

# Linde India Limited

**Linde India Limited (Linde India)**, formerly BOC India Limited, is engaged in the industrial gases business. Linde India is a part of Linde group which operates in more than 100 countries worldwide and offer diversified portfolio of products and services. Linde India is leader in the industrial gases business in India providing a one-stop solution to all businesses for gas supply and related equipment and services. As on June 2017, order book of project engineering division stood at INR 597.4 cr.

## Rationale for Investment

**Leadership position in Indian industrial gas** - Linde India is undisputed leader in the domestic industrial gas industry with diverse product portfolio and strong presence in the industrial and medical gases segment, providing a one-stop solution to all businesses for gas supply and related equipment and services. Further Linde India's position will strength with the merger of Linde AG and Praxair which would lead to increase in their market share close to ~26%.

**Strong Parentage & Global Merger Effect** - Global industrial and medical gases market is controlled by the trio of Linde AG (~20%), Praxair (~14%) and France's Air Liquide (~24%), with the merger of Linde AG & Praxair, combined entity would have a market share of ~33% and ~26% in global and Indian markets respectively. Demand for industrial gases in the Asia-Pacific market is expected to dominate the global market in the coming future due to increasing domestic consumption in the developing market of India and China. Thus we believe Linde India is strategically important for Linde AG for growing its business expansion plan in Asia & other emerging markets.

**Low competition & huge entry barrier** - The gases business is a capital intensive business by nature as it requires large investments in setting up of air separation unit (ASU) as well as new packaged gases sites. The supply chain in the Gases business also requires significant investments in the form of distribution assets and storage networks to service bulk volumes as well as in the form of cylinders to service relatively smaller volumes in packaged gases.

**Strong financial position** - The company earns majority of its revenue from gas segment (~83% of CY16 total revenue) form long term contract typically 15-20 year's i.e from tonnage/installation, which provide stable cash flow and profitability. We believe Linde India's consolidated revenue to grow at a CAGR of ~13.3% CY15-CY18E to INR 2280 crores due to improving manufacturing & industrial activity whereas EBITDA & PAT to grow faster at a CAGR of ~15.5% & ~43.9% during the same period. EBITDA & PAT margin will improve in CY15-CY18E due to change in product mix, higher execution of order in project engineering division, lower finance and depreciation cost. However, we also believe the company's power and freight expenses which ~52% (CY16) of expenses would restrict any sharp movement in the EBITDA margin owing to slow pick up in volume growth due to intense competition.

## Valuation

Linde India is one of the key beneficiaries with increasing government initiatives towards developing India's manufacturing sector, coupled with rapid industrialization; demand for industrial gases is anticipated to grow at a robust pace over the next five years. With the merger of Linde AG and Praxair, both would dominate globally & Indian in industrial gases market. We expect sales and EBITDA to grow at a CAGR of ~13.3% and 15.5% respectively, in CY15-CY18E. Linde is currently trading at an EV/EBITDA of 12x in CY17E and 11x CY18E. With the anticipated improvement in financial performance, we assign an EV/EBITDA multiple of 12x (5 year average EV/EBITDA of 16.7) in CY18E and arrive at a target price of INR 566, indicating a potential upside of 43%. We initiated with a BUY rating.

## Financials : (Consolidated)

(In Rs Cr.)

	CY2014	CY2015	CY2016	CY2017 (E)	CY2018 (E)
Total Revenue	1,491.35	1,566.63	1,878.49	2,114.36	2,280.42
EBDITA	287.79	261.46	332.58	368.64	402.49
PAT	5.40	23.46	15.55	42.91	69.97
EPS	0.63	2.75	1.82	5.03	8.20
EV/EBITDA	15.0	16.5	13.0	11.7	10.7

**RATING: BUY**

**Target: 566**

**Upside: 44%**

**CMP : 391.75 ( As on 20/09/2017 )**

**Reuter Code : LIND.NS**

**Bloomberg Code : LIL IN**

## Market Data

Face Value (Rs)	10.00
Equity Share Capital (cr)	85.28
Share Outstanding (cr)	8.53
Market Cap (Rs cr)	3,341.00
Book Value / share	168.91
Daily Avj. Volume	40,903
52 W High	494.4
52 W Low	321.0
Shareholding	%
Promoter	75.00
Foreign	0.98
Institutions	14.61
Public & Others	9.41

