bn of orders in FY16. This includes international orders (45% of its FY15 order book) of ₹7bn (up 9% yoy), driven by agreements with major TSOs in South America.

Next growth driver -- CPVC division. Growth would also be supported by the PVC product business, expected to generate in FY16 more than double the revenue of FY15, with the massive capacity additions planned, of 100,000 tpa from the present 20,000 tpa by FY17 and FY18.

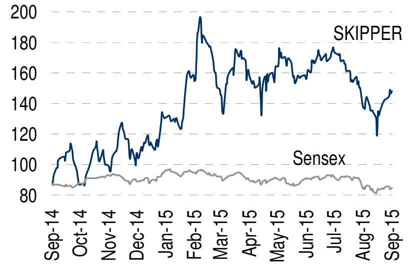
Location advantage on margin; asset-light strategy for the future. With operations in the North-East, the company enjoys a 300- to 400-bp margin advantage due to lower employee and logistics costs than other industry operators. For its PVC capacity addition, it has opted to lease land (rather than own it), which is expected to reduce costs by 60%. We expect this model would help push the RoE above 32%, by maintaining the debt level and through prudent capital allocation.

Valuation. We value Skipper at 14x FY17e EPS and recommend a Buy, with a price target of ₹204 a share. **Risks:** Keen competition and delay in capacity addition.

Key data	SKIPPER IN / SKIP.BO
52-week high / low	₹200 / ₹37
Sensex / Nifty	25617 / 7796
3-m average volume	$0.1m
Market cap	₹14.8bn / $224m
Shares outstanding	102.3m

Shareholding pattern (%)	Jun '15	Mar'15	Dec'14
Promoters	72.4	72.4	72.4
- of which, Pledged	-	-	-
Free Float	27.6	27.6	27.6
- Foreign Institutions	-	-	-
- Domestic Institutions	-	-	-
- Public	27.6	27.6	27.6

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY14	FY15	FY16e	FY17e	FY18e
Sales (₹ m)	10,415	13,128	16,588	20,999	25,733
Net profit (₹ m)	269	892	1,159	1,490	1,922
EPS (₹)	2.6	8.7	11.3	14.6	18.8
Growth (%)	9.5	231.4	30.0	28.5	29.0
PE (x)	55.9	16.9	13.0	10.1	7.8
PBV (x)	6.5	4.9	3.8	2.9	2.2
RoE (%)	12.3	33.3	33.0	32.4	32.0
RoCE (%)	14.5	27.7	32.0	34.1	35.9
Dividend yield (%)	0.1	0.9	1.1	1.5	1.9
Net debt/equity (x)	1.8	1.1	0.8	0.6	0.4

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Net revenues	10,415	13,128	16,588	20,999	25,733
Revenue growth (%)	15.7	26.0	26.4	26.6	22.5
- Oper. expenses	9,313	10,976	13,931	17,760	21,764
EBIDTA	**1,102**	**2,152**	**2,658**	**3,239**	**3,969**
EBITDA margins (%)	10.6	16.4	16.0	15.4	15.4
- Interest	605	583	678	748	815
- Depreciation	151	220	252	269	287
+ Other income	21	17	29	37	45
- Tax	98	474	597	768	990
Effective tax rate (%)	26.7	34.7	34.0	34.0	34.0
+ Associates/(minorities)	-	-	-	-	-
Adjusted PAT	269	892	1,159	1,490	1,922
+ Extraordinary items	-	-	-	-	-
Reported PAT	269	892	1,159	1,490	1,922
Adj. FDEPS (₹/sh)	2.6	8.7	11.3	14.6	18.8
Adj. FDEPS growth (%)	9.5	231.4	30.0	28.5	29.0

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Share capital	102	102	102	102	102
Reserves & surplus	2,209	2,936	3,888	5,110	6,688
Net worth	2,312	3,039	3,990	5,213	6,790
Total debt	4,395	3,829	3,830	4,090	4,126
Minority interest	-	-	-	-	-
Def. tax liab. (net)	218	265	265	265	265
Capital employed	**6,924**	**7,132**	**8,085**	**9,568**	**11,181**
Net fixed assets	3,456	3,535	3,853	3,924	3,987
Intangible assets	12	12	22	22	22
Investments	-	-	-	-	-
- of which, Liquid	-	-	-	-	-
Working capital	3,193	3,024	3,741	4,795	6,078
Cash	263	561	469	827	1,094
Capital deployed	**6,924**	**7,132**	**8,085**	**9,568**	**11,181**
Working capital (days)	112	84	82	83	86
Book value (₹/sh)	22.6	29.7	39.0	50.9	66.4

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Adjusted PAT	269	892	1,159	1,490	1,922
+ Non-cash items	151	220	252	269	287
Cash profit	420	1,112	1,412	1,760	2,209
- Incr. / (decr.) in WC	134	-170	717	1,055	1,283
Operating cash-flow	286	1,281	695	705	926
- Capex	321	299	580	340	350
Free-cash flow	-35	982	115	365	576
- Dividend	18	160	208	268	345
+ Equity raised	-0	-5	-	-	-0
+ Debt raised	188	-519	1	260	36
- Investments	-	-	-	-	-
- Misc. items	-	-	-	-	-
Net cash-flow	135	298	-92	358	267
+ Op. cash & bank bal.	128	263	561	469	827
Cl. cash & bank bal.	263	561	469	827	1,094

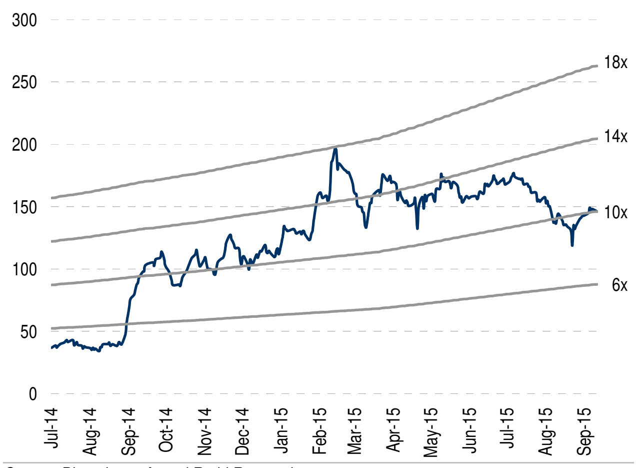
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis @ ₹145

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
P/E (x)	55.9	16.9	13.0	10.1	7.8
Cash P/E (x)	35.8	13.5	10.7	8.5	6.8
EV/EBITDA (x)	17.4	8.5	6.9	5.7	4.6
EV/sales (x)	1.8	1.4	1.1	0.9	0.7
P/B (x)	6.5	4.9	3.8	2.9	2.2
RoE (%)	12.3	33.3	33.0	32.4	32.0
RoCE (%)	14.5	27.7	32.0	34.1	35.9
Dividend yield (%)	0.1	0.9	1.1	1.5	1.9
Dividend payout (%)	6.7	18.0	18.0	18.0	18.0
Net debt/equity (x)	1.8	1.1	0.8	0.6	0.4
Debtor (days)	81	104	106	106	106
Inventory (days)	80	63	66	69	70
Payables (days)	65	92	98	99	99
Interest cover (x)	1.6	3.3	3.6	4.0	4.6
Fixed asset T/O (x)	3.0	3.7	4.3	5.3	6.4

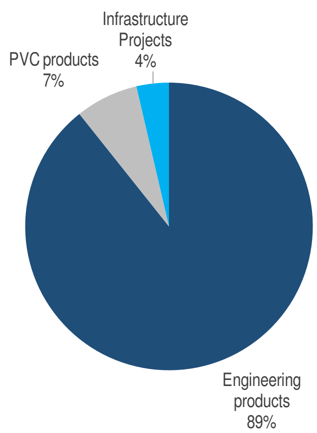
Source: Company, Anand Rathi Research

Fig 5 – PE band



Source: Bloomberg, Anand Rathi Research

Fig 6 – FY15 revenue break-up



Source: Company, Anand Rathi Research

Ready for large-capacity-tower orders

With 175,000 tons capacity, the company has the scale and experience to implement large T&D orders.

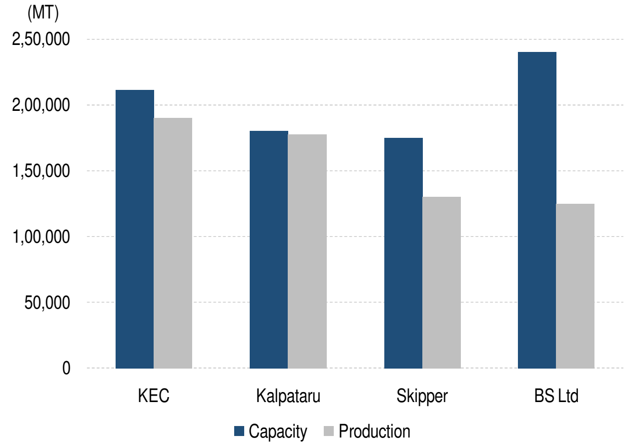
Third-largest transmission-tower manufacturer in India

Skipper's main business is manufacturing engineering products (mainly transmission towers and related products). In FY15 these accounted for nearly 90% of its revenue.

