

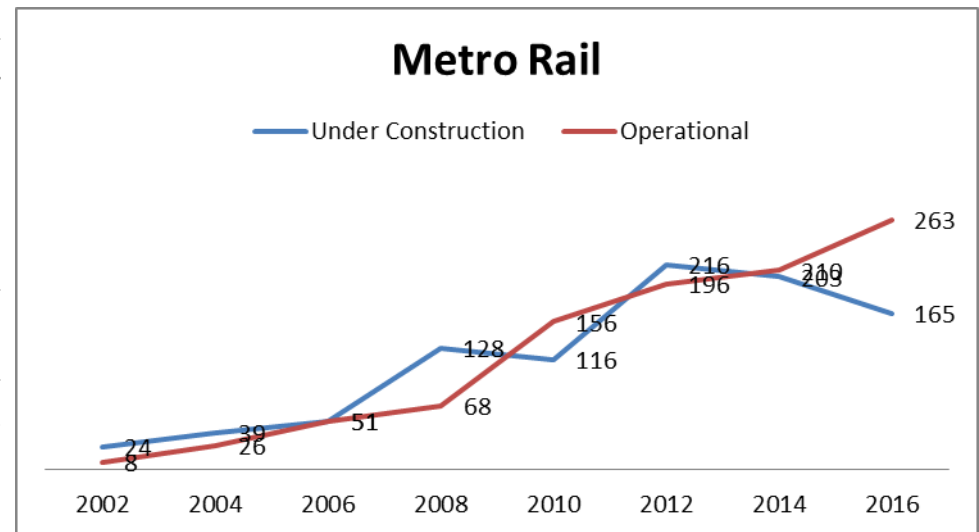
Making Manufacturing Indigenous

The ministry of Urban development recently announced that it is now mandatory for the metro rail companies to procure minimum 75 per cent of train cars and 25 per cent of critical equipment from within the country to encourage Make in India Initiative announced by Modi Government. Under this new norm, the suppliers may either establish independent manufacturing facility in India or partner with Indian manufacturers, provided the procurement is more than 100 cars.

At present, it is not mandatory for the companies to procure metro train cars manufactured in India. This move will boost the metro rail systems in India and will prevent Indian companies from the competition of foreign companies. The Indian Companies which makes wagons and equipment will be most benefitted by this move as this will incentivize setting up of manufacturing facilities in the country due to increase in orders and consequently help in increasing manufacturing capacities. And reduce the cost through economies of scale.

Metro is emerging as key solutions to fulfill demand for urban transportation in India and as per the industry estimates, A total number of 1,912 metro coaches are currently operational in the country with another 1,420 under procurement. Over the next three years more than 1,600 metro cars would be required.

The emergence of metro sector in India has also benefited construction and equipment industry. It is expected that 5 new systems will become operation by 2017, mainly Hyderabad, Lucknow, Noida, Kochi and Navi Mumbai. Some of the metro lines, like Nagpur and Ahmedabad are under construction.



Source: Ministry of Urban Development

Stocks Under View

BEML: BEML is expanding its infrastructure to meet the greater needs of metro projects coming up in the country. Also, BEML supplies equipment to Indian Railways which include Integral Rail Coaches, Overhead Electric Inspection Cars, Postal Vans, AC/DC Electric Multiple Units, D-EMUs, Utility Track Vehicles, Track Laying Equipment, Broad-Gauge Railbus, Treasury Vans, Spoil Disposal Units etc. BEML Receives 31 per cent of its revenue from the rail and metro division.

Cimmco: Cimmco had primarily been since 1957 in the business of Railway Wagons and Heavy Engineering Projects. It has installed capacity for manufacturing of wagons, coaches, under frame 2240 Vehicular Units (VUs) and Industrial Machinery 14200 MT per annum and comes under a large Industrial Unit. Around 94 per cent of its revenue comes from the manufacturing wagons, coaches and other railway equipment

Siemens: The company focuses on the areas of electrification, automation and digitalization. As a single-source supplier and system integrator, Siemens combines all the expertise necessary for sustainable solutions in all areas of rail transportation. The company provides solutions to rail-based mobility – from trams, light rail and metro services to commuter rail lines all the way to regional services. Around 10 per cent of its revenue constitutes by rail and Road based mobility solutions services.

Titagarh Wagons: Titagarh has been the manufacturing of freight wagons since 1997 as forward integration to its existing business of manufacturing railway castings – bogies and couplers. It is a leader in manufacturing of heavy engineering equipment and a world-class service provider for the infrastructure sector . Around 82 percent of its revenue comes from manufacturing railway equipment.

Texmaco Rail and Engineering: The Company manufactures a diverse range of products viz. Railway Freight Cars, Hydro-mechanical Equipment & Industrial Structural, Steel Castings, and Pressure Vessels, etc. Over the years, it entered into technical collaboration with renowned Multinationals of Japan, U.S.A, U.K, Germany, Australia, Austria, Holland, etc. for developing and expanding its product portfolio.

Peer Comparison: Bloomberg Consensus Estimates

Company	CMP (INR) (as of 25-04-2017)	Market Cap. (in Crore)	Revenue(INR crore)			EBITDA (INR Crore)			EBITDA Margin(%)			Profit After Tax(INR Crore)			PAT Margin(%)			P/E(x)			EV/EBITDA			No. of Analysts
			FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	
			Siemens	1340.10	46959.80	10577.50	11497.60	13027.90	985.30	1174.80	1417.90	9.32%	10.22%	10.88%	2874.22	754.90	925.40	27.17%	6.57%	7.10%	15.37	61.77	50.13	
BEML	1385.45	5759.64	2956.60	3136.80	3940.70	131.15	172.00	310.60	4.44%	5.48%	7.88%	52.65	86.35	198.00	1.78%	2.75%	5.02%	82.60	58.84	26.98	36.53	36.78	20.38	3.00
Texmaco Rail	100.55	2189.76	724.51	1111.30	1346.50	19.56	71.00	110.90	2.70%	6.39%	8.24%	21.59	45.34	70.70	2.98%	4.08%	5.25%	101.65	45.49	29.77	99.97	28.00	17.92	5.00
Titagarh Wagons	124.80	1353.20	959.32	1482.40	1593.30	40.70	101.20	133.10	4.24%	6.83%	8.35%	-25.10	22.25	40.70	-2.62%	1.50%	2.55%	NA	62.08	34.59	29.00	15.42	11.73	2.00
Cimmco	85.1	175.19	728.01	NA	NA	22.96	NA	NA	3.15%	NA	NA	21.59	NA	NA	2.97%	NA	NA	101.64	NA	NA	41.51	NA	NA	NA

Source: Bloomberg, Ace Equity

Company	% of sales from rail Coaches and Equipment
Siemens	10%
BEML	31%
Texmaco	68%
Titagarh Wagons	81%
Cimmco	93%

Source: Ace Equity, SMIFS research

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Stock Recommendation	Expected absolute returns (%) over 12 months
Strong Buy	>20%
Buy	between 10% and 20%
Hold	between 0% and 10%
Sell	0 to <-10%
Neutral	No Rating

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Disclaimer

Concall Highlights:

- The recent demonetization event in Nov 2016 caused severe anxiety and uncertainty in the industry particularly with the dealer fraternity. The

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