

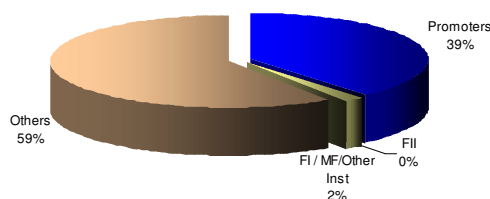
# Sujana Towers Ltd

10 June 2010

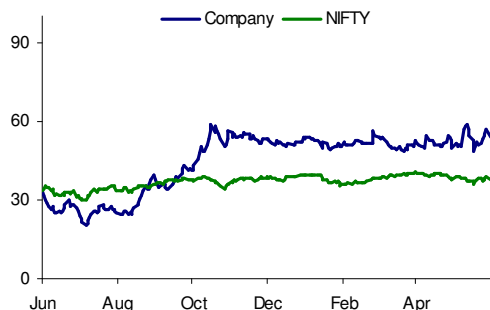
Accumulate

Industry	Power Ancillary
CMP (INR)	53
52 week High/Low (INR)	61/20
Market Cap (INR Mn)	4,452
STL P/E (TTM)	11.6
Sector P/E	14.4
Avg 3M Daily Volumes	4,94,653

## Shareholding Pattern (%)



## Stock Performance (Last one year)



## Performance (%)

	1 Month	3 Months	1 Year
STL	8.68	-0.74	53.42
Nifty	0.32	-1.07	9.75

\* Source: Capitaline, Unicon Research

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## Company Background

Sujana Towers Ltd (STL) is part of the Sujana Group, which has presence in Steel, Energy, Urban Infra, Healthcare and Appliances. STL was originally a tower division of Sujana Metal Products Ltd and was demerged and listed on BSE in 2006.

The company which is a listed entity of the group manufactures galvanized steel towers used in power transmission and telecom tower sectors. The company does surveying, laying of civil foundations and supply & erection of towers.

## Investment Rationale

With India's thrust on adding more capacity in the power generation space and the current power deficit situation in the country, there is a huge scope in the power transmission space.

Being an integrated manufacturer of steel structures and having a large installed capacity of 2.28 lakh tonnes per annum in place, it is in a good position to execute big projects in the telecom, power infrastructure building and balance of plant business in the power sector. Power Grid Corporation of India Ltd (PGCIL) has plans to spend ~ INR 200 bn in the 11<sup>th</sup> Plan to provide transmission system. For this PGCIL will need to procure towers and STL has the capability to exploit this opportunity.

A transmission plan has been evolved for strengthening the regional grids and to support the generation capacity addition program of about 78,000 MW during XI Plan. In line with the perspective plan, various inter-regional transmission schemes have been undertaken for implementation by PGCIL. Establishment of the National Grid is on fast track and a number of projects are under implementation/planned which would enhance Inter-regional power transfer capacity of the National Grid to more than 37,000 MW by year 2012. STL is well placed to gain from opportunities unfolding in this space.

The company has set up a business in Africa, which will cater mainly to set up towers for the telecom sector. Africa being one of the fastest growing telecom markets in the world, gives ample opportunities to companies like STL.

## Concerns

Fluctuations in the raw material (steel) prices may lead to contraction in margins for the company.

Transmission projects are dependent on timely completion of the power generation projects. Any delays in power generation projects will lead to delays in the order book for the company.

## Q2FY10 – Result Update

STL follows Oct-Sept as its accounting year. For Q2FY10, STL posted revenues of INR 2,351 mn for the quarter, up 47% YoY. The EBITDA margins saw an improvement of 147 bps, YoY. PAT before extraordinary items for the quarter was up 87%, YoY to INR 97 mn. There were forex losses to the tune of ~ INR 47 mn which dragged the reported PAT margin by 125 bps, YoY. The management has given a sales guidance of INR 10 bn for FY11, +42% YoY.

# Sujana Towers Ltd

(INR in mn, except EPS)

	Q2 FY 10	Q1 FY 10	Q-o-Q	Q2 FY 09	Y-o-Y
Net Revenue	2,351	2,161	9%	1,597	47%
Operating Exp.	2,065	1,963	5%	1,426	45%
EBITDA	287	198	45%	171	67%
EBITDA (%)	12.2%	9.2%	304 bps	10.7%	147 bps
Depreciation	38	36	7%	33	16%
EBIT	249	162	53%	138	80%
EBIT (%)	10.6%	7.5%	307 bps	8.7%	192 bps
Interest	125	78	59%	78	60%
Other Income	0	5	-100%	12	-100%
Tax Provision	27	32	-15%	21	33%
Tax Rate (%)	21.9%	36.3%	-1445 bps	28.3%	-642 bps
PAT	97	56	72%	52	87%
Extraordinary Items	50	0		0	
Reported PAT	47	56	-16%	52	-9%
Reported PAT (%)	2.0%	2.6%	-59 bps	3.2%	-125 bps
EPS	1.2	1.24	-7%	1.25	-8%

Source: Capitaline, Unicon Research

## Outlook and Valuations

STL is well placed to benefit from strong order flow in power transmission sector. The current order book of the company stands at INR 6,300 mn and ~ INR 4,000 – 4,500 mn worth of orders are under negotiation. This should put the company in a good position and its ability to manufacture entire transmission line products will help in timelines, delivery and execution of the projects. At a CMP of INR 53, the stock is currently trading at 9.6x our back of the envelop FY11 earnings estimates. We recommend “Accumulate” for the stock.



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## Unicon Investment Ranking Methodology

Rating	Buy	Accumulate	Hold	Reduce	Sell
Return Range	>= 20%	10% to 20%	-10% to 10%	-10% to -20%	<= -20%

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