## Sensex and Stock Movement



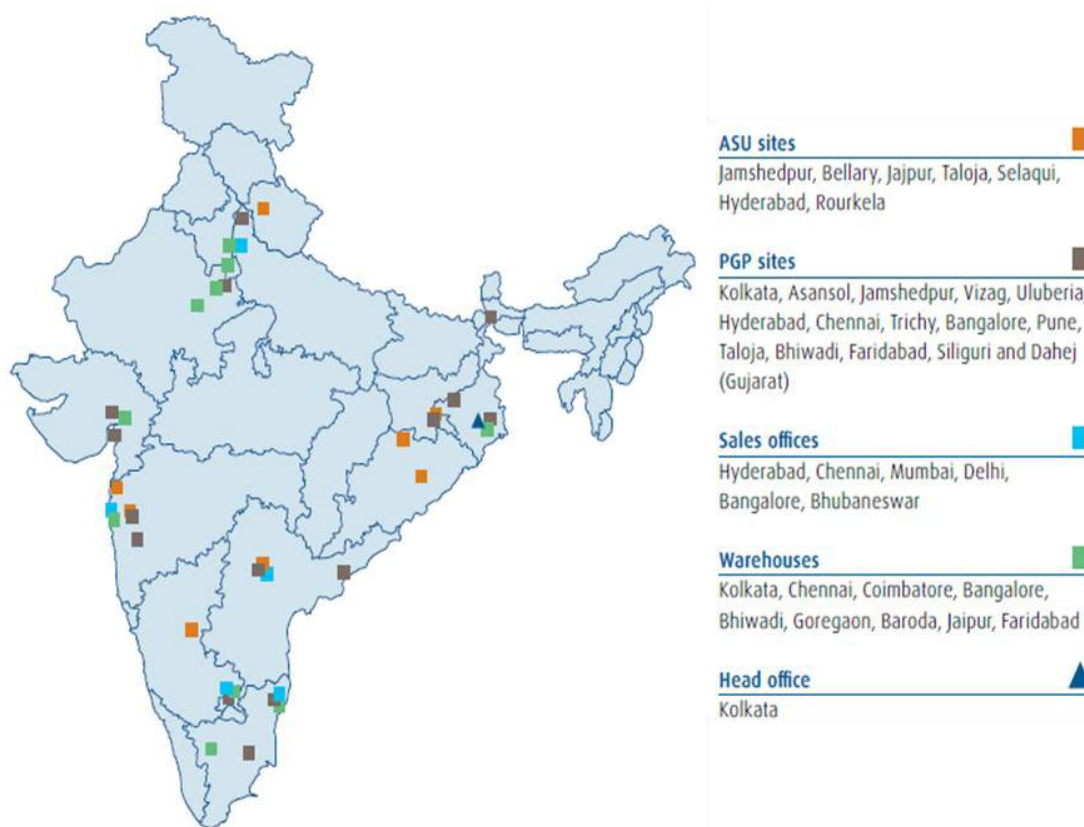
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### Company Overview

Linde India Limited (Linde India), formerly BOC India Limited, is engaged in the industrial gases business. Linde India is a part of Linde group which operates in more than 100 countries worldwide and offer diversified portfolio of products and services. Linde India is leader in the industrial gases business in India providing a one-stop solution to all businesses for gas supply and related equipment and services. The company also manufactures cryogenic and non-cryogenic vessels and also designs and commissions projects. Linde India provides tailor-made solutions for its customers from various industries which are as varied as food processing, medical, domestic or industrial use based on strictest international standards of production and safety.

Linde India owns and operate India’s largest air separation plant and runs more than 20 production facilities and filling stations across the country. It supply more than 20,000 gases and mixtures as well as provides a range of related services including the construction and installation of plants, equipment, pipelines and associated engineering services catering to the needs of a wide variety of industries. As on June 2017, order book of project engineering division stood at INR 597.4 cr.