With a 10-15% market share in transmission-tower manufacturing, the company was third in tower production in FY15. Its West Bengal location gives it significant advantages in terms of lower raw material and employee costs.

The company has constantly increased capacity. The greater capacity will help it attain economies of scale

Fig 7 – Third-largest producer of towers



Source: Company data, Anand Rathi estimates

Location (West Bengal) an added advantage

The engineering-products division has three plants, at Howrah (WB).

Fig 8 - Plant-wise details

Plant	Major product	Capacity (tpa)
Jangalpur Unit 1	Transmission towers and fasteners	69,000
Jangalpur Unit 2	Transmission towers and fasteners	36,000
Uluberia	Transmission towers and fasteners	46,000
Uluberia	Hot-rolled angles	180,000
Uluberia	Tubular products (poles, scaffolding, solar structures)	42,000

Source: Company

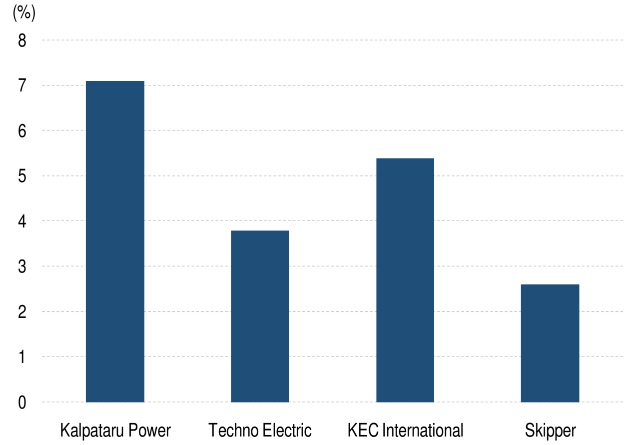
This location gives it the edge on two fronts:

Lower cost of raw-material transportation. The major raw material (billets) is procured from SAIL's Durgapur plant, less than 150km away. This results in transportation costs of ₹450-500 a ton, against the industry average of ₹2,000. In cost per ton, logistics for Skipper works out to 4.7%, against the industry average of 7.5%.

Lower employee cost. For the last three years employee cost has averaged ~2.2% of sales, compared to 3.8-7% for comparable peers.

This has resulted in a 200 to 300-bp better EBITDA margin than its peers.

Fig 9 – Employee cost (percent of sales)



Source: Company, Anand Rathi Research

PGCIL as major customer provides order assurance

The company's major customer is the Power Grid Corp. of India, which chiefly handles projects of 400 kV and over, where Skipper also mainly operates. At end-FY15 Skipper had a ~₹24bn order book, more than 50% from Power Grid. In domestic markets, it mostly focuses on Power Grid projects; hence, 75-80% of its revenue in FY15 came from the latter, the rest from private transmission operators and state electricity boards.

In FY16 in India, we expect total orders of ₹120bn-125bn for towers to be awarded (towers generally comprise 35-40% of line-erection cost). For Skipper, considering its conservative 10% market share, we expect orders of ₹12.5bn in FY16 from the domestic market.

Order book: Skipper has an order book of ₹24bn, 1.9x of FY15 revenue. We expect an order book of ₹28bn-29bn by end-FY16 (17.5% growth) and ₹34bn by end-FY17. This would come on two fronts:

- **Power Grid orders** of ~₹25bn-30bn (from ~₹11.2bn at end-FY15) in the next two years. (For Skipper, revenue from Power Grid in FY15 was 74% of engineering products revenue.)
- **Export orders from Latin America, Africa and Europe.** At present, exports constitute 45% of Skipper's order book, and revenue from exports was 4% of sales in FY15. Ahead, as execution of its export orders picks up, the contribution would rise. We expect exports to bring in ~25% of revenue in the next 2-3 years.

  The company has a long-term supply contract with transmission-system operators (TSO) in Latin America. Also, it secured a ₹4bn order from Colombia (South America) to supply towers for a 500 kV transmission line. All this improves revenue assurance and establishes its presence in this fast-growing market, which should generate new orders in future.

Growth avenues - monopoles

Skipper is one of the few with the capacity to build monopoles, which management believes offers tremendous scope to grow. Monopoles are tubular structures which provide ease of erection in areas where space is a constraint. For a lattice tower four foundations are required for tower legs. That consumes land of up to 100 sq.m., whereas a monopole can be erected in a five sq.m. area. Such monopoles are widely used in European countries and are becoming popular in India.

Skipper has infrastructure for monopole manufacturing and will commission 15,000 tons of monopole capacity by Q2 FY16. We expect this to be a good contributor to revenue in the next 2-3 years. Pricing is 70-80% more (per ton) than for other towers; hence, the contribution to profitability from monopoles would be significantly higher.

PVC products business

The company's 10% market share in the highly fragmented north-eastern market shows its expertise and ability to scale up its business to the entire country in the next 2-3 years.

Growth driver

Skipper also operates in PVC pipes (mainly in the north-east) with a ~10% market share in eastern India. Its main products are PVC pipes and sanitary fittings, sold mainly to retail consumers via a network of ~500 dealers. It has collaborated with global giants in PVC (Sekisui of Japan for CPVC pipes and Wavin of the Netherlands for advanced plumbing solutions). This collaboration would strengthen its brand positioning and help match prices with leaders in the PVC sector.

Revenue contribution: This segment brought 7% to its revenue in FY15 and registered 31% yoy growth. Of this, 60% came from the agriculture sector (water transportation in irrigation), 40% from sanitary fittings.

Revenue from the PVC division would increase considerably on the commissioning of the planned capacity expansion

Capacities: At present, company has two operational plants of 10,000 tpa each, at Uluberia (WB) and Ahmedabad (Guj). Nearly 24,000 tpa are being constructed, while 55,000 tpa will be added in FY17 and FY18.

Fig 10 - Planned expansions

Status	Plant location	Capacity (tpa)	Timeline of commissioning
Operational	Ahmedabad	10,000	Operational
Operational	Uluberia	10,000	Operational
Being constructed	Hyderabad	8,000	Q3 FY16
Being constructed	Guwahati	6,000	Q3 FY16
Being constructed	Ghaziabad	8-10,000	Q3 FY16
Planned		55,000	FY17/FY18

Source: Company, Anand Rathi Research

Growth plans

The company plans to increase capacity from 20,000 tpa currently to 100,000 tpa by FY18, 5x growth in the next 2-3 years. To optimise capital and reduce execution time, it plans an asset-light strategy (opting for leasing land in lieu of owning it). This is expected to reduce plant execution time from 24 months to 8-9 months. And would lead to capital cost of ₹8,000 a ton against a greenfield expansion cost of ₹20,000.

Financials

- The next phase of growth would come from planned expansion in the CPVC division.
- We expect the engineering products division to post a 17% CAGR in sales over FY15-18.
- EBITDA margin above 15% would be maintained, in our view.
- Asset-light model of growth to help to a 25%+ RoE.

Revenue to see a 25% CAGR over FY15-18

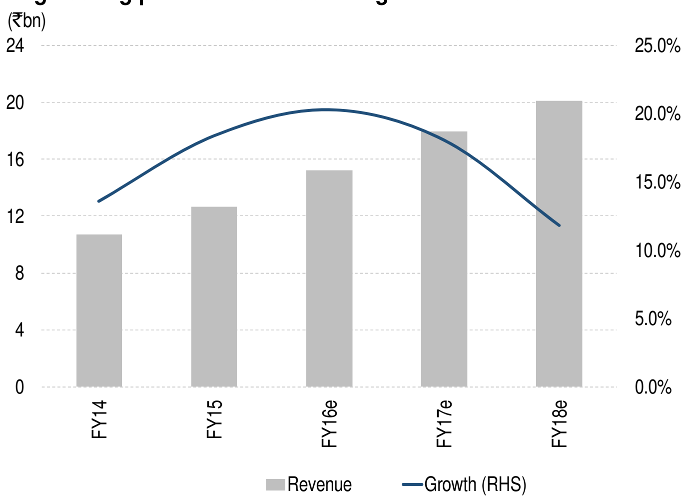
In FY15, the company registered 25% yoy growth in gross revenue, to ~₹14bn. Over FY11-15, revenue grew from ₹5.5bn to ₹14bn, a 27% CAGR. This was mainly driven by 24% CAGR in the engineering products division.

Engineering products division to report 17% revenue CAGR

The expected capex in the transmission sector from the government would augur well for the company in utilising its large capacity

With expected growth in investment in the power transmission sector in India, and growth in export demand, we expect the engineering product division to post a 17% CAGR in sales over FY15-18.

