

RETAIL EQUITY RESEARCH

NITIN FIRE

Industrial Machinery

BSE CODE:532854

NSE CODE : NITINFIRE

Bloomberg CODE: NFPI IN

SENSEX: 29,231

BUY

Rating as per Mid Cap

12months investment period

CMP Rs39

TARGET Rs63

RETURN 62%

21st February, 2015

Topline growth exciting... but margins disappoint

Nitin Fire's (NFPI) Q3FY15 reported a stellar topline performance. Consolidated sales stood at Rs4,001mn (97%YoY) aided by Middle East business. Despite this, EBITDA and PAT were at Rs370mn (28%YoY) and Rs212mn (4% YoY) on account of lower margins and "other income" (Rs15mn vs. Rs62mn). For 9MFY15, standalone and subsidiary business reported sales growth of 25%YoY and 45%YoY, respectively. Strong revenue growth however did not translate into robust earnings due to higher raw materials, employee expenses (subsidiary) and "other costs". As a result, EBITDA margin for 9MFY15 dropped by 230bps and 300bps at the standalone and subsidiary level, respectively and bringing PAT to Rs602mn (9%YoY). Looking ahead, NFPI is poised well for exciting times, benefiting from domestic economic activity picking up and robust middle east ordering. We roll over our valuations to FY17E and assign a lower P/E of 15x (earlier at P/E of 18x on FY16E EPS) due to lower liquidity premium from negative surprise on the margins.

Domestic business upbeat...AMC income stems fall in profitability

NFPI has retained its market share of 10% among organised players amidst biggies like TYCO, Honeywell etc. One of the key observable is that the company has managed to grow its standalone business at a consistent pace this 9MFY15 too. Looking ahead, we believe NFPI has the necessary project experience and product profile to cater its market as the demand comes up. Given the order pipeline is likely to improve going forward, due to stalled projects picking up among the industrial and infrastructure space and also due to shift towards cost effective inert gas application in the past one to one-half years. We have build +20% CAGR for FY15E-17E. That said, the growth in revenues hasn't translated to commensurate improvement in margins due to higher costs and exposure to INR:USD vagaries. For 9MFY15, EBITDA margins dropped to 8% (vs. 10%YoY). But the fall in profitability was stemmed by "Other Income- AMC services". This has led to PBT margins remaining at similar levels YoY.

Middle East business remains robust... NFPI ventures out to EU markets

Subsidiaries contribute close to 55% of consolidated sales and Middle East remains the largest contributor. For 9MFY15, subsidiaries saw business growing by 45% YoY, but came at the cost of margins. Our estimates for sales in FY15E and FY16E have been brought down by 6% and 12% largely due to delay in EXPO 2020 ordering. That said, we don't foresee a cut in Middle East ordering environment, but would revisit assumptions if crude prices remain subdued for an extended period. Also, marquee projects like Dubai EXPO 2020 and Qatar Games, are likely to get government funding. We expect EXPO 2020 orders, which isn't yet reflected in orderbook, to pick up by H2FY16E and this is expected to extend until 2019, meanwhile its existing order book would expand. NFPI's European supply is likely to contribute to topline by FY16E. This would compensate lower sales from the winding down of its Eurotech subsidiary.

Loss of liquidity premium on account of margin disappointment...

As mentioned in our earlier report, NFPI enjoyed a liquidity premium which was impacted as margin came down. Though this remains a concern, management is confident to bring back profitability by better working capital management and cash flows. We build consolidated EBITDA margins of 9.3% and 9.4% in FY16E and FY17E.

Valuations

We value NFPI at target P/E of 15x on FY17E earnings. We reiterate BUY with a TP of Rs63, against earlier target price of Rs75 (adjusted for bonus at 1:3).

