

Titagarh Wagons Ltd.

₹ 206

*So Much for So Less***Accumulate**

Apr 25, 2014

Company Background

Titagarh Wagons Limited (Titagarh) is one of the leading private sector wagon manufacturers in India. Incorporated in 1997 Titagarh is primarily engaged in the business of manufacturing Railway Wagons & EMUs (Coaches), Bailey Bridges, Heavy Earth Moving and Mining Equipment, Steel and SG iron castings of moderate to complex configuration etc. As an "Industry Partner" to the Defence Research and Development Organisation (DRDO), Titagarh also manufactures certain products for the Indian defence establishment, such as special wagons, shelters and other engineering equipments. It has Class A Specific Foundry and is registered manufacturer of Casnub Bogies & Components, HT Centre Buffer Coupler and its components recognised by RDSO, Ministry of Railways. Besides being the leading manufacturer of Wagons in India as a Group, Titagarh has marked its presence in International markets by setting up Titagarh Wagons AFR, a subsidiary in France having acquired assets and business of manufacture of Rolling Stock.

Key Highlights

- ➔ Titagarh is eying to make Cimmco its subsidiary, Titagarh will be investing INR 640 mn via the optionally fully convertible debentures (OFCD) route, INR 500 mn for preferential shares and more INR 80 mn for making Cimco its fully-owned subsidiary. It has already announced an open offer at INR 15.50 for it.
- ➔ Cimmco is very asset rich company, and it is difficult to create this kind of an infrastructure today, Cimmco has about 200 acres of plant area in the National Capital Region, and after it becomes a substantial subsidiary of Titagarh, Titagarh will acquire the assets at roughly INR 1220 mn of investment.
- ➔ Cimmco has very less debt and the management indicates that a major portion of it would be retired by INR 500 mn preferential capital that's been subscribed. So after this Cimmco would also be like Titagarh, a debt free company within this financial year.
- ➔ The management plans to spend a major portion of this money from its internal cash accruals and fixed deposits and there is no intention of taking any fresh debt which will maintain the debt free status of Titagarh even further.

Key Financials

Year Ended 31 st	Mar 11	Mar 12	Mar 13
Revenue (INR mn)	6,883.8	6,784.7	5,336.8
Rev. growth (%)	17.93	(1.44)	(21.34)
EBITDA (INR mn)	1,444.4	1,358.9	651.9
Net profit (INR mn)	813.9	766.2	238.8
Shares outstanding (mn)	18.8	20.1	20.1
EPS (INR)	43.3	38.2	11.9
EPS growth (%)	24.51	(11.73)	(68.83)
P/E (x)	7.6	9.2	13.9
RONW (%)	15.7	12.0	2.6
ROCE (%)	13.6	10.5	2.3

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Info Codes

Reuters	: TITW.BO
Bloomberg	: TWL@IN
NSE	: TWL
BSE	: 532966

Market Data

52 Wk Range (₹)	: 215 / 70
Shares in Issue (mn)	: 20.1
Mkt. Cap (₹ bn)	: 4.26
BSE 2 Wk Avg Vol	: 239000

Share Holding Pattern (%)

Promoters	: 53.13
FII's	: 3.06
DII's	: 2.98
Others	: 40.83

Investment Theme

Titagarh is amongst the many Rail related companies which have been trading at highly discounted prices since last few days. The recent good news spurted in the company is the acquisition of Cimmco which in itself is asset rich company with an infrastructure which is difficult to create in today's environment. Titagarh is investing nearly INR 1220 mn to acquire the same & is funding the whole acquisition majorly through its internal accruals and fixed deposits. The management is confident of reaping synergistic benefits due to the acquisition and expects that it could soon take Cimmco out of its miniscule debt and make it debt free like Titagarh. In the whole exercise it appears that Titagarh would become a net beneficiary of assets held by Cimmco at minimum costs, which includes 200 acres of plant area in the National Capital region. We therefore recommend to accumulate.