Fig 11 – Engineering products revenue to register a 17% CAGR

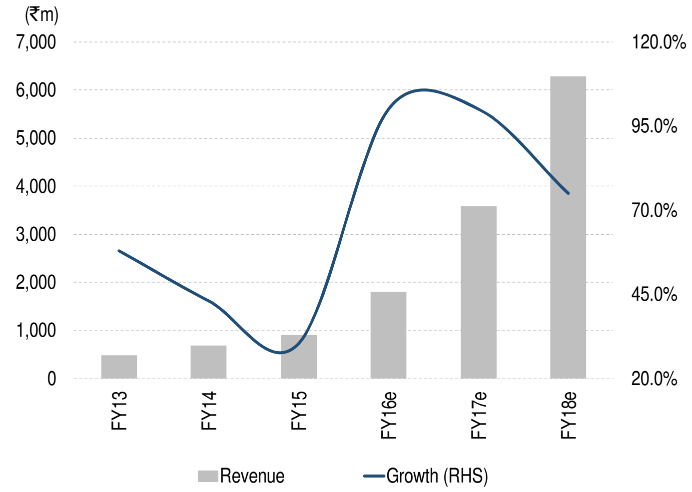


Source: Anand Rathi Research

Capacity addition in PVC products, the path to exponential growth

The share of revenue from the PVC products division has steadily been rising. From 4% in FY11, it has grown to 7% in FY15. Though on a lower base, the division has registered a ~46% revenue CAGR over FY11-15. This division is expected to grow exponentially in the next 3-5 years following the commissioning of the 10,000 tpa Ahmedabad plant and the 22,000 tpa being implemented at various location, expected to be operational by end- FY16 (55,000 tpa being planned).

Fig 12 – PVC products revenue to register a 90% CAGR



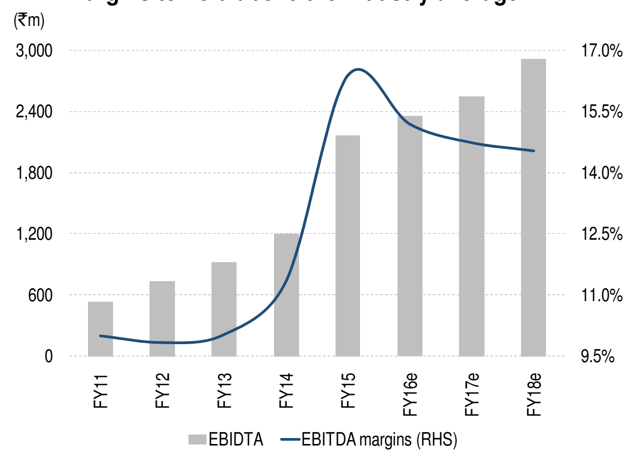
Source: Anand Rathi Research

Above industry average margin to sustain

For FY15 the company had a 16.4% (consolidated) EBITDA margin, up 500bps from FY14. As explained in the company description, Skipper is expected to enjoy above-industry margins because of its focus on manufacturing, its location advantage and backward integration. However, we expect this would come down for the following reasons.

- Managements of transmission-tower manufacturers say that the sector operated at 70-75% utilisation. In FY15 Skipper operated at 87%. In the next 2-3 years, greater demand for transmission towers would raise capacity utilisation for peers, resulting in better operating leverage and EBITDA margins. As Skipper is already operating at a high degree of utilisation, the scope of further raising the rate of utilisation would be restricted.
- The significant increase in PVC-product capacity would require a discounted pricing strategy in order to gain market share in other regions (other than the North-East, Skipper's traditional stronghold). This would put pressure on margins.
- The PVC capacity increase from 20,000 tpa in FY15 to 35,000 tpa (expected by FY16) would put pressure on utilisation, resulting in lower PVC margins.

Fig 13 – EBITDA margins to hold above the industry average



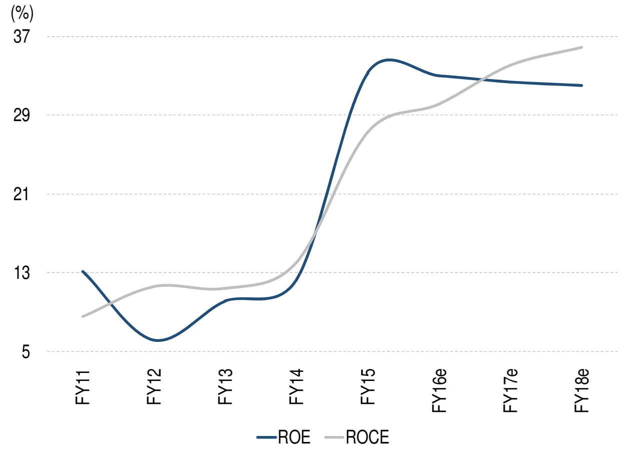
Source: Anand Rathi Research.

Asset-light model of growth to help to a 25%+ RoE

For FY15, the RoE came at ~32%, the RoCE at ~27%. We expect a marginal decline in the former because of the investment in expanding capacity in PVC. Nevertheless, these ratios would still be significantly above the industry average. In the next three years we expect an average RoE of 32-33% and an RoCE of 30-35%. This performance is expected on the following grounds:

- The asset-light model for capacity growth would require just ₹8,000 a ton of capex vs. ₹20,000 in an "owned-asset" model
- The high cash-flow from engineering products would provide enough cash for the PVC product expansion
- The focus on manufacturing would require only maintenance capex
- The company has no plan for huge capacity addition for transmission towers (but staggered)

Fig 14 – Return ratios



Source: Anand Rathi Research

Fig 15 – Income statement (₹m)

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Net revenues	10,415	13,128	16,588	20,999	25,733
Other op revenues	-	-	-	-	-
Revenues	**10,415**	**13,128**	**16,588**	**20,999**	**25,733**
Growth (%)	*15.7*	*26.0*	*26.4*	*26.6*	*22.5*
Material cost	-7,600	-8,797	-11,115	-14,070	-17,242
Employee cost	-274	-341	-428	-541	-663
Manufacturing cost	-577	-816	-995	-1,260	-1,544
Marketing cost	-77	-138	-199	-315	-386
Administrative cost	-184	-229	-348	-525	-643
Energy cost	-518	-525	-663	-839	-1,028
Other cost	-84	-130	-182	-210	-257
Sector specific expense	-	-	-	-	-
EBITDA	**1,102**	**2,152**	**2,658**	**3,239**	**3,969**
Growth (%)	*29.3*	*95.2*	*23.5*	*21.9*	*22.6*
EBITDA margin (%)	*10.6*	*16.4*	*16.0*	*15.4*	*15.4*
Other income	21	17	29	37	45
Operating profit	**1,123**	**2,168**	**2,687**	**3,276**	**4,014**
Depreciation	-151	-220	-252	-269	-287
EBIT	**973**	**1,948**	**2,435**	**3,006**	**3,727**
Interest cost	-605	-583	-678	-748	-815
PBT	**367**	**1,366**	**1,757**	**2,258**	**2,912**
Tax	-98	-474	-597	-768	-990
Effective tax rate	*26.7*	*34.7*	*34.0*	*34.0*	*34.0*
PAT	**269**	**892**	**1,159**	**1,490**	**1,922**
Minority interest	-	-	-	-	-
Associate profit	-	-	-	-	-
Consol PAT	**269**	**892**	**1,159**	**1,490**	**1,922**
Growth (%)	*43.8*	*231.4*	*30.0*	*28.5*	*29.0*
PAT margin (%)	*2.6*	*6.8*	*7.0*	*7.1*	*7.5*
Extra-ordinary income	-	-	-	-	-
Dividends (incl Tax)	-18	-160	-208	-268	-345
Transferred to reserves	**251**	**732**	**951**	**1,223**	**1,577**
Per share data					
FDEPS (₹)	2.6	8.7	11.3	14.6	18.8
DPS (₹)	0.2	1.3	1.7	2.2	2.8
Adj BV (₹)	22.6	29.7	39.0	50.9	66.4
CEPS (₹)	4.1	10.9	13.8	17.2	21.6
Valuation ratio					
P/E (x)	55.9	16.9	13.0	10.1	7.8
P/adj BV (x)	6.5	4.9	3.8	2.9	2.2
P/C (x)	35.8	13.5	10.7	8.5	6.8
Dividend yield (%)	0.1	0.9	1.1	1.5	1.9
EV/S (x)	1.9	1.4	1.1	0.9	0.7
EV/E (x)	17.6	8.6	7.0	5.7	4.6
Quality ratio					
Dividend payout (%)	6.7	18.0	18.0	18.0	18.0
Other income/PBT (%)	5.8	1.2	1.7	1.6	1.6
Interest cover (x)	1.6	3.3	3.6	4.0	4.6
Operating CF/EBITDA (x)	0.3	0.6	0.3	0.2	0.2

Source: Company, Anand Rathi Research

Fig 16 – Balance Sheet (₹ m)

