

DIAMOND POWER & INFRA LTD  
 BSE: **522163** | Sector: **POWER EQUIPMENT**

vScore : 65 | Rating : **Buy**  
 CMP : Rs. 106 | Target Price: Rs. 144

## BUSINESS BACKGROUND

Diamond Power Infrastructure Limited, (DPIL) having its Corporate Office in Vadodara started in 1970 by manufacturing ACSR conductors. DPIL is now India's largest and only integrated manufacture of products required for the power sector whilst providing EPC services to its customers

Today DPIL powers India's growth with solutions across the entire value chain of power transmission and distribution and a product range that covers nearly 80% of the T&D infrastructure requirements. DPIL has in-house manufacturing facilities for cables, conductors, transformers and transmission towers

## INVESTMENT HIGHLIGHTS

### Steady Q4 & FY14 Performance –

DPIL reported a sales growth of 60% yoy in Q4 FY14 led by better product mix. This was reflected in a EBIDTA growth of 23% at Rs 75.77 crs from Rs 61.52. crs in Q4 last year. The PAT for Q4FY14 stood at Rs 24.16. crs as compared to Rs 32.56 crs in Q4 last year largely due to increase in interest costs in Q4FY14.

For FY14 the company has recorded a topline of Rs 3177.58 crs, - up by 23%, a EBIDTA of Rs 282.04 crs from Rs 227.97 crs – up by 24% while PAT is placed at Rs 110 crs from Rs 104.crs.

### DPIL is the only integrated player in the Power Transmission & Distribution sector –

DPIL has three critical power T&D products in their fold namely conductors, cables and transformers. With the commissioning of the transmission towers facility in October 2010, DPIL is now a fully integrated player in the power T&D segment. This would provide DPIL with an edge over other EPC players, as others will need to outsource a large part of their projects (60-70%) to third party vendors. With in house facilities available for major components, DPIL would enjoy better margins as compared to its peers and also reduce dependence on third party vendors.

With the commissioning of the transmission tower facility, DPIL intends to actively pursue opportunities in providing EPC services for power transmission sector, for which the company intends to utilise conductors and cables manufactured in house. Transmission tower manufacturing experience and capacity is a key Pre-Qualification (PQ) criteria for turnkey project execution. With DPIL's new state-of-the art tower manufacturing facility at its Vadodara plant with a capacity of 48,000 MT, we believe that this would give the company significant leverage in bidding for EPC projects and help increase margins.

## KEY DATA

FACE VALUE	Rs	10.00
DIVD YIELD %		0.94
52 WK HI/LOW		131/29
NSE CODE		DIAPOWER
BSECODE		DIAPOWER
MARKET CAP		RS 575 CRS

## SHAREHOLDING PATTERN

PROMOTERS	-	37%
BANKS, MFs & DIIs	-	10%
FIIs	-	5%
PUBLIC	-	48%

## KEY FUNDAMENTALS

Year Ending	FY14	FY15	FY16
Sales Gr%	23	20	20
PBT Gr%	8	24	28
PAT Gr%	6	20	17
EPS Gr%	6	20	17
Roe %	12	13	14
Roce %	9	10	11
EPS (Rs)	20.12	24.14	28.16
P/E(x)		4	3

### **Well Diversified product base & integrated operations to make DPIL a stronger player going ahead –**

DPIL offers a diverse portfolio for each of the product that it manufactures. In the cables segment, it manufactures and supplies LT cables from 1.1 kV to HT cables up to 132 kV for power transmission and distribution purpose.

It also manufactures and supplies aerial bunch cables for both LT as well as HT lines. DPIL has also commissioned a facility for manufacturing of EHV cable upto 550 kV capacity. DPIL also manufactures AAAC and ACSR conductors with capacity ranging from 7 strands to 90 strands, which caters to wide ranging power transmission as well as distribution requirements.

In the transformers segment, the company has up to 10 mva (33 kv class) capacity distribution transformers and upto 150 mva (550 kv class) power transformers in its portfolio. Maintaining a diverse portfolio in its manufacturing business, provides DPIL with an opportunity to cater to diverse needs of retail as well as institutional customers.

### **Healthy order book & expected order inflow gives revenue visibility over 2 years –**

Current unexecuted order book position is Rs 1800 crs. Half of the current order book consists of EPC work. Going forward, we expect the company to win larger EPC contracts supported by the company's expansion plans. DPIL is currently the lowest bidder in projects worth Rs 800 crs and we expect the order book to steadily increase as the power sector shows further signs of a strong recovery. We believe that a strong order book would drive the company's sales over next 2-3 years and fresh order wins in FY15 would be key to its revenue visibility in the next 2 years between FY14-16.

### **Major capex completed and hence capex cycle now over, time for payback starts now –**

Presently, DPIL is undertaking a major expansion project costing Rs 770 crs. Out of which the first phase was commissioned in February 15 and the second phase will get commissioned by July 2014. We believe that going ahead the major capex cycle will get over and benefits of increased capacity are likely to get reflected over the next 2 years. Also DPIL's decision of entering into TT business would supplement its EPC business. It would also fortify its position as it would have all the three key components (Towers, Conductors & EPC) of Transmission Line business under one roof.

