

TEXMACO LTD
BUY

Texmaco Ltd, a KK Birla group company, is one of the leading railway wagons manufacturers. It plans to be an end-to-end player in this industry by getting into manufacturing of Electric Multiple Units (EMU) coaches, Metro Rail coaches, next generation high tech freight wagons and locomotive components and is embarking upon an investment of Rs 2bn over FY10-12.

- Texmaco operates in heavy engineering, steel foundry, agro machinery, hydel power and real estate verticals.
- Texmaco's steel foundry has earned a distinction of Quality Assurance Certificate (M-1003) from Association of American Railroads (AAR), making it the only foundry in India qualified to export railway casting to the North American market.
- Texmaco has proposed to demerge its heavy engineering and foundry business into subsidiary of the company. However it will retain real estate and investments in Texmaco, which will continue to remain listed.
- For Q1 FY11, its net sales went up by 11% Y-o-Y to Rs 2.03bn and PAT went up by 39% to Rs 288.9mn Y-o-Y.
- We expect **Texmaco's** revenues to grow at a CAGR of 28% over FY2010-12 to Rs 15.34bn by FY2012. We further estimate that the PAT would grow to Rs 1.63bn in FY2012.

Based on a standalone FY12 P/E of 14, the fair value for Texmaco Ltd. works out to Rs 179.

Financial Snapshot

Projections (Rs Mn)	FY08A	FY09A	FY10A	FY11E	FY12E
Revenue	6,998	8,067	9,307	12,392	15,341
Y-o-Y Growth %	87.2%	15.3%	15.4%	33.2%	23.8%
EBIDTA	1,226	1,377	1,515	2,166	2,660
Y-o-Y Growth %	133.3%	12.4%	10.0%	43.0%	22.8%
PAT	691	758	935	1,309	1,626
Y-o-Y Growth %	196.5%	9.8%	23.2%	40.0%	24.3%
EPS Rs	3.3	3.4	7.6	10.3	12.8
BVPS Rs	21.9	26.6	42.7	53.3	64.5
EBIDTA %	17.5%	17.1%	16.3%	17.5%	17.3%
NPM %	9.7%	9.3%	10.0%	10.6%	10.6%
ROE (%)	14.9%	12.6%	17.9%	19.3%	19.8%
PER x			19.0	14.1	11.3
P/B Ratio			3.4	2.7	2.2

Recommendations	<= 1 year	1 - 2 yrs	2 - 5 yrs
Strong Buy			
Buy			
Hold			
Reduce			
Sell			

Strong Buy – Expected Returns > 20% p.a.
Buy – Expected Returns from 10 to 20% p.a.
Hold – Expected Returns from 0 % to 10% p.a.
Reduce – Expected Returns from 0 % to 10% p.a. with possible downside risk
Sell – Returns < 0 %


STOCK DATA

BSE / NSE Code	505400 / TEXMACOLTD
Bloomberg Code	TXM IN
No. of Shares (Mn)	127.18
Sensex / Nifty	18,070 / 5,421

PRICE DATA

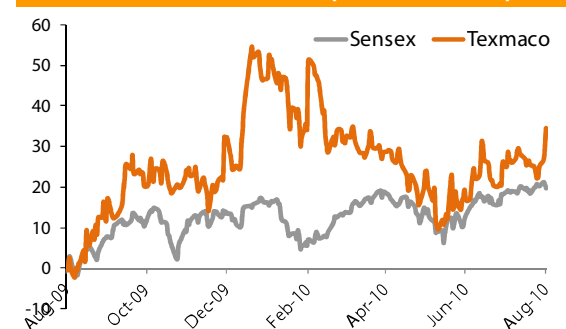
CMP Rs (11th Aug '10)	144.60
Beta	0.7
Market Cap (Rs mn)	18,391
52 Week High-low	170.5 - 102
Average Daily Volume	171,815

STOCK RETURN (%)

	30D	3M	6M	1Y
Texmaco Ltd	7%	9%	-11%	35%
Sensex	1%	5%	12%	20%
Nifty	1%	6%	12%	21%

SHARE HOLDING PATTERN (%)

Promoter	47.6
Institution	35.5
Non Institution	16.9
Total	100.0

1 Year Price Performance (Rel. to Sensex)


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BUSINESS PROFILE

Texmaco Ltd, founded in 1939, is a leading diversified Engineering Company in India. The company has 5 factories on the northern fringe of Kolkata located at Belgharia, Agarpara, Sodepur and Panihati in West Bengal. The company operates in four business segments, namely heavy engineering division, steel foundry division, real estate division and others. The company's product portfolio includes railway freight cars, steel foundry, hydro-mechanical equipment and steel structures, process equipment and agro machinery.

