ICICI direct Research

Jan 10, 2023

Nano Nivesh

Transformers and Rectifiers India (TRAREC)

ICICI direct Research

Buy Price: ₹ 64 | Fair Value: ₹ 86 | Potential Upside: 35% | Recommendation: BUY

January 10, 2023

Firing on all cylinders...

About the stock: Transformer and Rectifier India (TRIL) is a leading manufacturer of transformers up to 1200 kV class. TRIL has a wide range of transformers, like power & distribution transformers, furnace transformers, rectifier transformers & special transformers. It has strong in-house design & technical expertise; combined with technical collaboration/JV relationship for 765 kV transformers & reactors.

- A diversified customer base in India, coupled with an international presence in over 20 countries
- Total 50% revenue comes from utilities (like state electricity boards, PGCIL, Railways), 44% comes from industrials that includes renewables and 6% exports including third party exports – utilities & power

Q2FY23 Performance: For Q2FY23, TRIL posted strong results.

- Consolidated revenue grew 15.1% YoY to ₹ 307.5 crore
- EBITDA grew strongly by 60.6% YoY to ₹ 34.2 crore with margins of 11.1% vs. 8% in Q2FY22
- Consequently, PAT came in at ₹ 12.2 crore, up 122.2% YoY

What should investors do? After many years of stagnant performance, growth prospects are looking bright across all parameters. Revenue CAGR of 20% in FY22-24E coupled with margins hitting 10.8% in FY24E will enable TRIL to post its best ever profitability performance.

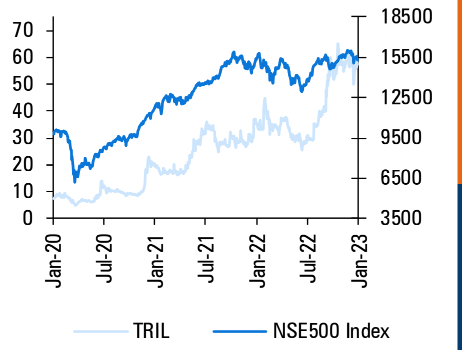
- We initiate coverage under I-Direct Nano format with a **BUY** rating

Target Price and Valuation: We value TRIL at ₹ 86 i.e. 15x on FY24E EPS.

Key triggers for future price performance:

- Robust outlook coupled with an all-time high order backlog will allow TRIL to post a robust performance, going ahead
- TRIL is likely to expand its capacity in FY24E for hydrogen powered transformers in its existing manufacturing unit and will tap players that have mega plans in setting up facilities for producing green hydrogen
- It is aggressively targeting export markets like Middle East, Russia, Africa and the US for enhancing export segment revenues. Export orders generally have the best gross margin profile vis-à-vis domestic orders
- We build in revenue, EBITDA CAGR of 19.5%, 59%, respectively, in FY22-24E

Price Performance



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Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	FY23E	FY24E	CAGR FY22E-24E
Revenue (₹ crore)	701.0	742.1	1,158.3	1,320.6	1,653.5	19.5%
EBITDA (₹ crore)	51.4	68.5	70.6	130.0	178.7	59.1%
EBITDA margin (%)	7.3	9.2	6.1	9.8	10.8	
Net Profit (₹ crore)	1.1	7.6	14.3	46.0	76.1	131.0%
EPS (₹)	0.1	0.6	1.1	3.5	5.7	
P/E (x)	805.2	111.1	59.5	18.4	11.1	
Price / Book (x)	2.5	2.5	2.4	2.3	2.0	
EV/EBITDA (x)	21.8	16.0	16.0	8.5	6.3	
RoCE (%)	7.6	9.6	9.7	18.3	23.2	
RoE (%)	0.3	2.2	4.0	12.4	18.3	

Source: Company, ICICI Direct Research

Description

The company was originally incorporated on July 11, 1994 as Triveni Electric Company Ltd. Later, in 1995, the company's name was subsequently changed to Transformers and Rectifiers (India) Ltd (TRIL). The company's business mainly comprises manufacturing and selling various kinds of transformers such as power and distribution transformers, furnace transformers, rectifier transformers and specialised transformers. Currently, TRIL has two manufacturing facilities at Changodar and Odhav in Ahmedabad. In 2006, the company increased the production capacity of the plant at Changodar from 4000 MVA per annum to its present capacity of 6000 MVA per annum. In order to effectively augment this unit's production capacities, TRIL has initiated several expansion and de-bottlenecking procedures to facilitate this expansion including installation of new winding machines, separate oven for coil drying segregation of despatch area along with 100 MT capacity EOT crane and employing additional manpower.

