

ALSTOM PROJECTS INDIA LIMITED

HEAVY ELECTRICAL EQUIPMENT

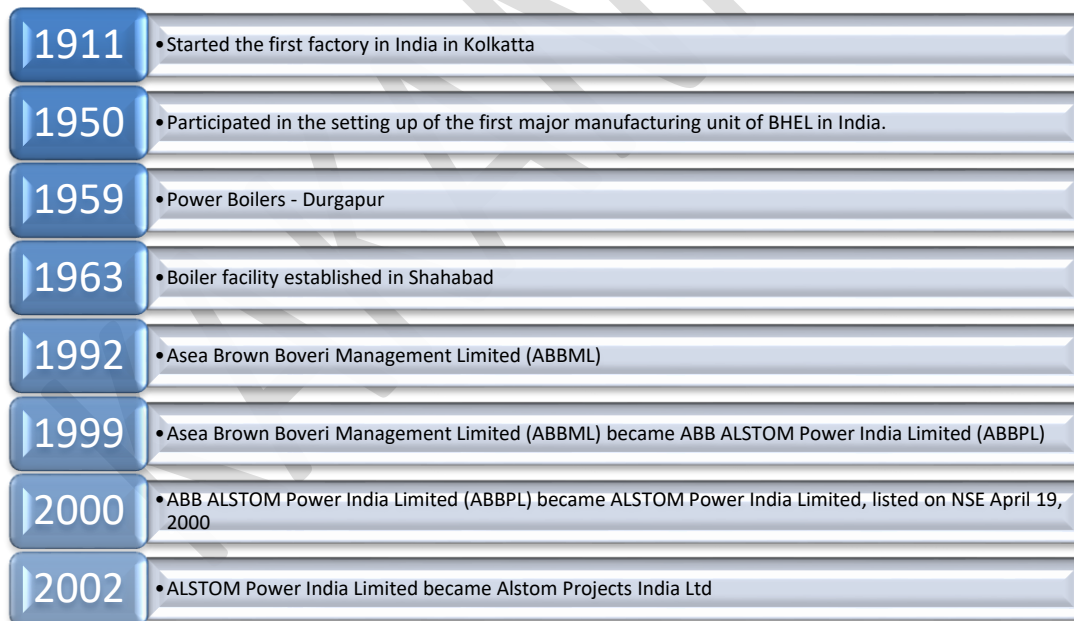


Brief overview of the Company

The Company, Alstom Projects India Limited (Alstom), is subsidiary of Alstom Holdings which holds 66.48% of the total shareholding of the Company. Alstom, is involved in the business of power generation and rail infrastructure in the country. It is one of the premier It set up the first factory in India in 1911 in Kolkatta which started the glorious journey of the Company in India. Alstom has now completed 100 years in India and has been continuously growing.¹

Today, Alstom employs a total of 4000 people with 2 R&D centres in Bengaluru and Vadodara. It also has 4 manufacturing units, consisting of Hydro Equipment (Vadodara), Boilers (Durgapur and Shahabad), Rolling Stock Traction and Signalling Components (Coimbatore) and is also planning for the set up of manufacturing unit for the turbines, generators and auxiliaries at Mundra. The registered office of the Company is in Mumbai. The company also has a 100% subsidiary named ALSTOM Power Boilers Services Limited.²

History of the Company³



Company's Product Lines

A) POWER (95.83%⁵ of the total revenue (Previous year 96.49%⁵))

- a) Power Generation – Sub Products⁴
 - a. Combined Cycle Plants
 - b. Conventional Steam Power Plants
 - c. Hydro Power Plants

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- d. Steam Cycle add-ons
 - e. Nuclear Conventional Island
 - f. Repowering and Rehabilitation
 - g. Electrical & Control Systems
 - h. Turbomachines Portfolio
 - i. Environmental Control Systems
 - j. Boilers
 - k. Heat Recovery Steam Generators
 - l. Pulverizers
 - m. Energy Recovery Systems
 - n. Power Automation and Controls
- b) Power Generation – Services provided to the tune of handling the field support staff for an individual power plant to full power plant management.⁴
- a. Repair and spare parts handling
 - b. Field Service
 - c. Operations and Maintenance

B) TRANSPORT ⁴(4.17%⁵ of the total revenue (Previous year 3.51%⁵))

Alstom India is multi-specialist rail transport solutions supplier offering cutting-edge products and services to four distinct types of customers: urban transit authorities and operators; rail freight and intercity passenger rail operators; rolling stock and infrastructure owners.