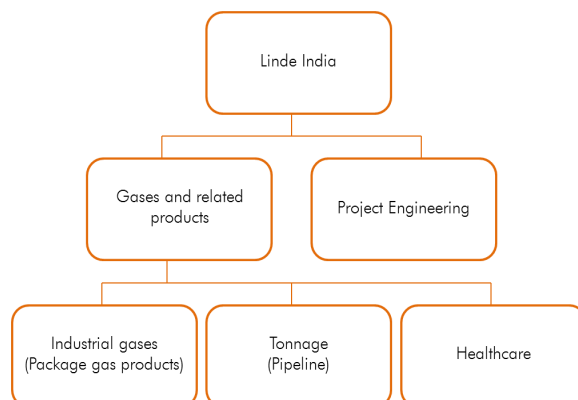
Source - Company, DSPL Research

#### Key Management team

Mr. Sanjiv Lamba	Chairman
Mr. Moloy Banerjee	Managing Director
Mr. Indranil Bagchi	Chief Financial Officer
Mr. Pawan Marda	Company Secretary

### Business Overview

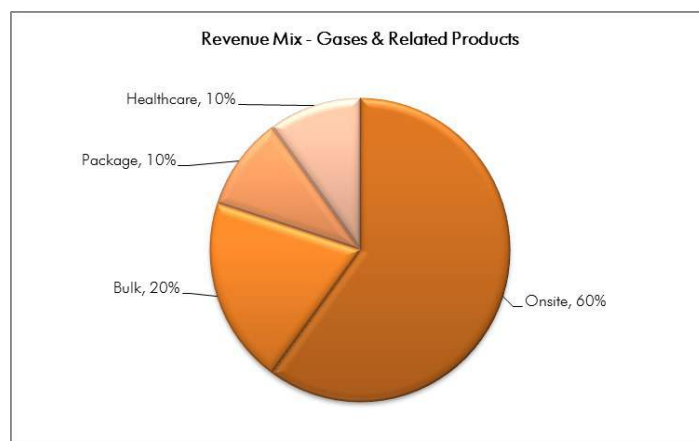
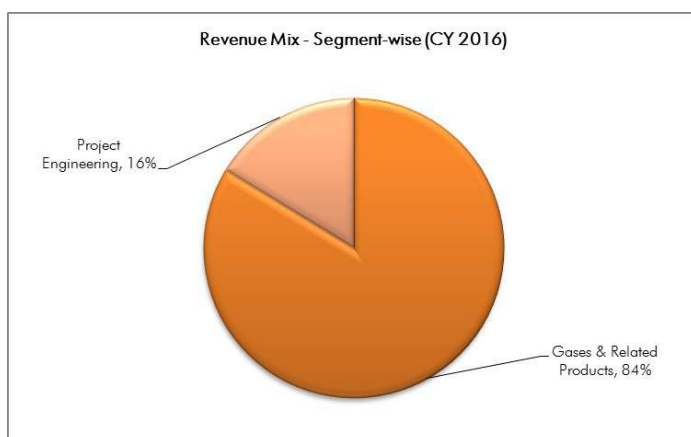
The Company's core operating segments consists of gases & related products and project engineering division.



Source - Company, DSPL Research

- Gases & related product division** - The gases and related products division comprises of pipeline gas supplies to very large industrial customers (Tonnage), liquefied gases through cryogenic tanker (bulk) and compressed gas in cylinders (packaged gas) to various industries and healthcare segment. Gases like oxygen, nitrogen and argon are directly supplied through pipelines to large industrial customers. Gases in bulk consist of liquid oxygen, nitrogen and argon and packaged gases consist of compressed industrial, electronics and special gases. The Healthcare business is served by a mix of bulk and compressed medical gases, such as medical oxygen, nitrous oxide etc.
- Project engineering division (PED)** – The project engineering division focuses on designing, supply, installation and commissioning of tonnage air separation units (ASU), setting up of nitrogen plants, pressure swing adsorption (PSA) plants and gas distribution systems. This division also manufactures cryogenic vessels for in-house use as well as for sale to third party customers. As on June 2017, order book of project engineering division stood at INR 597.4 cr.