History and track record

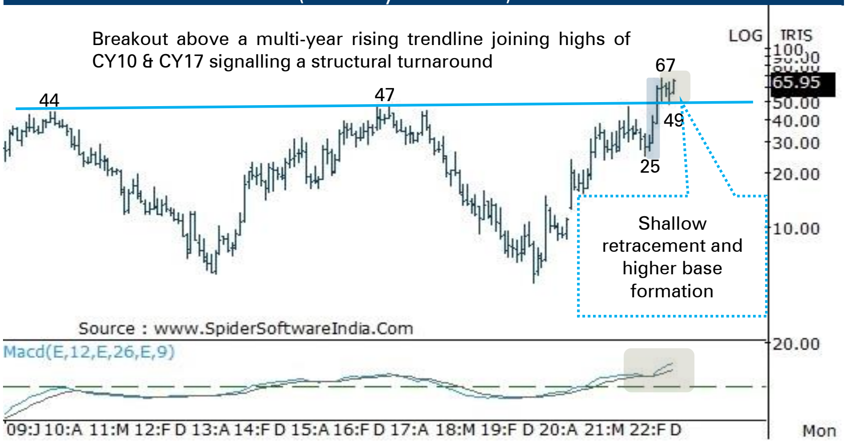
- **1981-1984**: Jitendra Mamtora started transformer manufacturing up-to 33kV class
- **1994-2000**: During the period, the company expanded up to 110 kV class transformers at the new plant at Changodar, Ahmedabad. It also manufactured transformers up-to 100 MVA, 245 kV class.
- **2001-11**: TRIL commenced production at the Moraiya plant. Also, crossed turnover of ₹ 500 crore. Entered into strategic alliance with a Ukraine company for 765 kV Class transformer
- **2012-23:** The company entered into technology license agreement with Fuji Electric Co Ltd. Also, new JV with Jiangsu Jingke Smart Electric Co Ltd, PRC for manufacturing switchgears. Developed and manufactured 170 MVA EAF transformer for Gulf countries and achieved milestone of ₹ 1100+crore turnover including all-time high exports of ₹ 209 crore

Exhibit 1: Earnings Estimates

₹ crore	FY20	FY21	FY22E	FY23E	FY24E
Sales	701.0	742.1	1,158.3	1,320.6	1,653.5
EBITDA	51.4	68.5	70.6	130.0	178.7
EBITDA (%)	7.3%	9.2%	6.1%	9.8%	10.8%
PAT	1.0	7.7	14.3	46.0	76.1
EPS	0.1	0.6	1.1	3.5	5.7

Source: Company, ICICI Direct Research

Exhibit 2: Technical Chart (Monthly Bar Chart)



Source: Bloomberg, ICICI Direct Research

Stock data

Particular	Amount
Market Capitalization	₹ 849 Crore
Total Debt (FY22)	₹ 323 Crore
Cash and Inv (FY22)	₹ 43 Crore
EV (FY22)	₹ 1128 Crore
52 week H/L (₹)	67.4 / 25
Equity capital (FY22)	₹ 13.3 Crore
Face value (₹)	1.0

Valuation

	FY21	FY22	FY23E	FY24E
P/E	111.1	59.5	18.4	11.1
EV / EBITDA	16.0	16.0	8.5	6.3
EV / Sales	1.5	1.0	0.8	0.7
Price to Book Value	2.5	2.4	2.3	2.0
RoCE	9.6	9.7	18.3	23.2
RoE	2.2	4.0	12.4	18.3

Quarterly performance

	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Sales	267.1	334.9	339.3	281.9	307.5
EBITDA	21.3	18.0	14.9	22.7	34.2
EBITDA (%)	8.0%	5.4%	4.4%	8.1%	11.1%
PAT	5.5	5.6	0.4	6.4	12.2
EPS	0.41	0.42	0.03	0.48	0.92

Shareholding trend (%)

	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	74.9	74.9	74.9	74.9	74.9
FII	-	0.1	0.2	-	0.1
DII	-	-	-	-	-
Others	25.1	25.0	24.9	25.1	25.1

Technical View

The share price, during the second half of CY22, has generated a breakout above multi-year rising trend line joining the highs of CY10 (₹ 44) and CY17 (₹ 47) signalling a structural turnaround. In the last three months, the stock is seen consolidating above the major breakout area signalling strength and offers a fresh entry opportunity.

