

POSITIONAL CALL

ESAB INDIA LIMITED



BUY | CMP 910 | TARGET 1100 | POTENTIAL UPSIDE 21%

13 MAY 2019

Stock Data

M.Cap (₹ in cr)	1400
Equity (₹ in cr)	15.39
52 wk H/L ₹	1044/578.60
Face Value ₹	10.00
Div. Yield	9.92%
NSE Code	ESABINDIA
BSE Code	500133

Valuation Data

P/E	24.14
EV/EBITDA	14.18
P/BV	5.25
RONW(%)	22%

Index Detail

Sensex	39275.64
Nifty	11787.15
Index	S&P BSE Small-Cap

LEAD RATIONALE

By virtue of being leading player in the domestic market, ESAB India has been able to manage volatility and its impact arising from its **major raw material (steel)**. With ability to produce consistent positive cash flows, stable profitability, mingled with healthy asset turnover ratio, huge cash & investments balance enables it to price competitively to gain market share going forward. **Therefore, the company has plenty of headroom to grow.**

Apart from the welding business, ESAB India provides its support service activities out of India in the areas of R&D and shared services for other **subsidiaries of Colfax** around the world. **Looking ahead, company now focused on growing services segment to cushion the impact of any sustainable difficulties in the manufacturing segment.**

On profitability front, Q4 FY19 earnings have witnessed a 78 % Y-O-Y growth on the back of 18.12 % revenue growth supported by an EBITDA growth of 87.67 %. **Revenue growth is mainly due to improved volumes from domestic front. However, high raw material cost was offset by lower advertisement and other expenses.** Thus, EBITDA margin expanded to 14.47 % in Q4 FY 19 compared to 9.11 % in Q4 FY 18.

As per P/E multiple, we recommend to **BUY at a price target of ₹1100**

Focus on Exports- Synergy benefits derived from being part of ESAB group

Company enhanced its range of product offerings with the introduction of new products. **The company started exporting to South East Asian countries on a range of consumables that were hitherto sourced from another ESAB location outside India. In view of ESAB focus on exports, expect the exports contribution to grow from the current levels of around 5% in the near future.** Service income also growing, though on a small base, with increases in activity on R&D support, shared services and related activities undertaken for related party entities based outside of India. Looking ahead, **company continue to see some potential on this with the resultant foreign exchange earnings helping in offset exchange risks on imports.**

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Intense competition from both domestic and global players

Welding industry comprises welding equipment, consumables and welding services. The welding consumables market accounts for a significant share in the welding industry compared to welding equipment and welding services. **Electrodes and filler metals are the key consumables used in various welding processes.** Welding finds wide application in various industries **such as automobiles, building & construction, pipelines, and oil & gas.** The Indian welding industry comprises various large, medium, and small-scale companies both from domestic and global players and large number of small and unorganized players. **The highly competitive environment in the welding industry of Indian market limits the scope for expansion of the company however the establishment of own distribution network remains critical success factor in this industry which was already developed by key market players.** However with the entry of more players into this segment, with their low cost and technology, would result in increasing competitive pressures going forward.

The use of product in metal fabrication & manufacturing sectors will spur the demand of welding gases in upcoming years. The product protects heated and molten metal from damaging effects of air by creating an inert shield during welding. The demand of metal products in various industries such as automobile & transportation, building & construction, oil & gas, etc. will contribute to the development of product market in coming years. **In 2016, automobile & transportation sector projected revenue over USD 2.5 billion and is likely to increase at a healthy rate by the end of 2024, which will spur product demand in coming years.**

Key Financial Data

EV	1344.34
Net Worth	266.59
BV	173.22
EPS(TTM)	37.70

₹ In crores except EPS

Key Financials (₹ in crores)

Particulars	Q4 FY 19	Q4 FY 18	Variation %
Revenue	180.90	153.15	18.12
EBITDA	26.18	13.95	87.67
PBT	23.50	11.47	104.88
PAT	16.36	9.19	78.02
EPS	10.63	5.97	78.06

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Outlook and Valuation

Company remain optimistic on domestic economic recovery leading to revival in industrial & investment activity aided by government initiatives and reduced interest rates. With comfortable cash position along with healthy asset turnover ratio, ESAB is well poised to aggressively position itself to gain market share in highly competitive markets. **ESAB's new product launches and a potentially leaner organization structure would augur well for sales and profitability margins ahead.**



Share price chart has been taken for a period of past 1 year. There is a long term support at the levels of ₹804 & resistance of ₹922 . If it will cross this resistance, then reach to next resistance at ₹1027 and further reach to 52W/H of ₹ 1080 in short to medium term.

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