

## Nitin Fire Protection Industries Ltd.

Sector: INDUSTRIAL MACHINERY

 10<sup>th</sup> June, 2016

### Result meets expectation ; maintain BUY

Nitin Fire Protection Industries Ltd., (NFPI) reported 4QFY16 result with a consolidated revenue of Rs 3.08bn a YoY /QoQ growth of ~32%/-20.6% respectively led by strong traction in UAE business. EBITDA stood at Rs 377mn a YoY/QoQ growth of 76.4%/-10.4% with an expansion in EBITDA margin of 309bps/139bps YoY/QoQ led by optimum capacity utilization and operational efficiency. NFPI has change its depreciation policy to reducing balance method, which has increased the depreciation to Rs 329mn for FY16 from Rs 144mn last year.

**UAE to augment the future growth:** NFPI reported consolidated revenue of Rs 3.08bn, a YoY/QoQ growth of 32%/-20.6% respectively. In FY16 the revenue stood at Rs 14.7bn, a YoY growth of 29% mainly due to strong traction from UAE business. The total contribution from UAE business increased to 68% in FY16 from 57% in FY15. As per the company, the current order book for UAE/India business stood at Rs 7.45bn/ Rs 2.52bn. The management foresees huge growth potential from UAE and further, expect to increase the contribution from UAE business. We expect, NFPI to grow at a CAGR of ~33% over FY16p-18e backed by strong order book and traction from UAE business led by stringent policy for fire protection system.

**EBITDA margins expansion of 155bps YoY:** The full year EBITDA stood at Rs 1.7bn, a YoY growth of 49% with EBITDA margin expansion 155bps to 11.6% in FY16 led by operational efficiency and optimum capacity utilization with the increasing orders from UAE. The management expects to improve the margins to 14-15% over next two years. However on conservative basis, we expect EBITDA margin expansion of 100bps over FY16-18e to 12.6%.

**Opportunities from UAE and India to remain strong:** The company foresees huge demand from Dubai led by the stringent policy on fire protection after the recent fire accident in a Dubai hotel and Dubai Expo 2020, as well as projects within the key industrial and/or government-related sectors such as, power, education and health care. In India, business growth is slow but, NFPI is hopeful on government investments and improving domestic business sentiments.

**Valuation:** The stock at CMP of Rs 31 is trading at 9.3x/6.8x/4x of FY16p/FY17e/FY18e. We believe that NFPI with the improving operational efficiency and strong order book from UAE will grow its revenue/earnings at a CAGR of 33%/36% respectively over FY16p-18e We maintain our BUY rating with the price target of Rs 70. (15x PE on EPS FY17e).

Price	Price Target	Up/Down (%)
Rs.31	Rs.70	122%

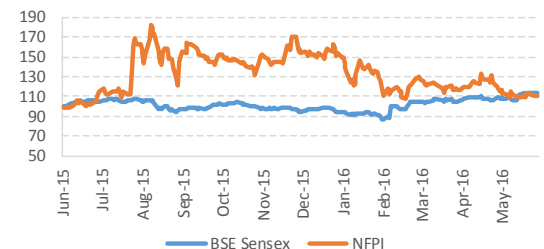
Bloomberg Code	Reuters Code
NFPI IN	NIFP.NS

Share Holding (%)	As on March 2016
Promoters	72.5
FII's	12.6
DII's	2.5

Stock Data	
Nifty	8,204
Sensex	26,763
52 week high/low	55/27
Market Cap F.F. (Rs. Bn)	9.2

Price performance (%)	1M	3M	6M	1Y
Absolute	-4.9	-14.1	-30.1	9.2
Relative to Sensex	-8.5	-22.6	-35.8	9.7