In the last three months, the stock has undergone a slower pace of retracement of a sharp rally of the preceding three months (₹ 25-67) highlighting inherent strength that augurs well for the next leg of the up move.

It is expected to maintain positive bias and head towards ₹ 92 levels in the medium term as it is the price parity of the CY22 up move (₹ 25-67) as projected from the lower band of the last three-month's base placed at ₹ 49 levels.

What's the story?

Revival in capex cycle to bode well for product-based capital goods players, transformer players to benefit…

We expect the central government allocation to capex to grow 18% YoY in CY23 led by sectors like Railways, defence, housing and roads, thereby exhibiting 23.5% CAGR in capex allocation over FY19-24E. Activity in broad system wide indicators like projects under planning and tendering/awarding activity are at all-time highs and clearly indicate the resumption of capex cycle has multi-fold legs in the offing. For CY23 and beyond, coupled with traditional segment, we expect capex in power T&D, renewables, data centres, process industries, capex led by various PLI schemes, to see robust capex from state governments, private players and PSUs. For instance, tendering activity and ordering activity averaged at ₹ 4.4 lakh crore whereas the same has averaged at ₹ 8.5 lakh crore over FY17-23E. The same trend is visible in ordering activity. This, in our view, will put all capital goods companies in a sweet spot and more so for product-based capital goods companies like those producing transformers, bearings, abrasives, welding equipment, etc, which have advantages in the form of lower execution cycle and high sensitivity on operating leverage in up cycles. China + 1, increased prevalence of work from home across globe accentuated growth in FY22.

Robust outlook coupled with all-time high order backlog to allow TRIL to post robust performance ahead

TRIL's overall performance over FY16-20 has been boxed in a range be it revenues (ranged between ₹ 650 and ₹ 700 crore) while similarly order inflows were quite lumpy. Therefore, on account of underutilisation of capacity, EBTDA margins also suffered and were in the range of 6-8% over the same period. However, with a revival in capex cycle and renewed thrust of the government to repair health of SEB's, order inflows started ticking over ₹ 900 crore p.a. post FY20. The same is expected to cross ₹ 1430 crore for FY23E (₹1270 crore in FY22). As per management guidance, the momentum is likely to sustain in FY24E as well. The current backlog as of H1FY23E was at ₹ 1395 crore (all-time high order backlog). Given the shorter execution cycle (six to eight months), we believe H2FY23 will see strong revenue booking. With robust order inflow anticipated in H2FY23, we expect order backlog at ₹ 1264 crore as of FY23E. Going forward, we believe with strong order accretion and pick-up in execution we expect revenues to be at ₹ 1320 crore and ₹ 1650 crore for FY23E and FY24E, respectively, implying revenue CAGR of 19.5% in FY22-24E. It is embarking on brownfield capex to service new orders and capture larger pie in global market.

Capacity expansion for new products …

Going ahead, in FY24E, TRIL is likely to expand its capacity for hydrogen powered transformers in its existing manufacturing unit. The total outlay for the capex is pegged at ₹ 60 crore. The company is planning to fund the capex primarily via debt (~₹ 50 crore) for which it has already tied up with banks. The company will tap players like the Reliance and Adani group, which have mega plans in setting up facilities for producing green hydrogen. The impact on the financials from this capex will be from FY25E.

Focus on exports to provide diversification, improve margins as well

Generally, exports for TRIL range between 7% and 10% over many years. In FY23E, the company is expected to clock export revenues of ₹ 140-150 crore, which will be ~11% of overall revenues. The company is aggressively targeting export markets like Middle East, Russia, Africa and the US (for specialised transformers) for enhancing export segment revenues. TRIL has also hired reputed personnel for spearheading and growing the export business. The company has already participated in large tenders in the Middle East markets, which can drive inflows and revenues for FY24E. Export orders generally have the best gross margin profile (30-31%) vis-à-vis domestic private (24%) and SEB orders (20% gross margins), which will have a positive impact on margins from FY24 onwards. Going ahead, with a rise in share of exports and higher operating leverage, we expect margins for FY23E and FY24E to be at 9.8% and 10.8%, respectively.

Strong performance, improving balance sheet, return ratio matrices to lead to rerating; assign BUY rating

TRIL is in a sweet spot wherein after many years of stagnant performance, growth prospects are looking bright across all parameters. Revenue CAGR of 20% coupled with margins hitting 10.8% in FY24E will enable TRIL to post its best ever profitability performance. We expect PAT to be at ₹ 46 crore and ₹ 73.7 crore for FY23E and FY24E, respectively. From a balance sheet perspective, strong operating performance, stable leverage and cash flows, RoCE of the business will expand from ~10% in FY22 to 23.4% in FY24E, which warrants a rerating of the stock. Hence, we value TRIL at 15x FY24E EPS to arrive at a fair value of ₹ 86 per share and rate the stock as BUY.