Geographic Areas

⁶Production Areas:-

- Vadodara - Hydro Manufacturing and Assembly unit, Services: high speed balancing of all rotating equipments, Global Technology Centre
- Coimbatore - Transport Manufacturing Facility
- Durgapur - Power boilers/Coal-fired boilers/Industrial and HRSGs
- Shahabad - Coal Pulverisers & Milling System, High Pressure Piping, Heat Exchangers, Condensers & Iron Castings
- Kolkata - ECS and Thermal Service, Sales Office, Engineering Centre
- Bengaluru - Transport Software Development Centre, Alstom & Infosys R&D Centre
- Mundra - Alstom - BFL Power Ltd - Manufacturing Facility (Under Construction)

⁶Other Offices

Delhi/NCR - Corporate Office Alstom India, Head Office ALSTOM Projects India Limited

Mumbai - Registered office

⁷Outside India the Company is present by the “ALSTOM Group”

Promoters

The Company has been promoted by ALSTOM Holdings⁸, France, through its subsidiaries, with a current equity share holding of 44,558,972 shares (66.48% of the total shares)

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Management Team⁹

Name	Designation
Mr. Sunand Sharma	Chairman & Country President
Mr. Francois Carpentier	Vice Chairman & Managing Director
Mr. Jojo Alexander	Director – Transport
Mr. S. M. Momaya	Whole-time Director & Chief Financial Officer
Mr. Amaresh Singh	Country Human Resources Director
Ms. Rachana Panda	Country Communications Director
Mr. Hiren Vyas	Country Legal Director
Mr. Ashish Ohri	Director - India IT SSC Country Representative

Key Players of the Industry¹⁰

The key players in the Heavy Electricals Industry are L&T, BHEL, Bharat Forge, Areva T&D India Ltd. and Jyoti Structures Ltd.

Where is the Company Listed?

The Company is listed on both the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE). The stock id of the share is **BSEId :532309 NSE Id :APIL**¹¹

Key Financial Indicators

Particulars	Rs in 1000s		
	2010-11	2009-10	2008-09
Sales	18,036,373	20,427,251	22,902,790
Profit Before Tax	2,540,820	2,483,103	2,067,672
Net Profit Ratio	9.36%	8.19%	5.89%
FA Turnover Ratio	2.73	3.36	4.69
Current Ratio	1.06	1.04	1.01
Debtors turnover (Days)	137.84	109.91	99.90

Non Financial Indicators

A) **Bagging of new orders**¹²:- In the power sector the Company has bagged various significant contracts, showing strong foothold of the Company, such as

- BHEL:- Yeramarus for Rs. 467 crores and Bellary for Rs. 142 crores
- Hydro mechanical products :- Hulu Terengganu (Malaysia) for Rs. 166 crores,
- Tidong for Rs. 81 crores and Phata Byung Rs. 55 crores
- Heat recovery:- Steam generators, Az Zour (Kuwait) for Rs. 239 crores
- Combined Cycle power plant and maintenance :- Rs 854 crores

B) **Merger of ALSTOM India Limited**¹³ with the Company:- this will lead to the decrease in the promoter holding in the Company due to cancellation of the shares being held in the Company by ALSTOM India Limited.

C) **Devaluation of the investments**¹² in the subsidiary of the Company, ALSTOM Power Boilers Services Limited leading to a permanent diminution of the investments shows ineffective investing decisions being taken by the Company.

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D) **Contingent Liabilities**¹²: Demands raised by the sales tax authorities, excise authorities to the tune of Rs 25 crores have not been paid on account of disputes with the respective departments.

E) Huge **related party transactions**¹² between the group shows that there is no major bargaining power of the suppliers or the customers for the Company which shows stability in the presence of the Company.

Visible Goal of the Company¹⁴

We at ALSTOM Projects India Limited are committed to providing internal and external customers with excellence in products and services through:

- Complying with requirements and continually improve the effectiveness of our Quality Management Systems
- Creating value and improving level of satisfaction of our customers and stakeholders.
- All employees delivering upon company's commitments and the managers creating an environment to support this.
- Building a team of motivated, competent and innovative individuals through continuous training & development and other initiatives.

We integrate management systems to ensure the quality of Solutions, products & service, health & safety of our people and that environmental protection is managed in all aspects of our business on a sustainable basis.