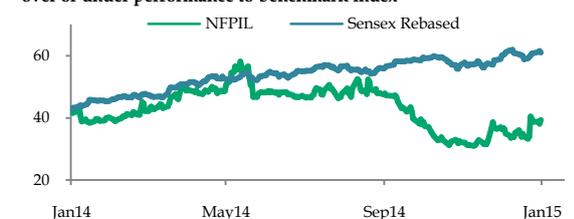
Company Data

Market Cap (mn)	Rs11,471
Enterprise Value (mn)	Rs15,545
Outstanding Shares (mn)	292.3
Free Float	21%
Dividend Yield	0.4%
52 week high	Rs66.8
52 week low	Rs30.2
6m average volume (mn)	0.6
Beta	0.5
Face value	Rs.2

Shareholding %	Q1 FY15	Q2 FY15	Q3 FY15
Promoters	71.85	71.85	71.85
FII's	15.12	14.55	14.38
MFs/Insti	0.98	1.67	2.49
Public	6.90	7.22	7.58
Others	5.03	4.71	3.70
Total	100.00	100.00	100.00

Price Performance	3mth	6mth	1 Year
Absolute Return	3.8%	-15.6%	-7.8%
Absolute Sensex	3.2%	10.6%	42.3%
Relative Return*	0.7%	-23.7%	-35.2%

*over or under performance to benchmark index



Y.E Mar (Rsbn)	FY15E	FY16E	FY17E
Sales	12.2	15.3	19.7
Growth (%)	20	25	29
EBITDA	1.2	1.4	1.9
Growth (%)	6	18	31
PAT Adj	0.8	0.9	1.3
Growth (%)	8	18	36
Adj.EPS	2.6	3.1	4.2
Growth (%)	8	18	36
P/E	14.9	12.6	9.3
P/B	2.5	2.1	1.7
EV/EBITDA	13.1	11.5	9.2
RoE (%)	18.6	18.2	20.5
D/E	1.0	0.9	0.8

Jose T. Muricken
Analyst



Quarterly Financials (Standalone) Profit & Loss Account

(Rs mn)	Q3FY15	Q3FY14	YoY Growth %	Q2FY15	QoQ Growth %
Sales	972	704	38	1596	-39
EBITDA	108	107	1	107	1
Depreciation	6	3	88	6	-3
EBIT	103	104	-2	102	1
Interest	53	69	-24	82	-36
Other Income	11	10	14	26	-56
Exceptional Items	-	7		-	
PBT	61	52	18	45	37
Tax*	10	9	12	20	-49
Reported PAT	51	43	19	25	106
Adjustment	-	-		-	
Adj PAT	51	43	19	25	106
No. of shares (mn)	292	219	33	292	-
EPS (Rs)	0.18	0.15	19	0.08	106

Quarterly Financials (Consolidated) Profit & Loss Account

(Rs mn)	Q3FY15	Q3FY14	YoY Growth %	Q2FY15	QoQ Growth %
Sales	4002	2030	97	2275	76
EBITDA	370	290	28	288	29
Depreciation	37	29	30	23	59
EBIT	333	261	27	264	26
Interest	128	117	10	89	44
Other Income	15	62	-75	47	-67
Exceptional Items	-	7		-	
PBT	220	213	3	223	-1
Tax*	8	9	-12	20	-59
Reported PAT	212	204	4	203	5
Adjustment	-	-		-	
Adj PAT	212	204	4	203	5
No. of shares (mn)	292	219	33	292	-
EPS (Rs)	0.72	0.70	4	0.69	5



Consolidated Financials

Profit & Loss Account

Y.E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Sales	7,047	10,161	12,200	15,301	19,718
% change	31	44	20	25	29
EBITDA	782	1,137	1,208	1,423	1,857
% change	16	45	6	18	31
Depreciation	45	106	135	174	226
EBIT	735	1,031	1,073	1,249	1,632
Interest	254	305	373	418	472
Other Income	182	19	130	150	172
PBT	663	696	830	981	1,332
% change	30	5	19	18	36
Tax	49	30	58	70	95
Tax Rate (%)	7	4	7	7	7
Reported PAT	570	665	772	911	1,237
Adj*	-	(49)	-	-	-
Adj PAT	570	714	772	911	1,237
% change	30	25	8	18	36
No. of shares (mn)	294	292	292	292	292
Adj EPS (Rs)	1.9	2.4	2.6	3.1	4.2
% change	30	26	8	18	36
DPS (Rs)	0.2	0.2	0.2	0.2	0.2