Key risk and concerns

High exposure to SEBs can stretch working capital cycle

State electricity boards (SEBs) and central utilities form 50% of overall revenues of TRIL and the payment cycle is bit stretched in case of SEBs. Generally, TRIL does business with SEBs of Gujarat, MP, UP, West Bengal, Bihar, Telangana and Powergrid whose financials are relatively better. However, any delay or dispute in receivables can lead to higher working capital debt and dent profitability, on the other hand.

Volatility in CRGO, copper prices can impact margins

Key raw materials for TRIL include CRGO (imported), copper and steel. High volatility can lead to high dent on operating margins given the pass through mentioned in contracts comes with a lag. The recent volatility in the above commodities was quite evident in FY22 wherein margins did take a knock in H2FY22 and pass through for the same was realised over the next three to six months. Any repeat of such episodes can have negative bearing on margins and cash flows of the company.

Slowdown in capex can hurt order inflows

TRIL is completely dependent on the capex decisions of SEB's, central utilities and private players. Any slowdown in general economic activity can lead to capex deferrals, which, in turn, can impact order inflows and performance for TRIL.

Financial Summary

Exhibit 3: Profit & Loss statement

(₹ Crore)	FY21	FY22	FY23E	FY24E
Net Sales	742.1	1,158.3	1,320.6	1,653.5
Other Operating Income	-	-	-	-
Total Operating Income	**742.1**	**1,158.3**	**1,320.6**	**1,653.5**
% Growth	*5.9*	*56.1*	*14.0*	*25.2*
Other Income	9.6	13.3	6.4	4.0
Total Revenue	751.7	1,171.6	1,327.0	1,657.5
Cost of materials consumed	534.2	974.9	974.9	1,239.3
Purchase of stock-in-trade	-	-	-	-
Other Expenses	103.7	131.3	154.4	179.8
Total expenditure	673.6	1,087.7	1,190.6	1,474.8
EBITDA	**68.5**	**70.6**	**130.0**	**178.7**
% Growth	*33.3*	*3.1*	*84.1*	*37.4*
Interest	46.2	43.6	49.8	50.5
Depreciation	19.3	17.0	16.9	16.8
PBT	12.5	23.3	69.8	115.4
Tax	4.9	9.0	23.8	39.2
PAT	**7.6**	**14.3**	**46.0**	**76.1**
% Growth	*624.5*	*86.9*	*222.4*	*65.4*
EPS	0.6	1.1	3.5	5.7

Source: Company, ICICI Direct Research.

Exhibit 4: Cash Flow Statement

(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	7.6	14.3	46.0	76.1
Depreciation	19.3	17.0	16.9	16.8
Interest	46.2	43.6	49.8	50.5
Other income	9.6	13.3	6.4	4.0
Prov for Taxation	4.9	9.0	23.8	39.2
Cash Flow before WC changes	87.7	97.1	142.9	186.7
Change in Working Capital	4.3	(72.1)	(31.2)	(102.0)
Taxes Paid	(2.2)	(5.3)	(23.8)	(39.2)
Cashflow from Operating Activiti	**89.7**	**19.7**	**87.9**	**45.4**
(Purchase)/Sale of Fixed Assets	(4.9)	(10.5)	(9.9)	(51.0)
(Purchase)/Sale of Investments	(0.2)	(0.1)	-	-
Other Income	-	-	-	-
Cashflow from Investing Activiti	**(5.0)**	**(10.6)**	**(9.9)**	**(51.0)**
Issue/(Repayment of Debt)	(27.8)	59.8	(50.0)	15.0
Changes in Minority Interest	(0.2)	(0.4)	-	-
Changes in Networth	2.0	12.6	6.6	31.8
Interest	(46.2)	(43.6)	(49.8)	(50.5)
Others	-	-	-	-
Cashflow from Financing Activiti	**(72.2)**	**28.4**	**(93.2)**	**(3.7)**
Changes in Cash	(6.8)	29.8	(21.6)	(13.3)
Opening Cash/Cash Equivalent	20.4	13.5	43.3	21.7
Closing Cash/ Cash Equivalent	13.5	43.3	21.7	8.4