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Equity	102	102	102	102	102
Reserves	2,209	2,936	3,888	5,110	6,688
Minority interests	-	-	-	-	-
Less: Misc exp	-	-	-	-	-
Networth	**2,312**	**3,039**	**3,990**	**5,213**	**6,790**
Equity (% of CE)	*33.4*	*42.6*	*49.4*	*54.5*	*60.7*
LT debt	2,307	1,707	1,108	1,497	1,621
ST debt	2,088	2,122	2,722	2,593	2,505
DTL (net)	218	265	265	265	265
Total debt	**4,613**	**4,093**	**4,094**	**4,355**	**4,391**
Net D/E (x)	*1.9*	*1.2*	*0.9*	*0.7*	*0.5*
Capital employed	**6,924**	**7,132**	**8,084**	**9,567**	**11,181**
Gross block	3,943	4,295	4,830	5,160	5,500
Acc depreciation	-558	-782	-1,035	-1,304	-1,591
Net block	**3,385**	**3,513**	**3,795**	**3,856**	**3,908**
CWIP	83	35	80	90	100
Fixed assets	**3,468**	**3,547**	**3,875**	**3,946**	**4,008**
Investments	-	-	-	-	-
Cash equivalents	263	561	469	827	1,094
Inventories	2,290	2,282	3,018	3,947	4,957
Debtors	2,318	3,758	4,838	6,125	7,505
Loans & advances	476	488	581	694	915
Other current assets	-	-	-	-	-
Current assets	**5,347**	**7,090**	**8,907**	**11,593**	**14,472**
Creditors	-1,865	-3,295	-4,450	-5,673	-6,952
Provisions	-25	-210	-247	-297	-347
Other current liabilities	-	-	-	-	-
Current liabilities	**-1,891**	**-3,505**	**-4,697**	**-5,971**	**-7,300**
Net current assets	**3,456**	**3,585**	**4,210**	**5,622**	**7,172**
Capital deployed	**6,924**	**7,132**	**8,085**	**9,568**	**11,181**
FA/CE (%)	*50.1*	*49.7*	*47.9*	*41.2*	*35.9*
Investments/CE (%)	-	-	-	-	-
Liquid assets/CE (%)	*3.8*	*7.9*	*5.8*	*8.6*	*9.8*
Working capital/CE (%)	*46.1*	*42.4*	*46.3*	*50.1*	*54.4*

Source: Company, Anand Rathi Research

Fig 17 – Cash-flow statement (₹ m)

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Cash profit	420	1,112	1,412	1,760	2,209
Chg in WC	-134	170	-717	-1,055	-1,283
Operating CF	**286**	**1,281**	**695**	**705**	**926**
Capex	-321	-299	-580	-340	-350
Free CF	**-35**	**982**	**115**	**365**	**576**
Equity	-0	-5	-	-	-0
Debt	188	-519	1	260	36
Investments	-	-	-	-	-
Dividends	-18	-160	-208	-268	-345
Misc inflows	-	-	-	-	-
Net change in cash	**135**	**298**	**-92**	**358**	**267**
Opening cash	128	263	561	469	827
Closing cash	**263**	**561**	**469**	**827**	**1,094**

Source: Company, Anand Rathi Research

Fig 18 – Ratio analysis @ ₹145

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Dupont Analysis					
Margins (%)	9.3	14.8	14.7	14.3	14.5
Capital turn (x)	1.6	1.9	2.2	2.4	2.5
RoCE (%)	14.5	27.7	32.0	34.1	35.9
Leverage factor (x)	3.1	2.6	2.2	1.9	1.7
Interest burden (x)	0.4	0.7	0.7	0.8	0.8
Tax burden (x)	0.7	0.7	0.7	0.7	0.7
Consol factor (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	12.3	33.3	33.0	32.4	32.0
Working capital (Days)					
Inventories	80	63	66	69	70
Debtors	81	104	106	106	106
Loans & advances	17	14	13	12	13
Other CA	-	-	-	-	-
Creditors	-65	-92	-98	-99	-99
Provisions	-1	-6	-5	-5	-5
Other CL	-	-	-	-	-
Net WC	112	84	82	83	86
Other ratios					
Op CF/Rev (%)	2.7	9.8	4.2	3.4	3.6
FCF/Rev (%)	-0.3	7.5	0.7	1.7	2.2
Intangibles/GB (%)	0.3	0.3	0.5	0.4	0.4
Intangibles/CE (%)	0.2	0.2	0.3	0.2	0.2
Revenue/GB (x)	2.6	3.1	3.4	4.1	4.7
Revenue/FA (x)	3.0	3.7	4.3	5.3	6.4
CWIP/GB (x)	0.0	0.0	0.0	0.0	0.0

Source: Company, Anand Rathi Research

Valuation and Risk

Valuation

We value Skipper at 14x FY17e EPS and recommend a Buy, at a target of ₹204 a share.

Risks

- **Keen competition.** Significantly lower prices by competitors may cut into margins considerably. However, competition may shrink as the expected increased demand in the transmission sector would broaden the market.
- **A delay in capacity addition** may pose the risk of losing the opportunity to earn better margins.

Company background

Part of the Kolkata-based S K Bansal group (established in 1961 by Mr Sadhu Ram Bansal), Skipper, founded in 1981, has become a prominent operator in manufacturing tubular poles, towers (telecoms and transmission) and PVC pipes.

It supplies PVC pipes mostly in east India through a 500-dealer network and strives for all-India operations. It exports to Australia and countries in Africa, the Middle East, south & southeast Asia, South America and Europe.

It has recently hived off its scaffolding business.

Experienced management has been the driving force

Fig 19 – Promoters and key management personnel

Name	Position
Promoter Directors	
Sadhu Ram Bansal	Chairman emeritus
Sajan Kumar Bansal	Managing director
Sharan Bansal	Director
Devesh Bansal	Director
Siddharth Bansal	Director
Independent Directors	
Amit Kiran Deb IAS (retired), Chairman	
Manindra Nath Banerjee IAS (retired)	
Shyam Bahadur Singh, ex-MD, SAIL	

Source: Company

29 September 2015

Genus Power Infrastructures

Rating: **Buy**
Target Price: ₹50
Share Price: ₹32

Riding on smart meters' demand, initiating, with a Buy

We initiate coverage on Genus Power Infrastructures, with a Buy and a price target of ₹50. As Genus is one of the largest manufacturers of electricity meters in India, it would enjoy the benefits of demand growth in "smart" meters and an advanced metering system.

Advanced metering system, the easiest solution to some SEB problems. High T&D losses in the power sector have led to a $15bn loss merely from power theft. An advanced metering solution is most economic, easy to implement and comes with little political resistance. In Nov'14 the government announced schemes of ₹765bn (IRDP and DDUGJY) to strengthen the distribution system. This should result in 130m "smart" meters being installed by 2021. The use of these meters for power-quality management, peak-load management and outage management would be a great demand driver during the implementation of the schemes.

21% revenue growth and 15%+ margin in base-case scenario. We expect the company to register 21% revenue CAGR over FY15-18, even without full-fledged demand for smart meters. A wide product range, a five to seven percentage point increase in the share of smart meters in revenue (from 15-17% now) would take the margin from 13.5% now to 15.6% by FY18 as smart meters command better realisations.

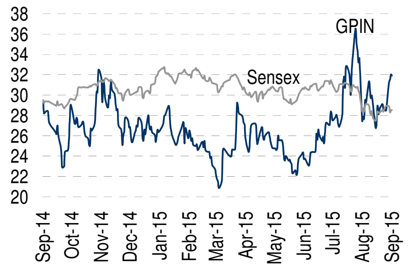
Lower capex; positive cash-flow to improve RoE A low-investment business with mostly debt for working capital management would generate an RoE of over 19% by FY17 with improved cash flow and reduced debt. Tax benefits for the Haridwar plant also offer advantages till FY20.