Informal Goal of the Company

ALSTOM has been contributing significantly to the growth and development of infrastructure in India and moving forward, we will continue to partner the nation in its growth to success. The company is poised to participate and contribute in the emerging opportunities in both the power and rail transport sectors

Social Issues

There are no specific social issues faced by the Company but the Company has been investing a lot on the corporate social responsibility in India which shows their focus towards Indian market and social responsibility.

Visible Agency Issues

The main agency issue is the fact that the Company is a part of the group of ALSTOM over the globe with the group holding company having a share of 66% in the company. This issue gives rise to the following problems:-

- a) Major sales and purchases to the group companies¹⁵:- The group is making a lot of purchases to ALSTOM India which might be detrimental to the Company since the majority of the board is from the holding company and the majority of the voting power is with the group companies.
- b) All the leases of the company are from the group companies which might be detrimental to the interest of the remaining shareholders¹⁵.
- c) Investment in subsidiary which has been marked as a dead investment¹⁵ shows the power of the promoters on the Company's board.

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Possible agency issues

- a) Dividend payout of 100%¹⁵ - every year the company pays a dividend of 100% on the face value of the shares which reduces the working capital of the Company which can lead to a cash crunch in the future company.

Review of the BT 500 List

Name of the Company	Revenue	PBT	BT 500 Ranking ¹⁶
ALSTOM	1,803.63	254.08	160
Areva T&D India Ltd.	4,020.04	186.74	109
Jyoti Structures Ltd.	2,379.70	167.36	380

Repeat performer

The Company ALSTOM along with its peers has been on the BT500 list in the years 2008, 2009 and 2010 on a consistent basis since the market capitalisation of all the companies has been good enough to find a place in the top five hundred companies of the BT analysis. Also the Companies have been traded for more than 20% of the trading days to be qualified for the analysis.

Moreover the sales of the Companies have also not fallen drastically to oust them from the rankings.

Investment Decision

I will be putting my money on ALSTOM India for the period of 25 years due to the fact that the Company is constantly improving in the new lines of business with the current entry into the railway business. Also, the fact that the company's margins are comparable to other large companies in the sector and provides with a good dividend payout on a year on year basis provides me with the safety of the growth of the investment and a constant return.

Key finance people

As per the Company's website the key finance person shown is the Whole-time Director & Chief Financial Officer, S. M. Momaya.

Finance Jobs

There is no finance job put online on the Indian site of the Company.

Tax related figures

Particulars	Rs in 1000s		
	2010-11	2009-10	2008-09
Deferred Tax Asset	220,130	250,568	173,220
Deferred Tax Liability	227,780	184,718	172,773
Current Tax Expense	778,300	876,000	697,666
Deferred Tax Expense	73,500	(65,403)	(25,072)
Provision for Tax	3,036,029	2,257,729	1,381,729
Advance Tax	3,329,325	2,350,007	1,491,243

Details of the DTA/ DTL figures

Particulars	Rs in 1000s		
	2010-11	2009-10	2008-09
Provision for doubtful debts and advances	28,471	67,434	85,185

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Expenses disallowed under Income Tax Act,1961 to be allowed in future years	162,249	162,713	78,922
Lease Equalisation Reserve	28,669	19,645	8,031
Others	741	776	1,082
Total Deferred Tax Assets	220,130	250,568	173,220
Difference between book depreciation and depreciation under the Income Tax Act, 1961 (DTL)	(227,780)	(184,718)	(172,773)
Deferred tax assets / (liabilities), net	(7,650)	65,850	477

Types of taxes, other than income tax, applicable to the Company

Excise Duty – Payable on the sales of the power generation equipment sold by the Company. The amount of excise duty stands at Rs 451,327 thousands while in the previous year it was Rs 378,351 thousands.

Corporate Dividend Tax – Payable on the dividend paid by the Company to the shareholders. The amount of corporate dividend tax amounts to Rs 108,730 thousands while in the previous year it was Rs 113,908 thousands.

Wealth Tax – Paid on the wealth (assets) of the Company. The payable balance being Rs 345 thousand in the current year, against Rs 122 thousand, for the previous year.