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet

(₹ Crore)	FY21	FY22	FY23E	FY24E
Share Capital	13.3	13.3	13.3	13.3
Reserves & Surplus	329.7	343.3	357.6	403.6
Networth	**342.9**	**356.5**	**370.8**	**416.8**
Total Debt	263.3	323.1	273.1	288.1
Deferred tax liability (net)	5.1	8.8	8.8	8.8
Total Liabilities	**623.3**	**701.1**	**659.9**	**721.1**
Gross Block	246.8	250.0	258.9	308.9
Acc: Depreciation	72.7	86.8	106.2	123.2
Net Block	174.2	163.1	152.7	185.7
Capital WIP	0.1	0.6	1.6	2.6
Investments	0.4	0.5	0.5	0.5
Inventory	218.0	261.8	284.6	349.1
Sundry debtors	415.8	521.8	526.9	683.4
Cash and bank balances	13.5	43.3	21.7	8.4
Loans and advances	0.3	0.3	0.3	0.5
Other Current Assets	49.9	78.6	44.5	67.2
Total current Assets	697.5	905.9	878.1	1,108.6
CL& Prov.	269.9	331.2	370.6	512.4
Net Current Assets	396.0	497.9	440.7	492.0
Total Assets	**623.2**	**701.1**	**659.8**	**721.1**

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios

(Year-end March)	FY21	FY22	FY23E	FY24E
EPS	0.6	1.1	3.5	5.7
Cash EPS	2.0	2.4	4.7	7.0
BV	25.9	26.9	28.0	31.4
DPS	0.1	0.2	-	-
Cash Per Share	5.5	6.5	8.0	9.3
EBITDA Margin	**9.2**	**6.1**	**9.8**	**10.8**
PBT / Net Sales	6.6	4.6	8.6	9.8
PAT Margin	1.0	1.2	3.5	4.6
Inventory days	107.2	82.5	78.7	77.1
Debtor days	204.5	164.4	145.6	150.9
Creditor days	130.8	102.9	101.1	112.1
RoE	2.2	4.0	12.4	18.3
RoCE	**9.6**	**9.7**	**18.3**	**23.2**
RoIC	8.3	7.7	17.7	20.9
P/E	**111.1**	**59.5**	**18.4**	**11.1**
EV / EBITDA	16.0	16.0	8.5	6.3
EV / Net Sales	1.5	1.0	0.8	0.7
Market Cap / Sales	1.1	0.7	0.6	0.5
Price to Book Value	2.5	2.4	2.3	2.0
Debt/EBITDA	3.8	4.6	2.1	1.6
Net Debt / Equity	**0.7**	**0.8**	**0.7**	**0.7**
Current Ratio	2.5	2.6	2.3	2.1
Quick Ratio	1.7	1.8	1.5	1.5

Source: Company, ICICI Direct Research

Key risks to investing in Nano stocks

- Nano stocks may not be in the limelight and inherently being micro cap in nature will have a high risk return profile
- We advise clients to be disciplined in investing at all times. Allocate only a small proportion of your investible income to these stocks and diversify well
- Try to diversify your exposure within the Nano stocks as well by investing equal proportions in several picks
- These stocks may have low volumes and trade infrequently
- Micro cap stocks the world over are, to a large extent, affected by the “Pump and Dump” phenomenon of inflated price buying and depressed price selling
- As explained above, the clients should be patient and trade only through limit orders on any side of the trade.
- The risk of volatility remains in such micro cap stocks as they can move up or down with large buy/sell orders
- The fair value of Nano stocks is subject to expected growth potential in the future. Though due diligence has been done to a fair extent, the actualisation of growth still has a degree of uncertainty attached to it

Nano stocks report tries to highlight companies with good and scalable business models, dependable management and sound financials. However, these stocks may not be in the limelight and have a high risk high return potential. Please watch out for the following factors before investing in these stocks:

Allocate a small proportion of your investible income to these stocks and diversify well. If you choose to invest in these stocks, most of your assets allocated towards equity should remain in more stable investments like stocks of large companies. Moreover, try to diversify your exposure within the Nano stocks as well by investing equal proportions in several picks. This will help you avoid losing too much of your total wealth if the investments do not turn out well. When you invest in micro-cap stocks there is a higher risk of impairment.

These stocks may have low volumes and trade infrequently. This can create a situation in which you may not be able to find any willing buyers for your stocks when you wish to sell. We advise our clients to be patient and trade only though limit orders to avoid volatile fluctuations, both while putting a buy and sell order in these stocks.

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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