Valuation. At 11x FY17e EPS, we value the stock at ₹50 and recommend a Buy. At ~21% revenue growth, ~14% margins and a ~17% RoE with just 0.6x net D/E, Genus is the most attractive stock in our coverage. **Risk:** SEBs poor financial health is the only bottleneck and risk to exponential growth

Key data	GPIN IN / GEOE.BO
52-week high / low	₹38 / ₹20
Sensex / Nifty	25617 / 7796
3-m average volume	$0.2m
Market cap	₹8.2bn / $124m
Shares outstanding	256.7m

Shareholding pattern (%)	Jun '15	Mar '15	Dec'14
Promoters	50.6	50.6	50.6
- of which, Pledged	-	-	-
Free float	49.4	49.4	49.4
- Foreign institutions	0.1	0.2	0.0
- Domestic institutions	0.4	0.1	0.1
- Public	49.0	49.1	49.3

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY14	FY15	FY16e	FY17e	FY18e
Sales (₹m)	7,655	9,150	11,075	13,290	16,214
Net profit (₹m)	605	683	873	1,194	1,555
EPS (₹)	3.2	2.7	3.4	4.7	6.1
Growth (%)	17.6	-18.0	27.9	36.8	30.2
PE (x)	9.8	12.0	9.4	6.8	5.3
PBV (x)	1.4	1.7	1.4	1.2	1.0
RoE (%)	13.1	14.8	16.6	19.2	20.7
RoCE (%)	12.5	14.7	16.9	19.2	20.7
Dividend yield (%)	0.4	0.6	0.8	0.9	1.1
Net debt/equity (x)	0.5	0.7	0.6	0.5	0.4

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 –Income statement (₹ m)

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Net revenues	7,655	9,150	11,075	13,290	16,214
Revenue growth (%)	17.4	19.5	21.0	20.0	22.0
- Oper. expenses	6,674	7,921	9,506	11,261	13,679
EBIDTA	**981**	**1,229**	**1,569**	**2,029**	**2,535**
EBITDA margins (%)	12.8	13.4	14.2	15.3	15.6
- Interest	356	332	388	424	450
- Depreciation	106	161	171	187	206
+ Other income	94	124	154	174	194
- Tax	8	177	291	398	518
Effective tax rate (%)	1.4	20.6	25.0	25.0	25.0
+ Associates/(minorities)	-	-	-	-	-
Adjusted PAT	605	683	873	1,194	1,555
+ Extraordinary items	-	-150	-	-	-
Reported PAT	605	532	873	1,194	1,555
Adj. FDEPS (₹/sh)	3.2	2.7	3.4	4.7	6.1
Adj. FDEPS growth (%)	17.6	-18.0	27.9	36.8	30.2

Source: Company, Anand Rathi Research

Fig 2 –Balance sheet (₹ m)

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Share capital	257	257	257	257	257
Reserves & surplus	4,081	4,616	5,413	6,517	7,967
Net worth	4,338	4,873	5,670	6,774	8,224
Total debt	3,190	3,658	4,038	4,418	4,787
Minority interest	-	-	-	-	-
Def. tax liab. (net)	91	71	71	71	71
Capital employed	**7,619**	**8,601**	**9,779**	**11,263**	**13,082**
Net fixed assets	1,187	1,284	1,382	1,400	1,419
Intangible assets	8	26	26	26	26
Investments	1,362	1,222	1,522	1,722	1,922
- of which, Liquid	665	-	-	-	-
Working capital	4,539	5,580	6,365	7,164	8,197
Cash	524	490	485	951	1,518
Capital deployed	**7,619**	**8,601**	**9,779**	**11,263**	**13,082**
Working capital (days)	216	223	210	197	185
Book value (₹/sh)	23.2	19.0	22.1	26.4	32.0

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Adjusted PAT	605	683	873	1,194	1,555
+ Non-cash items	106	161	171	187	206
Cash profit	711	843	1,044	1,381	1,761
- Incr./(decr.) in WC	-829	1,042	785	799	1,033
Operating cash-flow	1,540	-198	260	582	728
- Capex	143	276	269	205	225
Free-cash flow	1,398	-474	-9	377	503
- Dividend	30	60	75	90	106
+ Equity raised	-1,116	63	0	-0	-
+ Debt raised	246	447	380	380	369
- Investments	265	-140	300	200	200
- Misc. items	-	150	-	-	-
Net cash-flow	232	-34	-5	467	566
+ Op. cash & bank bal.	292	524	490	485	951
Cl. cash & bank bal.	524	490	485	951	1,518

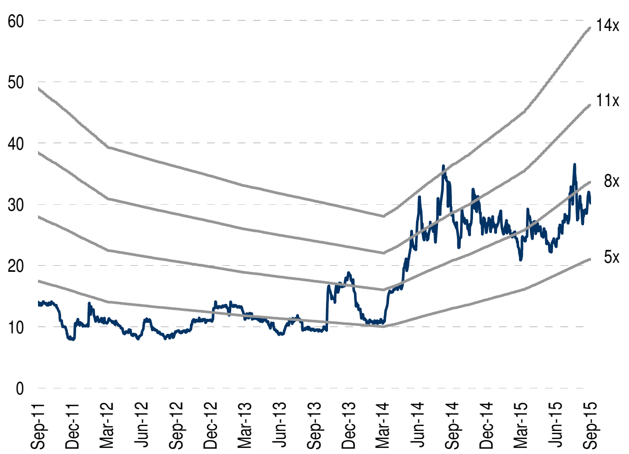
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis @ ₹32

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
P/E (x)	9.8	12.0	9.4	6.8	5.3
Cash P/E (x)	8.4	9.7	7.8	5.9	4.6
EV/EBITDA (x)	10.4	9.2	7.5	5.7	4.5
EV/sales (x)	1.3	1.2	1.1	0.9	0.7
P/B (x)	1.4	1.7	1.4	1.2	1.0
RoE (%)	13.1	14.8	16.6	19.2	20.7
RoCE (%)	12.5	14.7	16.9	19.2	20.7
Dividend yield (%)	0.4	0.6	0.8	0.9	1.1
Dividend payout (%)	5.0	8.8	8.6	7.6	6.8
Net debt/equity (x)	0.5	0.7	0.6	0.5	0.4
Debtor (days)	164	159	162	162	167
Inventory (days)	41	62	56	49	44
Payables (days)	47	63	61	58	62
Interest cover (x)	2.7	3.6	4.0	4.8	5.6
Fixed asset T/O (x)	6.5	7.3	8.2	9.4	11.3

Source: Company, Anand Rathi Research

Fig 5 – PE band



Source: Bloomberg, Anand Rathi Research

Fig 6 – 5 year price performance

Source: Bloomberg, Anand Rathi Research

Smart meters, a game changer

High T&D losses in the power sector have led to a $15bn loss merely from power theft. An advanced metering solution is most economic, easy to implement and comes with little political resistance. Shift from conventional meters to advanced ("smart") meters would benefit the company.

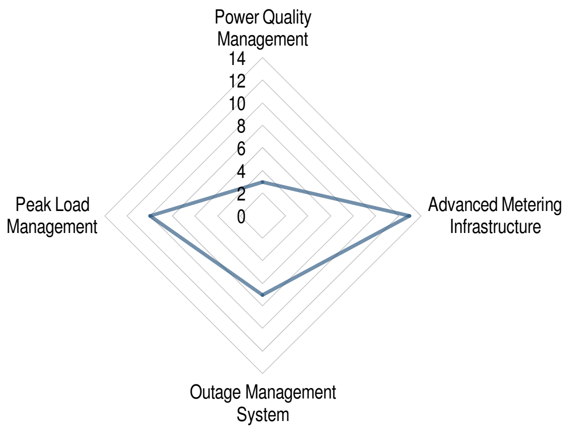
Mounting proportion of smart meters to improve profitability

Genus Power would see major growth in revenues and profitability once advanced meters become a significant part of its sales. Smart meters brought in 15-17% of revenue in FY15, conventional meters ~85%. We expect an increase of 5-7 percentage points in revenue from smart meters by FY18. The following factors could lead to the shift:

Smart meters would improve revenue and margins. The losses suffered by SEBs from electricity theft would come down due to the shift to smart meters

- **The Integrated Power Development scheme.** Launched in Nov'14 with ₹326bn, the IPDS aims to strengthen sub-transmission and distribution networks in urban areas through metering of distribution transformers, feeders and consumers, technological integration and strengthening of the distribution network.
- **The Deendayal Upadhyaya Gram Jyoti Yojana.** Launched in Nov'14 with ₹440bn and focused on rural areas, its targets are separation of agricultural and non-agricultural feeders, strengthening of the T&D networks and metering of distribution transformers, feeders and consumers.
- **The Restructured Accelerated Power Development and Reforms Programme** facilitates the creation of IT-enabled distribution infrastructure, such as smart meters.
- **The Rajiv Gandhi Grameen Vidyutikaran Yojana** for rural electricity-distribution infrastructure adopts IT-based systems/ applications such as smart meters.
- **The Central Electricity Authority** enabling the use of network-wide implementation of smart meters.
- Renewable projects (such as solar rooftop projects) would require smart meters.
- India is estimated to install 130m smart meters by 2021.

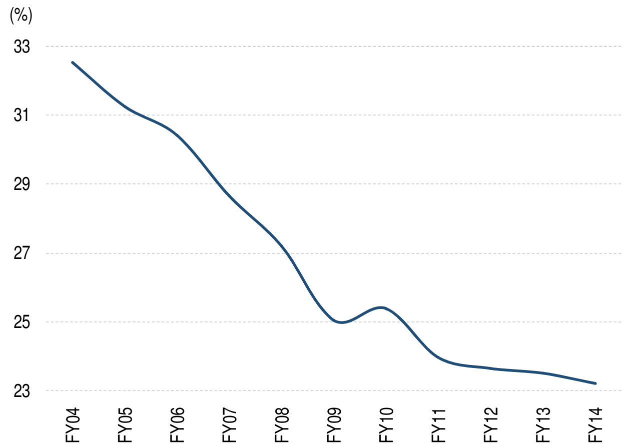
Fig 7 – Functionality covered by the present smart grid projects



Source: Media reports, govt. Publications, Anand Rathi Research

However, the weak financial health of SEBs would be a major challenge in implementing distribution reforms. This may delay the phenomenal growth of Genus Power. The recently-launched National Electricity Fund to promote investment in the distribution sector is a step in the right direction. Under this scheme, an interest subsidy is given to SEBs on loans taken to implement the RGGVY and R-APDRP schemes.