Its heavy engineering division consists of the rolling stock, hydro-mechanical equipment and process equipment manufacturing facilities. Gol has targeted hydro electric power capacity addition of 15,627 MW during Eleventh Five Year Plan and has identified a shelf of 146 candidate projects with aggregate installed capacity of 58,573 MW for the Twelfth Five Year Plan. This holds promising outlook for Texmaco's hydro equipments business. The income from the heavy engineering division for Q1 FY11 was Rs 1,986.5mn.

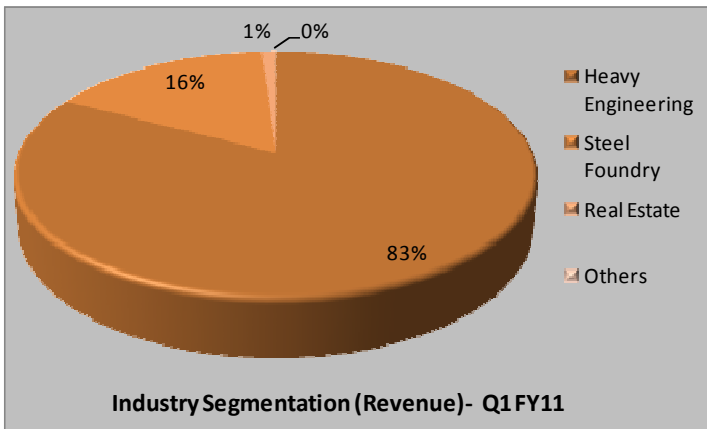
The steel foundry division consists of two units which manufacture steel castings. The division manufactures railway castings both for captive use in the manufacture of rolling stock and for sale to other manufacturers. It also produces industrial casting and exports to the various industries such as earth moving equipment, engineering industries, aluminum refinery. The income from the Steel Foundry Division for Q1 FY11 was Rs 390mn.

The company owns the following parcels of surplus land at various locations in India.

- 35 acres of land in Delhi, near Delhi University, a prime location. The Supreme Court has permitted Texmaco to exploit commercially 50 per cent of its closed mill land in the Capital. The rest of the land is to be handed over to the Delhi Development Authority (DDA) to develop with certain condition for use and sharing of revenue.
- 144 acres in Kolkata, located at Sankrail and Sodepur
- 66,500 Sq ft of commercial property at Gillate Tower, Gurgaon, Near Delhi. The land was purchased in FY08 for Rs728mn which has been leased out at annual rental of Rs90mn

Texmaco's Heavy Engineering Division contributes 83% of the revenue whereas Steel Foundry contributes 16% of the revenue.

Following the recent judgment of Supreme Court, Real Estate development is going to be a major commercial venture of the Company



Growth In railway fright traffic

Commodity	2009 Actual		2020 Target		CAGR
	Mn Tonnage	%	Mn Tonnage	%	
Coal	369	44.3%	700	37.8%	6.0%
Iron ore	131	15.7%	225	12.2%	5.0%
Pig Iron & Steel	27	3.2%	147	7.9%	16.7%
Cement	86	10.3%	250	13.5%	10.2%
Fertilizer	41	4.9%	70	3.8%	5.0%
Mineral Oil (POL)	39	4.7%	48	2.6%	1.9%
Food grains	34	4.1%	50	2.7%	3.6%
Container traffic	29	3.5%	210	11.4%	19.7%
Others	77	9.2%	150	8.1%	6.2%
Total	833	100.0%	1850	100.0%	7.5%