#### Relative Performance



Source:-Bloomberg

#### Exhibit 1: Financial summary (Rs mn)

Y/E March	FY14	FY15	FY16p*	FY17e	FY18e
Net sales	10161	11466	14797	19323	26263
Growth (%)	44.2	12.8	29.1	30.6	35.9
Operating margin (%)	11.2	10.1	11.6	11.8	12.6
PAT	665	671	986	1356	2284
Adjusted PAT	714	671	986	1356	2284
EPS (Rs)	2.4	2.3	3.4	4.6	7.8
Growth (%)	20.2	-6.0	46.9	37.5	68.4
P/E(x)	12.8	13.7	9.3	6.8	4.0
ROE (%)	20.7	16.5	19.1	21.9	30.3
ROCE (%)	14.0	13.1	15.0	16.1	21.3
Debt/equity (x)	1.06	0.94	0.91	0.87	0.68
P/Bv (x)	1.9	2.1	1.6	1.4	1.1

Source: Company, BOBCAPSe p\*-provisional

**Exhibit 2: Quarterly Financial**

(Rs Mn)	4QFY16	4QFY15	YoY (%)	3QFY16	QoQ (%)
<b>Net Sales</b>	<b>3,082</b>	<b>2,339</b>	<b>31.8</b>	<b>3,880</b>	<b>-20.6</b>
Raw material consumed	2,079	1,946	6.8	<b>3,134</b>	-33.7
(%) of net sales	67	83		81	
Staff cost	128	55	131.4	<b>122</b>	4.3
(%) of net sales	4	2		3	
Manufacturing & Other Expenses	499	124	301.1	203	146.0
(%) of net sales	16	5		5	
<b>EBITDA</b>	<b>377</b>	<b>214</b>	<b>76.4</b>	<b>421</b>	<b>-10.4</b>
Depreciation	137	49		69	
<b>EBIT</b>	<b>240</b>	<b>165</b>	<b>45.6</b>	<b>351</b>	<b>-31.7</b>
Interest	174	123		105	
Other Income	23	28		38	
<b>PBT</b>	<b>89</b>	<b>69</b>	<b>27.7</b>	<b>285</b>	<b>-68.8</b>
Less: Taxation	-25	1		13	
Less: Minority Interest	0	1		0	
<b>Recurring PAT</b>	<b>113</b>	<b>68</b>	<b>67.8</b>	<b>272</b>	<b>-58.3</b>
Exceptional items	0	0		0	
<b>Reported PAT</b>	<b>113</b>	<b>68</b>	<b>67.8</b>	<b>272</b>	<b>-58.3</b>
EPS	0.4	0.2		0.9	

Source: Company, BOBCAPS

## Financials

### Exhibit 3: Income Statement

Y/E Mar (Rsmn)	FY14	FY15	FY16p*	FY17e	FY18e
<b>Net sales</b>	<b>10,161</b>	<b>11,466</b>	<b>14,797</b>	<b>19,323</b>	<b>26,263</b>
<i>growth (%)</i>	44.2	12.8	29.1	30.6	35.9
COGS	8,211	9,450	10,960	15,460	20,803
Staff Cost	258	313	459	527	716
Changes in inventories	3	(83)	(244)	(10)	(13)
SG&A Cost	552	631	1,903	1,063	1,445
<b>EBITDA</b>	<b>1,137</b>	<b>1,155</b>	<b>1,720</b>	<b>2,282</b>	<b>3,312</b>
<i>growth (%)</i>	41	2	49	33	45
Depreciation & Amortization	106	144	329	454	499
<b>EBIT</b>	<b>1,031</b>	<b>1,011</b>	<b>1,391</b>	<b>1,828</b>	<b>2,814</b>
Other income	19	113	145	160	176
Interest paid	305	414	525	561	586
Extraordinary/Exceptional items	(49)	-	-	-	-
<b>PBT</b>	<b>744</b>	<b>710</b>	<b>1,011</b>	<b>1,428</b>	<b>2,404</b>
Tax	30	39	25	71	120
Minority interest	-	-	-	-	-
<b>PAT</b>	<b>665</b>	<b>671</b>	<b>986</b>	<b>1,356</b>	<b>2,284</b>
Non-recurring items	49	-	-	-	-
<b>Adjusted PAT</b>	<b>714</b>	<b>671</b>	<b>986</b>	<b>1,356</b>	<b>2,284</b>
<i>growth (%)</i>	20	(6)	47	38	68