Fig 8 - All-India T&D losses



Source: CEA

Wide range of products

The use of smart meters for power-quality management, peak-load management and outage management would be a great demand driver during the implementation of the government schemes. Genus Power, with a wide range of products could meet that demand.

Solutions for all types of power measurement available

Metering of energy sold/transmitted through distribution networks is a most important part of revenue generation of SEBs. In a country where T&D losses hover around 25%, metering becomes even more critical. The power sector is losing nearly $15bn annually merely from power theft.

A smart metering system is essential, easily implementable and with less resistance from consumers to implement (less political interference) and with a short payback period. This technology is boosting the revenue-collection efficiency of power utilities by reducing instances of tampering and incorrect billing.

The company has different meters for varied uses and problems of SEBs

Genus Power's range of meters provides solutions for all needs of SEBs and distribution companies. When distribution companies are faced with the huge burden of high commercial and distribution losses, proper metering solutions can offer vast relief.

- Smart meters with trademark "Saksham" provide solutions for two-way communication, eliminating manual meter-reading, thereby significantly reducing the cost of data collection.
- Meters which can store 35 days of load data with kWh, average voltage and average current for the integration period can help discoms to better manage power demand.
- Time-of-use metering with different tariffs, types of days and seasons are useful for availability-/demand-based tariff structures.
- Prepayment meters with trademark "Agrim" can be useful in advance revenue collection.
- Group meters can be useful for housing apartments and clustered areas.
- Meter-test equipment to verify and record the accuracy of energy measurement of installed meters and meter-reading instruments reduces the cost of bill distribution.

Engineering, construction & contracts

With considerable experience in distribution infrastructure ECC, Genus should benefit from the recently-announced agriculture feeder-separation scheme, expected to require ₹1trn by way of investment.

Time to monetise experience in metering solutions

With more than two decades of experience in metering solutions, Genus Power entered into the engineering, construction and contracts business: from conceptualisation to commissioning of power-metering solutions, including smart-metering, automatic meter-reading technology, IT-enabled communications technology and advance-metering infrastructure.

Since 2005 the company has gained expertise from such projects and has completed projects for feeder/transmission lines and sub-stations, and rural electrification.

At present, it is implementing the following projects:

The company would benefit from the plan to reduce T&D losses by five percentage points in the next five years, from 25% now

1. 132 kV D/C transmission line and sub-station in Jharkhand
2. 132 kv D/C transmission line and sub-station in MP
3. 220 kv transmission line and sub-station (bay extension) in Karnataka
4. Rural electrification in Uttarakhand under the R-APDRP
5. 230/110 kv AIS sub-station in Tamil Nadu
6. 220/33/11 kv sub-station and 220kv D/C transmission line for NESCL-NTPC in Jharkhand
7. 33/11 kv sub-station and associated feeder-line in West Bengal

We believe that the company has gained considerable experience. It should benefit from the recently-announced agriculture feeder-separation scheme, expected to require ₹1trn by way of investment.

According to the CEA's preliminary estimate and its study, ₹1trn is required for this, spread over five years. This investment is aimed at reducing India's transmission and distribution (T&D) losses by five percentage points, from the present ~25%. This would suffice to recoup the investment. The proposed investment would benefit companies across the entire power ecosystem, including power-metering-solutions-providers such as Genus Power.

Financials

- We expect a 21% revenue CAGR over FY15-18 with normal demand growth in smart meters; major pick-up in demand for smart meters, post-FY18.
- Increasing share of smart meters in revenue from 17% currently to 25% would improve EBITDA by 180bps by FY17, in our view.
- We expect low capex and better cash flow to lead to a 300-bp improvement in the RoE.
- High receivables are not a risk.

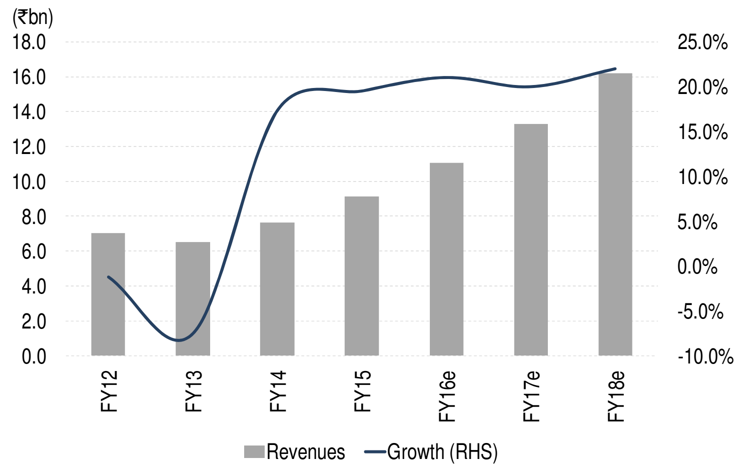
21% revenue CAGR over FY15-18e (base-case scenario)

We expect Genus to record a 20-21% revenue CAGR over FY15-18. We expect this growth from improved technology in conventional meters, average growth in smart meters and demand arising from the advanced-metering solution. We have assumed that a major pick-up in the smart-grid solutions (smart meters for power quality and flow management) may take 2-3 years due to the anaemic financial health of state SEBs.

Revenue over FY15-18 is likely to come at a 21% CAGR, supported by mounting demand for smart meters

Considering all this, our growth assumption is primarily based on the present product-mix, with smart meters only for a better billing solution. Ahead, for power-quality management, peak-load management and outage management, meters would be in demand and be the company's real growth driver.

Fig 9 – Revenue v/s revenue growth

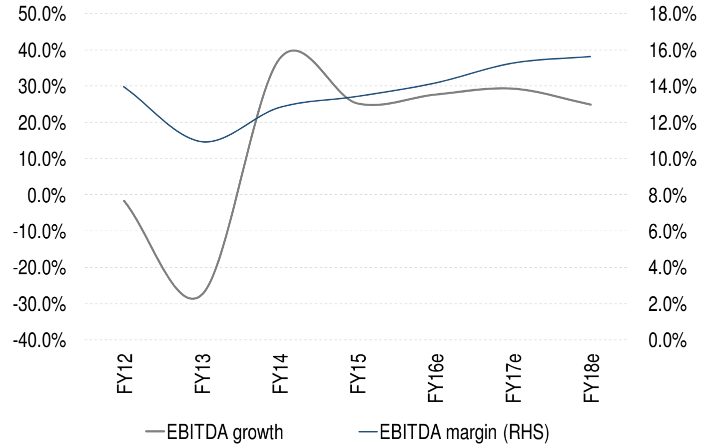


Source: Company, Anand Rathi Research

Greater profitability from more sales of smart meters

For FY15 the company reported an EBITDA margin of ~13.5%. We expect an 80-bp improvement in margins in FY16 following more sales of smart meters, which command better margins. We expect this trend to continue in FY17 and FY18, to a 180-bp better EBITDA margin by FY17. The company imports 25-30% of its raw material, in small dollar amounts so the impact of depreciation is not great when the cost is incorporated while bidding for projects/products.

Fig 10 – EBITDA and EBITDA margins

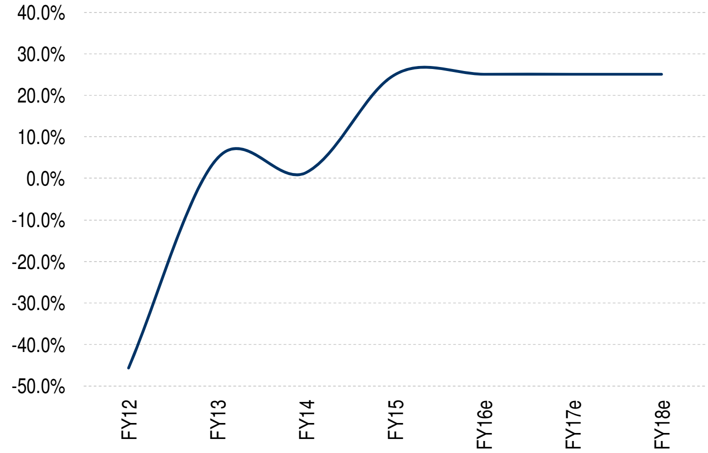


Source: Company, Anand Rathi Research

Tax benefits of Haridwar plant to continue

The Haridwar plant has tax advantages till FY20, a significant advantage. At present, the company pays MAT and will continue this till FY20. However, the sales-mix change (from the Jaipur plant, which has no tax advantage) may impact tax 100-200bps up or down. The company has availed of MAT credit in FY13 and FY14, which resulted in low tax outgo in those years.