*Source: Ministry of Railways

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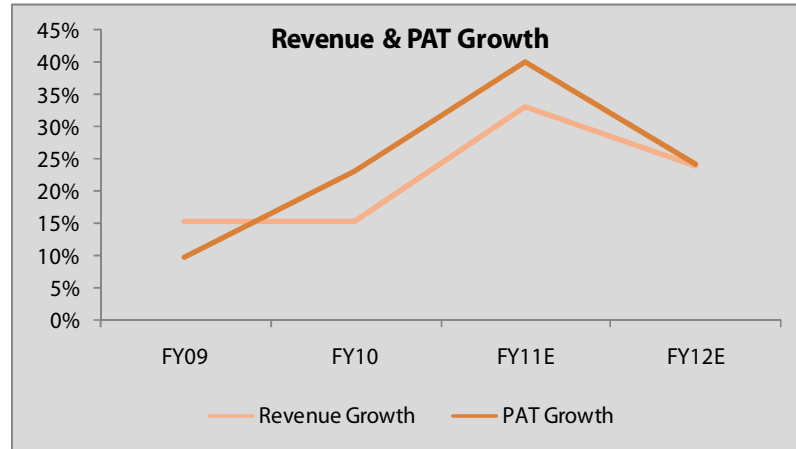
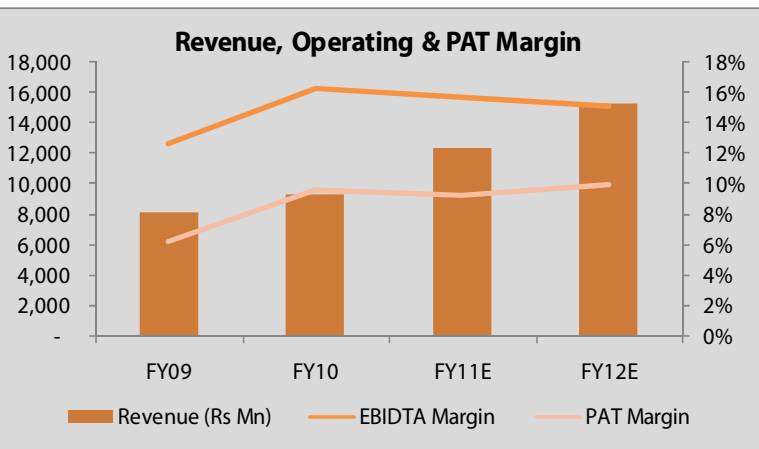
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BUSINESS PERFORMANCE

Sales of Texmaco rose 11% to Rs 2,033.7mn in the quarter ended June 2010 as against Rs 1,832.4mn during the previous quarter ended June 2009. Net profit rose 39% to Rs 288.9mn in the quarter ended June 2010 as against Rs 208.5mn during the previous quarter ended June 2009. Management has indicated that delay in release of wagon orders for 2009-10 by the Indian Railways has affected growth in income of Texmaco in the April-June quarter.

Texmaco has proposed a restructuring plan to demerge its heavy engineering and foundry business into Texmaco Machines Ltd (TML), currently an unlisted wholly owned subsidiary of the company. The plan, however, entails retaining of real estate and investments in Texmaco, which will continue to remain listed. The shareholders would get one share of TML for every share of Texmaco. Post demerger, TML will be separately listed on the stock exchanges.

Even though the orders from railways have been subdued, Texmaco has improved business mix to increase revenue and margins.



Peer Group Comparison

Companies	Revenue (Rs. mn)	EBIDTA Margin (%)	PAT Margin (%)	ROE (%)	P/E (x)	P/B (x)	CMP (Rs.)	FV (Rs.)
Texmaco	9,306.9	16%	10.0%	18%	19.0	3.4	144.6	1.0
Titagarh Wagons	5,542.2	17%	11.8%	18%	10.4	1.7	406.3	10.0
BEML Ltd	28,382.4	14%	7.9%	11%	19.2	2.0	996.0	10.0

Peer Comparison

Planning commission has set a target of having a Rolling Stock of 18,000 wagons by the end of 2010-11 as against the stock of 11,572 wagons as on Feb'10. Indian Railways are yet to release the wagon orders for the year 2009-10 in spite of having proposed investment of Rs 414.26bn as per Railway budget. We believe that technical issues related with tender processing will be sorted out soon and wagon manufacturers will have a healthy order book.

Texmaco is expected to benefit from wagon orders from Indian Railways

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Investment Ideas

VALUATION

We expect **Texmaco's** revenues to grow at a CAGR of 28% over FY2010-12 to Rs 15.34bn by FY2012. We further estimate that the PAT would grow to Rs 1.63bn in FY2012.

Based on a standalone FY12 P/E of 14, the fair value for Texmaco Ltd. works out to Rs 179.

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We recommend a '**BUY**' rating on the stock.

Financial Analysis and Projections

Particulars (Rs Mn)	FY08A	FY09A	FY10A	FY11E	FY12E
Net Revenue	6,998	8,067	9,307	12,392	15,341
Other Income	127	233	-114	127	146
Total Income	7,125	8,300	9,193	12,519	15,487
Operating Expenditure	5,899	6,922	7,678	10,353	12,828
Depreciation	89	114	115	136	149
EBIT	1,137	1,264	1,400	2,030	2,511
EBIT Margin (%)	16.2%	15.7%	15.0%	16.4%	16.4%
Interest	136	155	10	100	102
Profit Before Tax	1,001	1,109	1,390	1,930	2,409
Less: Tax	310	351	456	622	783
Profit After Tax	691	758	935	1,309	1,626
Extraordinary Items	16	12	4	0	0
Adjusted PAT	675	747	930	1,309	1,626
PAT Margin (%)	9.7%	9.3%	10.0%	10.6%	10.6%
ROE (%)	14.9%	12.6%	17.9%	19.3%	19.8%
EPS (Rs)	3.3	3.4	7.6	10.3	12.8
BVPS (Rs)	21.9	26.6	42.7	53.3	64.5
Valuation Ratios (x)			FY10E	FY11E	FY12E
P/E			19.0	14.1	11.3
P/B			3.4	2.7	2.2