### **Outlook for Power sector in the medium to long term looks bright –**

The country's T&D program for XIth Plan focuses on the creation of a National Grid in a phased manner by adding over 60,000 ckm of transmission network by 2012. The existing inter regional power transfer capacity is to be further enhanced to 37,700 MW by 2017 through creation of Transmission Super Highways. According to CEA, Rs 4270bn & Rs 6400 bn is to be invested in the T&D sector in the XIth Plan & XIIth Plan respectively.

Also the industry estimates that the total demand for transformers will be in the region of 220,000 MVA per annum (after considering 200,000 MVA of fresh demand and 20000 MVA of replacement demand) for the 12th five-year plan. The replacement demand should be healthy, keeping in view that the shelf life is around 25 years. Transformers commissioned in 1980-85 are likely to be replaced in near future which implies a replacement demand to the tune of 20000 MVA per annum.

### **Steady financial performance - topline growth and margin expansion –**

We estimate DPIL's earnings to witness a CAGR of 16-20% over FY14-16E. This will be driven by strong revenue growth (20% CAGR over FY14-16E) and a steady EBITDA margin expansion over the same period.

Over the last 3 years starting 2011 onwards, DPIL has maintained its operating margins between 8% to 9% since last 3 years. Also it has been able to maintain a return on equity of 13% and a ROCE of around 10%.

Also, considering the fact that DPIL is largely a domestic power player where working capital requirements are large and profit margins are thin DPIL has a D :E of 1.36:1 as on Mar 2014 on a net worth of Rs 987 crs as on March 2014 which is quite good.

## Business Outlook & Stock Valuation

On a rough cut basis, in FY15, Topline will see a steady rise wherein Topline is expected to touch Rs 3813 crs in FY14E.

On the bottomline level we expect the company to record a PAT of Rs 132 crs in FY15E. Thus on a conservative basis, DPIL should record a EPS of Rs 24 for FY15E. For FY16E our expectation is that earnings traction for DPIL would continue to be robust wherein we expect a EPS of Rs 28. DPIL being a fully integrated player in the power transmission sector, it has no direct comparables. Significant additions in power generation capacity expected to bridge the power deficit would lead to similar capacity addition and investment in the T&D sector.

With the government's aim to bring down AT&C losses and significant capital being allocated to this cause would lead to large opportunities for companies that cater to this sector. DPIL being the only fully integrated player in the power T&D space in India, it is well positioned to benefit from the demand for T&D infrastructure in India. Also valuation multiples look quite low between 4x on FY15 and 3x on FY16E. To add this the current market cap of DPIL at Rs 575 crs, the DPIL stock trades a market cap to sales multiple of just 0.15x on FY15E whereas the potential revenue over the next 2 years is around Rs 4500 crs. Also the present market cap of Rs 575 crs looks quite low as compared to its balance sheet size of Rs 2949 crs as on Mar 2014 and a Net worth of Rs 987 crs. More importantly as compared to larger peers like KEC, Kalpataru Power Transmission DPIL's valuations look very cheap considering its integrated business model and strong client relationships.

Hence we believe that the DPIL stock should be purchased at the current price for a price target of around Rs 144 keeping a financial stop loss of Rs 93.

## FINANCIALS

For the Year Ended March RsCrs	FY13A	FY14A	FY15E	FY16E
Net Sales	2581.35	3177.58	3813.09	4575.71
EBIDTA	227.97	282.04	341.27	409.52
EBIDTA %	8.8	8.88	8.95	8.95
Interest	91.98	122.63	145.0	160.0
Depreciation	29.74	36.13	42.0	50.0
Non Operational Other Income	14.92	7.76	8.0	8.0
Profit Before Tax	121.17	131.03	162.27	207.52
Profit After Tax	104.07	110.03	132.0	154.0
Diluted EPS (Rs)	27.98	20.12	24.14	28.16
Equity Capital	37.2	54.68	54.68	54.68
Reserves	713.04	932.34	1053.34	1192.34
Borrowings	1203.0	1346.0	1360.0	1383.0
GrossBlock	713.67	958.85	1058.85	1108.85
Investments	0.6	1.19	1.19	1.19

Source – Niveza Research Desk

## KEY CONCERNS

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Delays in project tendering by PGCIL & SEBs would have a direct impact on the company's topline.

Increase in the price of raw materials, mainly aluminum and copper, could reduce operating profit margins, however as most of the projects have a price variation clause, this impact should not be a major concern.

### Product Definition

This Stock Recommendation is ideally for a 3 month time frame with a Return expectation of between 10-15% in this period. Along with the TP a financial stop is also mentioned which is meant to be used if the stock fails to deliver the desired rate of returns in the timeframe mentioned above

### vScore:

vScore (Value Score) is our proprietary company rating system for NSE and BSE stocks with value investing philosophy at its core. Technical analysis, macroeconomic indicators and recent developments provide it 360 degree view.

vScore algorithm crunches hundreds of numbers along with the current market price from quarterly and yearly financial results like balance sheet, profit and loss statement, cash flow statement etc. for last 5 years.

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(Source : Niveza Research Desk )