TRANSFORMER SEGMENT IN INDIA

Transformer production in India has more than doubled in the last 5 years (FY04-FY09). The production capacity has grown at a much faster rate (CAGR of 17.7% from FY00 to FY03 as against CAGR of 10.5% from FY04 to FY09) after radical regulatory changes were implemented in the power sector

Four key drivers of the transformer industry in India are:

Addition to generation capacity fuelling transformation requirement - 186 GW of power generation capacity is to be added over 10 years from FY07 to FY17. Addition in generation capacity would also require a proportional increase in overall transformational capacity in the country

Development of the transmission network in India - The national grid which forms the transmission backbone in the country would be upgraded to 2.3 times of its capacity at the end of Xth five year plan. The upgrading of the national grid is focused on increasing UHV and EHV ranges of transmission lines

Focus on rural electrification and distribution - The Government of India has undertaken key initiatives such as RGGVY and R-APDRP which aim at upgrading sub transmission and distribution network, electrifying all un-electrified villages and habitations, providing access to electricity to all rural households, establishing base-line data and reducing AT&C losses through modernization and renovation of the distribution network in the country

Growing exports driven by demand in global markets - Indian exports of transformers have more than tripled since FY05. However, lack of technical capabilities in the domestic market has also driven imports. In the short term, we expect India to be a net importer of transformers, though there exists significant export opportunities for Indian companies to grab

Considering the above drivers, we estimate the transformer market in India to be INR 143.7 bn annually during FY08-12 and INR 161.2 bn during FY13-FY17 annually

There is a clear trend among large established players to focus on enhancing their manufacturing capability to be able to manufacture EHV and UHV range of transformers. Focus of established players is also shifting towards high margin specialized transformers such as dry type transformers and transformers based on newer technologies

Key challenges faced by the industry include susceptibility to raw material prices such as copper and CRGO, managing long working capital cycles, dependence on government spending in the power sector

While the market is available to be tapped for Indian players, technical capabilities and ability to manage sourcing and working capital cycle could prove to be key differentiators

Exhibit 1: Indian Transformer Market Estimates

Market driver	Avg. annual market size (FY08-FY12)	Avg. annual market (FY13-FY17)
Addition to power generation capacity	14.1	19.4
Development of transmission network	37.8	45.4
Distribution and rural electrification	85.9	103.1
Exports driven by global demand	47.0	71.9
Imports	41.2	78.5
Total	143.7	161.2

Source: o3 Capital Analysis

This report by o3 Capital captures the past performance, the future potential and key drivers of the transformer segment in India

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