### Exhibit 4: Balance Sheet

Y/E Mar (Rsmn)	FY14	FY15e	FY16p*	FY17e	FY18e
Cash & Bank balances	<b>368</b>	<b>846</b>	<b>158</b>	<b>739</b>	<b>955</b>
Other Current assets	6,211	6,665	8,369	10,090	13,090
Investments	-	-	397	397	397
Net fixed assets	954	1,059	1,884	1,680	1,432
Goodwill	1,041	1,041	1,030	1,030	1,030
Other non-current assets	188	188	1,027	188	188
<b>Total assets</b>	<b>8,761</b>	<b>9,798</b>	<b>12,864</b>	<b>14,124</b>	<b>17,092</b>
Current liabilities	1,110	1,221	1,533	1,983	2,552
Borrowings	3,923	4,155	5,394	5,634	5,885
Other non-current liabilities	17	19	35	35	35
<b>Total liabilities</b>	<b>5,050</b>	<b>5,394</b>	<b>6,962</b>	<b>7,651</b>	<b>8,472</b>
Share capital	438	585	585	585	585
Reserves & surplus	3,273	3,819	5,318	5,888	8,035
<b>Shareholders' funds</b>	<b>3,711</b>	<b>4,404</b>	<b>5,902</b>	<b>6,473</b>	<b>8,619</b>
<b>Total liabilities</b>	<b>8,761</b>	<b>9,798</b>	<b>12,864</b>	<b>14,124</b>	<b>17,092</b>

Source: Company, BOBCAPSe p\*-provisional

**Exhibit 5: Cash Flow**

Y/E Mar (Rsmn)	FY14	FY15e	FY16p*	FY17e	FY18e
Profit after tax	665	671	986	1,356	2,284
Depreciation	99	144	329	454	499
Chg in working capital	(964)	(341)	(2,218)	(433)	(2,431)
Total tax paid	(2)	-	-	-	-
<b>Cash flow from operations</b>	<b>(202)</b>	<b>475</b>	<b>(903)</b>	<b>1,377</b>	<b>351</b>
Capital expenditure	(271)	(250)	(1,154)	(250)	(250)
Change in investments	-	-	(397)	-	-
<b>Cash flow from investments</b>	<b>(271)</b>	<b>(250)</b>	<b>(1,540)</b>	<b>(250)</b>	<b>(250)</b>
<b>Free cash flow</b>	<b>(473)</b>	<b>225</b>	<b>(2,443)</b>	<b>1,127</b>	<b>101</b>
Issue of shares	(3)	146	-	-	-
Net inc/dec in debt	394	231	1,239	240	252
Dividend (incl. tax)	(1)	(1)	(1)	(1)	(1)
Other financing activities	(125)	(123)	517	(785)	(136)
<b>Cash flow from financing</b>	<b>265</b>	<b>253</b>	<b>1,755</b>	<b>(546)</b>	<b>115</b>
<b>Inc/(Dec) in Cash &amp; Bank bal.</b>	<b>(208)</b>	<b>478</b>	<b>(688)</b>	<b>581</b>	<b>216</b>

**Exhibit 6: Ratio analysis**

Y/E Mar	FY14	FY15	FY16p*	FY17e	FY18e
<b>Per share data (Rs)</b>					
EPS	2.4	2.3	3.4	4.6	7.8
CEPS	2.8	2.8	4.5	6.2	9.5
DPS	0.2	0.4	0.5	0.5	0.5
BV	16.9	15.1	20.2	22.1	29.5
<b>Profitability ratios (%)</b>					
Gross margins	16.7	14.9	22.8	17.3	18.1
Operating margins	11.2	10.1	11.6	11.8	12.6
Net margins	7.0	5.9	6.7	7.0	8.7
<b>Valuation ratios (x)</b>					
PE	12.8	13.7	9.3	6.8	4.0
P/BV	1.9	2.1	1.6	1.4	1.1
EV/EBITDA	9.2	10.8	8.1	6.0	4.1
EV/Sales	1.0	1.1	0.9	0.7	0.5
RoE	20.7	16.5	19.1	21.9	30.3
RoCE	14.0	13.1	15.0	16.1	21.3
RoIC	10.4	8.8	10.7	12.5	18.9

Source: Company, BOBCAPSe p\*-provisional

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