Fig 11 – Effective tax rate (%)



Source: Company, Anand Rathi Research

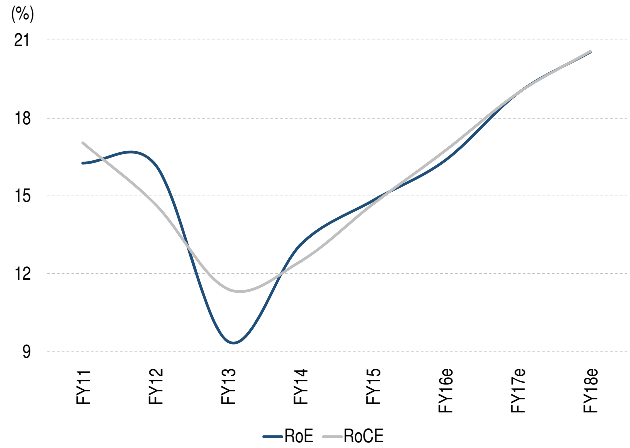
High receivable days normal in this business

Genus Power has 160 days of receivables in FY15, on the face of it, a seemingly high figure. However, most of the company's business is with SEBs and government entities, which have poor records in timely payment of bills. We believe that outstandings from SEBs may take some time to come down and receivables would persist at this level (down from 225 days in FY12). Nevertheless, such receivables are almost sure to come and cannot be considered doubtful, past records suggest. Management says that they take this delay into consideration while bidding for projects and keep adequate margins.

Greater profitability to lead to better returns

Genus Power is likely to see a ~300-bp improvement in RoE by FY17 together with expanded margins, in our view. It operates in a low-capital business; hence, even if there is great growth demand, capacity can be added without raising debt. Its present capacity of 3–3.5m meters can easily be increased to 10m without any capital expenditure. In FY15, the company wrote off investment of ₹175m at its Brazil unit; so, the worst is behind and, ahead, we should see healthy returns on investment.

Fig 12 – Return ratios to improve



Source: Company, Anand Rathi Research

Fig 13 – Income statement (₹m)

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Net revenues	7,655	9,150	11,075	13,290	16,214
Other op revenues	-	-	-	-	-
Revenues	**7,655**	**9,150**	**11,075**	**13,290**	**16,214**
Growth (%)	17.4	19.5	21.0	20.0	22.0
Material cost	-5,141	-6,181	-7,420	-8,771	-10,701
Employee cost	-570	-652	-763	-916	-1,081
Manufacturing cost	-122	-132	-206	-245	-293
Marketing cost	-223	-249	-385	-457	-551
Administrative cost	-167	-192	-276	-328	-396
Energy cost	-35	-42	-56	-68	-83
Other cost	-415	-473	-399	-476	-574
Sector specific expense	-	-	-	-	-
EBITDA	**981**	**1,229**	**1,569**	**2,029**	**2,535**
Growth (%)	37.6	25.2	27.7	29.3	24.9
EBITDA margin (%)	12.8	13.4	14.2	15.3	15.6
Other income	94	124	154	174	194
Operating profit	**1,075**	**1,353**	**1,723**	**2,203**	**2,729**
Depreciation	-106	-161	-171	-187	-206
EBIT	**970**	**1,192**	**1,552**	**2,017**	**2,524**
Interest cost	-356	-332	-388	-424	-450
PBT	**613**	**859**	**1,164**	**1,593**	**2,074**
Tax	-8	-177	-291	-398	-518
Effective tax rate	1.4	20.6	25.0	25.0	25.0
PAT	**605**	**683**	**873**	**1,194**	**1,555**
Minority interest	-	-	-	-	-
Associate profit	-	-	-	-	-
Consol PAT	**605**	**683**	**873**	**1,194**	**1,555**
Growth (%)	38.0	12.8	27.9	36.8	30.2
PAT margin (%)	7.9	7.5	7.9	9.0	9.6
Extra-ordinary income	-	-150	-	-	-
Dividends (incl Tax)	-30	-60	-75	-90	-106
Transferred to reserves	**575**	**472**	**798**	**1,104**	**1,450**
Per share data					
FDEPS (₹)	3.2	2.7	3.4	4.7	6.1
DPS (₹)	0.1	0.2	0.2	0.3	0.3
Adj BV (₹)	23.2	19.0	22.1	26.4	32.0
CEPS (₹)	3.8	3.3	4.1	5.4	6.9
Valuation ratio					
P/E (x)	9.8	12.0	9.4	6.8	5.3
P/adj BV (x)	1.4	1.7	1.4	1.2	1.0
P/C (x)	8.4	9.7	7.8	5.9	4.6
Dividend Yield (%)	0.4	0.6	0.8	0.9	1.1
EV/S (x)	1.3	1.2	1.1	0.9	0.7
EV/E (x)	10.5	8.7	7.5	5.8	4.5
Quality ratio					
Dividend payout (%)	5.0	8.8	8.6	7.6	6.8
Other income/PBT (%)	15.3	14.4	13.2	10.9	9.4
Interest cover (x)	2.7	3.6	4.0	4.8	5.6
Operating CF/EBITDA (x)	1.6	-0.2	0.2	0.3	0.3

Source: Company, Anand Rathi Research

Fig 14 – Balance sheet (₹m)

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Equity	257	257	257	257	257
Reserves	4,081	4,616	5,413	6,517	7,967
Minority interests	-	-	-	-	-
Less: misc exp	-	-	-	-	-
Networth	**4,338**	**4,873**	**5,670**	**6,774**	**8,224**
Equity (% of CE)	56.9	56.6	58.0	60.1	62.9
LT debt	423	324	304	284	253
ST debt	2,767	3,334	3,734	4,134	4,534
DTL (net)	91	71	71	71	71
Total debt	**3,281**	**3,729**	**4,109**	**4,489**	**4,858**
Net D/E (x)	0.6	0.57	0.6	0.5	0.4
Capital employed	7,619	8,601	9,779	11,263	13,082
Gross block	1,504	1,911	2,036	2,216	2,441
Acc depreciation	-510	-608	-779	-966	-1,171
Net block	**993**	**1,304**	**1,257**	**1,251**	**1,270**
CWIP	202	6	150	175	175
Fixed assets	**1,195**	**1,310**	**1,407**	**1,426**	**1,445**
Investments	1,362	1,222	1,522	1,722	1,922
Cash equivalents	524	490	485	951	1,518
Inventories	866	1,560	1,690	1,783	1,938
Debtors	3,443	3,996	4,922	5,907	7,431
Loans & advances	1,414	1,895	1,895	1,895	1,895
Other current assets	16	19	19	19	19
Current assets	**6,263**	**7,959**	**9,010**	**10,555**	**12,801**
Creditors	-982	-1,577	-1,848	-2,127	-2,774
Provisions	-219	-313	-313	-313	-313
Other current liabilities	-	-	-	-	-
Current liabilities	**-1,201**	**-1,889**	**-2,161**	**-2,440**	**-3,086**
Net current assets	**5,063**	**6,070**	**6,850**	**8,115**	**9,715**
Capital deployed	**7,619**	**8,601**	**9,779**	**11,263**	**13,082**
FA/CE (%)	15.7	15.2	14.4	12.7	11.0
Investments/CE (%)	9.1	6.5	15.6	15.3	14.7
Liquid assets/CE (%)	15.6	13.4	5.0	8.4	11.6
Working Capital/CE (%)	59.6	64.9	65.1	63.6	62.7

Source: Company, Anand Rathi Research

Fig 15 – Cash flow statement (₹m)

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Cash profit	711	843	1,044	1,381	1,761
Chg in WC	829	-1,042	-785	-799	-1,033
Operating CF	**1,540**	**-198**	**260**	**582**	**728**
Capex	-143	-276	-269	-205	-225
Free CF	**1,398**	**-474**	**-9**	**377**	**503**
Equity	-1,116	63	0	-0	-
Debt	246	447	380	380	369
Investments	-265	140	-300	-200	-200
Dividends	-30	-60	-75	-90	-106
Misc inflows	-	-150	-	-	-
Net change in cash	**232**	**-34**	**-5**	**467**	**566**
Opening cash	292	524	490	485	951
Closing cash	**524**	**490**	**485**	**951**	**1,518**

Source: Company, Anand Rathi Research

Fig 16 – Ratio analysis @ ₹32

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Dupont analysis					
Margins (%)	12.7	13.0	14.0	15.2	15.6
Capital turn (x)	1.0	1.1	1.2	1.3	1.3
RoCE (%)	12.5	14.7	16.9	19.2	20.7
Leverage factor (x)	1.7	1.8	1.7	1.7	1.6
Interest burden (x)	0.6	0.7	0.8	0.8	0.8
Tax burden (x)	1.0	0.8	0.8	0.8	0.8
Consol factor (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	13.1	14.8	16.6	19.2	20.7
Working capital (Days)					
Inventories	41	62	56	49	44
Debtors	164	159	162	162	167
Loans & advances	67	76	62	52	43
Other CA	1	1	1	1	0
Creditors	-47	-63	-61	-58	-62
Provisions	-10	-12	-10	-9	-7
Other CL	-	-	-	-	-
Net WC	216	223	210	197	185
Other ratios					
Op CF/Rev (%)	20.1	-2.2	2.3	4.4	4.5
FCF/Rev (%)	18.3	-5.2	-0.1	2.8	3.1
Intangibles/GB (%)	0.5	1.3	1.3	1.2	1.1
Intangibles/CE (%)	0.1	0.3	0.3	0.2	0.2
Revenue/GB (x)	5.1	4.8	5.4	6.0	6.6
Revenue/FA (x)	6.4	7.0	7.9	9.3	11.2
CWIP/GB (x)	0.1	0.0	0.1	0.1	0.1

Source: Company, Anand Rathi Research

Valuation and Risk

We value the company at 11x FY17e EPS, with a price target of ₹50 a share, and have a Buy recommendation on it. At ~21% revenue growth, ~14% margins and a ~17% RoE, and with just 0.6x net D/E, Genus is probably the best value buy (in the capital goods sector), with bright prospects.