Cash flow

Y.E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Net inc. + Deprn.	707	771	907	1,085	1,463
Non-cash adj.	207	316	(2)	(2)	(3)
Changes in W.C	(468)	(1,073)	(974)	(936)	(1,562)
C.F.O	447	14	(69)	147	(102)
Capital exp.	(345)	(260)	(300)	(400)	(401)
Change in inv.	41	11	(11)	(5)	(2)
Other invest.CF	49	(8)	(49)	(23)	(16)
C.F - investing	(255)	(257)	(360)	(428)	(419)
Issue of equity	-	-	146	-	-
Issue/repay debt	608	454	388	420	610
Dividends paid	(102)	(52)	(51)	(51)	(51)
Other finance.CF	(255)	(382)	(0)	-	-
C.F - Financing	250	21	483	369	559
Chg. in cash	398	(226)	53	88	37
Closing cash	551	368	421	509	546

Balance Sheet

Y.E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Cash	576	368	421	509	546
Accounts Receivable	2,650	2,993	3,510	4,276	5,240
Inventories	1,401	1,774	2,237	2,647	3,383
Other Cur. Assets	523	1,085	1,364	1,627	2,150
Investments	360	359	369	374	376
Gross Fixed Assets	644	835	1,135	1,535	1,936
Net Fixed Assets	468	565	730	957	1,132
CWIP	-	-	-	-	-
Intangible Assets	1,355	1,429	1,478	1,501	1,517
Def. Tax (Net)	(2)	0	2	4	7
Other Assets	223	188	250	380	420
Total Assets	7,552	8,761	10,361	12,274	14,772
Current Liabilities	767	1,047	1,309	1,787	2,359
Provisions	81	79	100	126	216
Debt Funds	3,529	3,923	4,373	4,923	5,573
Other Liabilities	0	0	0	0	0
Equity Capital	441	438	585	585	585
Reserves and Surplus	2,734	3,273	3,993	4,853	6,039
Shareholder's Fund	3,175	3,711	4,578	5,438	6,623
Total Liabilities	7,552	8,761	10,361	12,274	14,772
BVPS (Rs)	14	17	16	19	23

Ratios

Y.E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Profitab. & Return					
EBITDA margin (%)	11.1	11.2	9.9	9.3	9.4
EBIT margin (%)	10.4	10.1	8.8	8.2	8.3
Net profit mgn.(%)	8.1	7.0	6.3	6.0	6.3
ROE (%)	19.5	20.7	18.6	18.2	20.5
ROCE (%)	12.3	14.2	13.8	13.8	15.2
W.C & Liquidity					
Receivables (days)	113.5	101.4	97.3	92.9	88.1
Inventory (days)	90.4	57.0	60.0	58.2	55.8
Payables (days)	49.8	32.6	35.2	36.9	38.4
Current ratio (x)	6.1	5.5	5.3	4.7	4.4
Quick ratio (x)	4.2	2.9	2.7	2.4	2.2
Turnover & Levq.					
Gross asset T.O (x)	14.0	13.7	12.4	11.5	11.4
Total asset T.O (x)	1.0	1.2	1.3	1.4	1.5
Int. covge. ratio (x)	2.9	3.4	2.9	3.0	3.5
Adj. debt/equity (x)	1.1	1.1	1.0	0.9	0.8
Valuation ratios					
EV/Sales (x)	2.1	1.5	1.3	1.1	0.9
EV/EBITDA (x)	19.2	13.5	13.1	11.5	9.2
P/E (x)	20.2	16.1	14.9	12.6	9.3
P/BV (x)	2.7	2.3	2.5	2.1	1.7



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