Maximum Applicable Tax Rate for the Company

The maximum applicable tax rate for the Company is calculated as follows:-

Rate of corporate income tax ¹⁷ –	30%
Add: Surcharge -	7.5% on the above
Add: Education cess -	2% on the sum of above tax and surcharge
Add: Secondary and Higher Education cess –	1% on the sum of above tax and surcharge

Hence maximum applicable tax rate – 33.2175%

For previous years, 2008-09 and 2009-10, rate is – 33.99% ¹⁸ (change being the surcharge of 10%)

Average Tax rates calculation

Name of the Company	Tax Expense (Current + Deferred)		PBT		Average Tax Rate	
	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10
ALSTOM	855.10	810.66	2,547.34	2,484.27	33.57%	32.63%
Areva T&D India Ltd.	948.81	997.23	2,816.22	2,930.25	33.69%	34.03%
Jyoti Structures Ltd.	564.53	532.95	1,562.33	1,375.96	36.13%	38.73%

Tax Analysis (Average Tax rate vs Minimum tax rate)

The above calculation includes the deferred tax for the year, the comparison of the income tax rate vs the minimum rate prescribed by the government in the Income Tax Act, is as given below:-

- a) **Permanent differences (wealth tax):-** There is still a difference in the tax provided, after considering the deferred tax impact due to the permanent differences between the

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Companies Act and the Income Tax Act which is of the nature of the wealth tax provision which is never allowed in the Income Tax Act.

- b) Foreign exchange fluctuations:-** There can be foreign exchange fluctuations on the closing balances which are not allowed in the Income tax till realised in the books which can lead to a difference in the tax rates being higher. These have not been captured in the deferred tax calculations.

Cash Flow Analysis

(Rs in thousands)

Particulars	2010-11	2009-10	2008-09
1. Major Sources of Cash	Operating activities	Operating activities	Operating activities
2. Major Uses of Cash	Purchases of fixed assets, dividend payout	Purchases of fixed assets, dividend payout	Purchases of fixed assets, dividend payout
3. Was cash flow from operations greater than or less than net income? Explain in detail the major reasons for the differences in these two figures?	Yes,	Yes,	No,
Cash flow from operations greater than the net income	Rs 2,753,719 vs Rs 2,547,342	Rs 3,557,103 vs Rs 2,484,266	Rs 1,887,571 vs Rs 2,067,672
Reasons for the above			
a) Addition of depreciation	Rs 482,827	Rs 417,126	Rs 330,918
b) Addition for provision for leave encashment and gratuity	Rs 100,806	Rs 22,345	Nil
c) Adjustments on account of working capital changes	Rs 947,995	Rs 1,709,075	Rs 686,084
Deductions on account of			
a) Income Tax payments	Rs 897,408	Rs 860,867	Rs 789,086
b) Interest Income regrouped to Investing Activity	Rs 388,285	Rs 157,040	Rs 271,332
c) Foreign currency adjustments	Rs	Rs 26,033	Rs 148,680
4. Was the firm able to generate enough cash from operations to pay for all of its capital expenditures?	Yes	Yes	Yes, with the inclusion of interest income.
5. Did the cash flow from operations cover both the capital expenditures and the firm's dividend payments, if any?	Yes	Yes	No
If it did, how did the firm invest excess cash?	In Fixed deposits with banks	In Fixed deposits with banks	Not applicable
If not, what were the sources of cash the firm used to pay for the capital expenditures and/or dividends?	Not Applicable	Not Applicable	From the fixed deposits with banks.
6. Were the working capital (current asset and current liability) accounts other than cash primarily sources of cash or uses of cash?	Sources of cash	Sources of cash	Sources of cash
7. What other major items affected cash flows?	Huge Interest received on fixed	Interest received on fixed deposits	Interest received on

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	deposits		fixed deposits
8. Display over the years, the trends in :-			
(a) net income	2,547,342	2,484,266	2,067,672
(b) cash flow from operations	2,753,719	3,557,103	1,887,571
(c) capital expenditures	933,747	592,368	1,903,557
(d) dividends	781,561	784,150	627,320
(e) net borrowing (proceeds less repayments of short-term and long-term debt)	Nil	(11,263)	(5,632)
(e) working capital accounts	947,995	1,709,075	686,084

9. Based on the evidence in the Statement of Cash Flow alone, what is your assessment of the financial strength of the business (on a scale of 1 to 5)? Why?

The cash flow statement of the company shows that it has always been able to generate positive operating cash flows from the core business which have also generally been higher than the net income of the company showing that it has strong cash generation capability in the operations. This evidences strong financial strength and also places emphasis on the fact that the company has been a highly equity financed company. The positivity in the Company is also pressed due to the fact that the company has been investing heavily year on year on the fixed assets in the business showing positive nature of the management towards its future.

The company has also paid high dividends on a yearly basis to the shareholders emphasising strong financial strength of the Company.

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