Risk

- The poor financial health of SEBs is the only bottleneck and risk to the company's exponential growth.

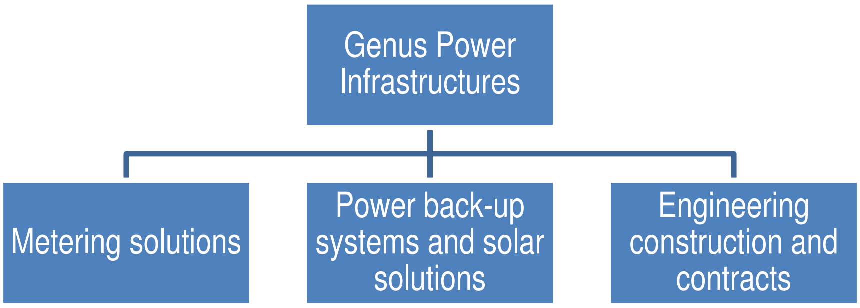
Company Background & Management

Company overview

Incorporated in 1992, Genus Power Infrastructures manufactures and distributes electric-energy meters, power-distribution-management projects, hybrid microcircuits, inverters, batteries, home UPSs and online UPSs in India and abroad. Established as a leading power infrastructure company, it is a part of the $400m Kailash group.

Its three business divisions offer innovative and sustainable solutions to the power sector.

Fig 17 – Business divisions



Source: Company, Anand Rathi Research

Business Overview

The **metering solutions division** has a complete range of electricity meters (multi-functional single-phase and three-phase meters, CT operated meters, ABT and grid meters, DT meters, pre-payment meters, "smart" meters, AMI, MDAS, etc.).

The **power back-up systems and solar solutions division** offers a wide range of UPSs and Inverters (home UPSs, static UPSs, online UPSs, high-capacity inverters, solar inverters, batteries, solar-power packs, solar-power conditioning units, etc.); it also undertakes turnkey solar-power projects up to 100 kW, from designing to commissioning.

The **engineering, construction and contracts division** undertakes turnkey power projects (sub-station erection up to 420kV, laying transmission and distribution lines, rural electrification, switchyards, network refurbishment, etc.).

Fig 18 – Management and Board

Name	Designation
Ishwar Chand Agrawal	Executive chairman
Rajendra Kumar Agrawal	Managing director
Kailash Chandra Agrawal	Non-executive vice-chairman
Jitendra Kumar Agrawal	Executive director
Rameshwar Pareek	Independent director

Source: Company

Annexures

Annexure 1

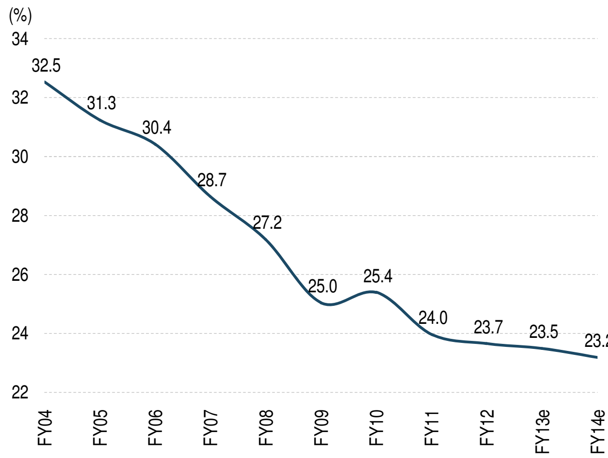
Global energy consumption and demand

Country / Region	Per capita power consumption (2011, kWh)	Population without electricity (2011, %)
United States	13,246	NA
Europe and Central Asia	2,955	0.1
China	3,298	0.3
South Asia	605	25.5
MENA	1,696	5.4
Sub-Saharan Africa	535	68.2
Latin America	1,985	5.3
World Average	3,045	16.9
India	684	25

Source: World Bank

Annexure 2

Transmission and Distribution losses



Source: CEA

Annexure 3

Top 10 contract winners for PGCIL orders

FY13	FY14	FY 15
Alstom Grid, UK (15%)	**KEC International (9%)**	Alstom Grid, UK (16%)
KEC International (14%)	Tata Projects (8%)	Tata Projects (8%)
Larsen & Toubro (8%)	**Kalptaru Power Transmission (7%)**	Larsen & Toubro (7%)
Kalptaru Power Transmission (8%)	Emco (6%)	New Northeast Electric Group (6%)
Larsen & Toubro (4%)	Pinggao Group Co (6%)	Hyosung Corporation (6%)
Gammon India (3%)	Hyosung Corporation (5%)	**Kalptaru Power Transmission (5%)**
New Northeast Electric Group (3%)	Larsen & Toubro (4%)	**KEC International (4%)**
Bajaj Electricals (3%)	Hindustan Vidyut Products (4%)	Emco (4%)
Emco (3%)	Godrej & Boyce (4%)	Gupta Power Infrastructure (3%)
Siemens (3%)	JV of Alstom group (4%)	Bajaj Electricals (3%)

Source: PGCIL data

Annexure 4

HVDC vs HVAC

High Voltage Direct Current lines are now replacing the largely obsolete High Voltage Alternating Current systems. The new system has several advantages. It enables complete control over power flow and there is no danger of reactive power generation/consumption. Besides, the HVDC lines enable unlimited transmission ability even over long distances, with very minute transmission losses, something that was a big issue with the older HVAC lines. Also, unlike the HVAC lines, the HVDC lines pose little or no risk to the environment, as they do not generate any magnetic or electrical fields. While initially the cost of setting up such lines might be high as they require conversion stations, in the long run they are much cheaper than HVAC lines due to low replacement costs and transmission losses.

AIS vs GIS

Gas-insulated sub-stations is another technology that enables efficient power distribution. Most substations at present in India are air-insulated. These are behemoths spread out over several hundred acres. They are susceptible to pollutants and environmental damage and have high maintenance and replacement costs.

The newer GISs are far more efficient and suitable for higher voltages. They require very little place (can be only 10% of the space occupied by AISs) and are even suitable for indoor locations. Aesthetically, too, these stations are far better as they can be disguised as homes or even placed underground. This has the added advantage of being less of an interference with the environment. Despite their high initial costs, GISs require very little maintenance and equipment replacement.

Smart grids

Smart-grid technology is essentially an umbrella term covering the modernisation of the transmission and distribution grids. It is in essence a “digital upgrade” of long-distance transmission grids and distribution stations not only to optimize operations by reducing losses, but also opening up new markets for alternative-energy production. It involves processes such as distribution automation, asset management, demand-side management, demand responses, distributed energy management and advanced metering infrastructure, all of which will transform the current infrastructure into a single, integrated, robust and scalable platform.

In Budget 2014-15, the government allocated ₹70.6bn ($1.2bn) for smart cities. It plans to set up 100 smart cities and develop modern satellite towns around existing cities.

Some of the precedents under this plan are:

1. Electrification of all households, with a minimum of eight hours of power per day by 2017
2. Indigenous development and implementation of a low-cost smart meter, with plans to install 130m such meters by 2021.
3. Establishment of a smart-grid test bed and knowledge centre
4. Implementation of at least eight smart-grid pilot projects in India with investment of $10m by 2015

Some of the other technology being adopted…

- High-temperature-endurance conductor
- 765 kV AC transmission system
- Fixed and variable TCSC series capacitors
- High-rise and ulti-current transmission towers

Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US$1bn) and Mid/Small Caps (<US$1bn) as described in the Ratings Table below:

Ratings Guide

	Buy	**Hold**	**Sell**
Large Caps (>US$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US$1bn)	>25%	5-25%	<5%

Anand Rathi Research Ratings Distribution (as of 29 September 2015)

	Buy	**Hold**	**Sell**
Anand Rathi Research stock coverage (196)	60%	27%	13%
% who are investment banking clients	4%	0%	0%

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