On the right Track!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 11	Mar 12	% Chg	Mar 13	% Chg
Total Sales + Excise	6864.4	6693.8	(2.49)	5217.3	(22.06)
Other Income	235.4	295.6	25.57	316.5	7.07
Change in Stocks	87.9	(112.5)	(227.99)	226.2	(301.07)
Raw Material Con.	4375.9	4060.1	(7.22)	3724.9	(8.26)
Employee Exp.	280.9	307.6	9.51	239.6	(22.11)
Indirect Taxes	219.8	221.9	0.96	215.5	(2.88)
Other Exp.	868.4	960.1	10.56	932.5	(2.87)
Operating Exp.	5657.1	5662.2	0.09	4886.3	(13.70)
Operating Profit	1207.3	1031.6	(14.55)	331.0	(67.91)
Total Interest	77.4	119.2	54.01	161.2	35.23
Gross Profit	1365.3	1208.0	(11.52)	486.3	(59.74)
Net Dep.	135.7	59.8	(55.93)	113.0	88.96
Total Taxation	415.7	382.0	(8.11)	134.5	(64.79)
Net Profit/Loss	813.9	766.2	(5.86)	238.8	(68.83)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 10	Mar 11	Mar 12	Mar 13
SOURCES OF FUNDS	5,211.9	5,948.2	6,991.7	6,876.7
Equity Share capital	188.1	188.1	200.6	200.6
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	4,280.7	5,040.6	5,970.8	6,116.3
Long Term Loans	195.6	332.2	68.4	500.2
Short Term Loans	547.5	387.3	751.9	59.6
USES OF FUNDS	5,211.9	5,948.2	6,991.7	6,876.7
Gross Block	1,311.4	1,507.0	1,639.0	1,686.9
Less : Revaluation Reserves	116.5	99.2	88.5	78.1
Less : Accumulated Depreciation	489.8	564.4	616.4	688.0
Net Block	705.1	843.4	934.1	920.8
Capital Work in Progress	266.8	84.0	77.4	185.0
Investments	491.6	744.3	1,448.0	1,446.6
Current Assets	6,345.6	5,880.8	6,097.1	5,731.4
Less : Current Liabilities	2,597.2	1,604.3	1,564.9	1,407.1
Total Net Current Assets	3,748.4	4,276.5	4,532.2	4,324.3
Misc. Expenses not written	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	484.9	737.9	1,446.5	1,445.1
Mkt Val. Quoted Investments	16.5	19.5	1.8	0.0
Contingent Liabilities	481.9	3,317.7	3,686.1	4,242.2
Dividend (%)	50	80	80	40

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 13	Jun 13	Sep 13	Dec 13
Net Sales	1,498.30	944.80	636.50	316.00
Cost Of Sales	1,453.20	925.50	632.70	373.10
Operating Profit	45.10	19.30	3.80	(57.10)
Recurring Income	61.70	71.20	64.50	28.30
Adjusted PBDIT	106.80	90.50	68.30	(28.80)
Financial Expenses	14.00	12.70	14.50	13.90
Depreciation	16.90	17.60	17.40	17.30
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	75.90	60.20	36.40	(60.00)
Tax Charges	28.90	20.60	18.70	1.20
Adjusted PAT	47.00	39.60	17.70	(61.20)
Non Recurring Items	(0.10)	0.00	0.00	23.80
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	46.90	39.60	17.70	(37.40)

52 Week Index Relative Percentage Appreciation

Titagarh vs SENSEX
Risks Associated

- Uncertainty as to timely availability of Raw Materials & Components is one of the major Challenges for the Wagon Industry in India. Further the whole industry is dependant on a single customer i.e. The Indian Railways which again is a Government Enterprise. Therefore any change in the Government Policies stands to impact the industry directly.
- Steel scrap is one of the major Raw Material which is used in the casting of Rail Coaches. The casting industry is normally exposed to ever fluctuating prices and uncertainty in availability of the steel scrap and further troubled due to the rising prices of power and fuel which is also put to extensive use.
- Apart from the Wagons and Rail Coaches Titagarh also caters to the Heavy Earth moving machinery segment which in addition to the volatility in Raw Material prices and the rise in input cost is also exposed to the financial capacity of the customers in this space and the right marketing task in construction and mining.
- The Company needs to import certain raw materials and technology since all the segments which it caters to require safety in operation by complex technology. The fluctuating rupee also poses high risk of loss.
- Clauses related to performance guarantee, warranty and liquidated damages which are a part of many a contracts signed by the company due to the nature of business also pose a operating and financial risk on the working of the company.

Titagarh In a Nutshell

Titagarh Wagons is one of the leading private sector wagon manufacturers in India. It was incorporated as a public limited company on Jul. 03, 1997. The company manufactures a wide range of wagons including hopper, covered, open top, container flat, tank, flat and special purpose wagons; Bailey bridges, other modular steel bridges; special equipment for nuclear power sector and specialized equipment for defence sector; heavy earth moving and mining equipment such as hydraulic excavators, crawler mounted cranes, other equipments and facilities and heavy duty and high capacity EOT cranes for core sectors; manufacturing project jobs and product support with spares and services; steel and SG iron castings of moderate to complex configuration. It has two manufacturing facilities located at Titagarh and Uttarpara in West Bengal. The Uttarpara unit functions as the second manufacturing plant for wagons in addition to manufacturing heavy earth moving and mining equipment. Its foundry has a production capacity of 16,800 MTPA liquid metal and 10,000 MTPA fix casting. Manufacturing and marketing of special purpose wagons has been undertaken such as the Merry-Go-Round (MGR) wagons. The company management has been aggressively taking up acquisition of Cimmco and it appears that Titagarh would benefit a lot from the same. Further the recent business environment may bring in new opportunities for the company considering the fact that transport infrastructure development may be taken up post elections in a big way. We therefore see growth in the company in near future.

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Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate 10% to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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