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Investment Ideas

Board of Directors

Director Name	Current Position	Description
S K Poddar	Chairman	Mr. Saroj Kumar Poddar serves as Executive Chairman of the Board of Texmaco Ltd.
Ramesh Maheshwari	Executive Vice Chairman	Mr. Ramesh Maheshwari has been appointed as Executive Vice Chairman of Texmaco Ltd. with effect from 13 January 2010. He was previously President, Chief Executive Officer of the Company. He was employed at M/s. F & C Osler (India) Limited & Sister Concerns.
B P Bajoria	Director	Mr Bhagwati Prasad Bajoria is Non-Executive Independent Director of Texmaco Ltd. He was the Past President of the Tea Association of India and was also a Committee Member of the Indian Chamber of Commerce and FICCI. He is presently holding Directorships in a number of reputed Companies. Other companies which he is a director : Kesoram Industries Limited, IFGL Refractories Limited, CESC Limited, The Grob Tea Company Limited, CESC Limited and Spencer's Retail Ltd.
H C Gandhi	Director	Mr Harish Chander Gandhi is Non-Executive Independent Director of Texmaco Ltd. He was the chairman of the Public Enterprises Selection Board, Government of India and he retired from this position in November 1993. Prior to this, he was Secretary (Technical Development), Ministry of Industry, Government of India. He has extensive experience of over three decades in the Industry and had been associated with the Companies such as HMT Limited and BhoratYantra Nigom Limited.
A C Chakrabortti	Director	Mr A. C. Chakrabortti is Non-Executive Independent Director of Texmaco Ltd. He is a qualified Chartered Accountant, was a Managing Partner at S.-R. Batliboi & Co. and Ernst & Young. He had also held the position of President of the Institute of Chartered Accountants of India and was a Member of the Governing Committee of the International Federation of Accountants, New York. He is presently associated with a number of Companies as a Director. His other directorships include : La Opala Gloss Limited, United Nano-tech Products Limited, United Credit Belani Properties Limited, Binani Industries Limited, Jagsonpal Pharmaceuticals Limited, Grindwell Norton Limited, Rasoi Industries Limited, Peerless General Finance & Investment Company Limited, Calcutta Metropolitan Group Limited, Chandras' Chemical Enterprise Pvt Limited, Madhyo Pradesh Madhyo Kshetro Vidyut Vitaran Company Limited, Denso India Limited, Coastal Roadways Limited.
Manish Gupta	Director	Mr Manish Gupta is Non-Executive Independent Director of Texmaco Ltd. He has vast experience of over 35 years in Indian Administrative Services and had served as a Chief Secretary and Home Secretary to Government of West Bengal. He holds a degree of Bachelor of Science and a Field Engineering Certificate (YO). His other directorships include : Tata Metaliks Limited, Calcom Cement India Limited and Indian Carbon Ltd.
H Sadhak	Nominee (LIC)	Dr. H. Sadhak serves as Nominee Director of LIC for Texmaco Ltd.
S Dhasarathy	Director	Mr. S. Dhasarathy serves as Non-Executive Independent Director of Texmaco Ltd. Mr. S. Dhasarathy, 67 years, retired in August, 2003 as Member Mechanical, Ministry of Railways, Govt. of India, an ex-office Secretary, Govt. of India, is a qualified Engineer, holding the degree of B.E (Hons.) and M.I.E and also holds Master Degree in Defence Studies, having vast experience in the field of rail and rail related Industry.
D H Kela	Whole-time Director	Mr. Damodar Hazarimal Kela, Executive Director - Operation, Whole Time Director of Texmaco Ltd., has been appointed as President and Chief Executive Officer of the Company with effect from 13 January 2010.
Akshay Poddar	Director	Mr Akshay Poddar serves as Non-Executive Director of Texmaco Ltd. Mr. Akshay Poddar, 34 years, a graduate in Accounting and Finance from London School of Economics, London, is one of the Promoter Directors of Poddar Heritage Enterprises. Mr. Poddar is the immediate Past President of the Kolkata Chapter of Entrepreneurs Organisation, and also a Committee Member of Indian Chamber of Commerce.

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