Linde India Revenue Mix - Industry-wise	
Steel	50-55%
Oil & Gas	5-7%
Healthcare	8%
Other	30%



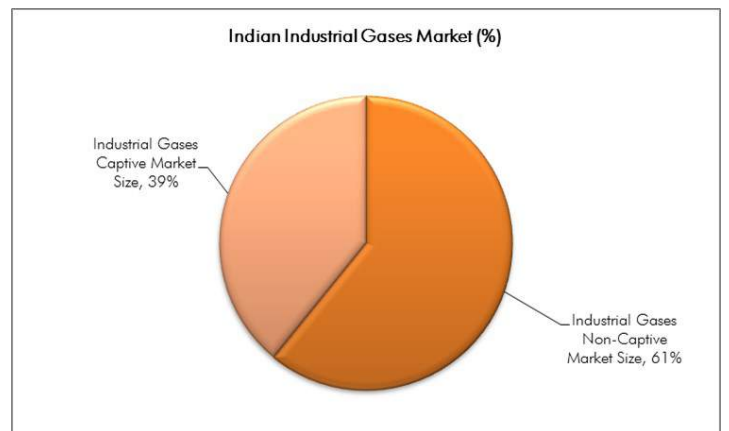
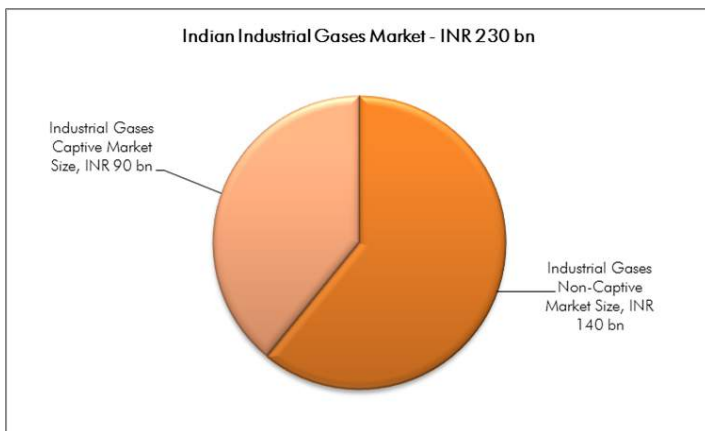
Source - Company, DSPL Research

### Industry Overview

Different gases are used in a wide variety of industries, but most notably in the metal, polymer and food industries. Nitrogen, Oxygen and Argon are the most commonly used industrial gases. They are used in a wide range of industries, which include oil & gas, petrochemicals, chemicals, power, mining, steelmaking, metals, environmental protection, medicine, pharmaceuticals, biotechnology, food, water, fertilizers, nuclear power, electronics and aerospace. The growth of industrial gases segment is driven mainly by the prospects of steel industry, which accounts for over 50% of total demand. Healthcare and pharmaceuticals account for 15-20% and petrochemical, refining for another 15-20% of the total demand for industrial gases.

The industrial gas industry in India is highly fragmented with major multinationals, regional players and refillers grappling for market share. The industry is structured into 3 tiers – Tier 1, Tier 2 and Tier 3. Tier 1 comprises of major world players like Linde, AG, Praxair-India, INOX-Air Products & Air Liquide. Tier 2 includes companies like Goyal Gases, Bombay Oxygen, etc and Tier 3 compresses of more than 140 companies in the SME sector. The total turnover of all these companies is estimated to be around Rs 6,200 crores per annum or about USD 1 billion.

According to TechSci Research “the market for industrial gases in India is projected to cross US\$ 2.2 billion by 2021. This growth will be on the pillars of the demand from various ends user industries like metallurgy and petrochemicals. Industrial gases also find its use in various other end user industries including electronics, chemical, fabrication, energy and food & beverage.

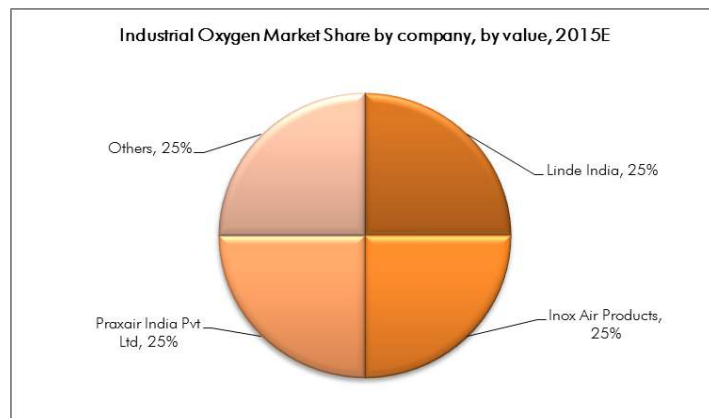
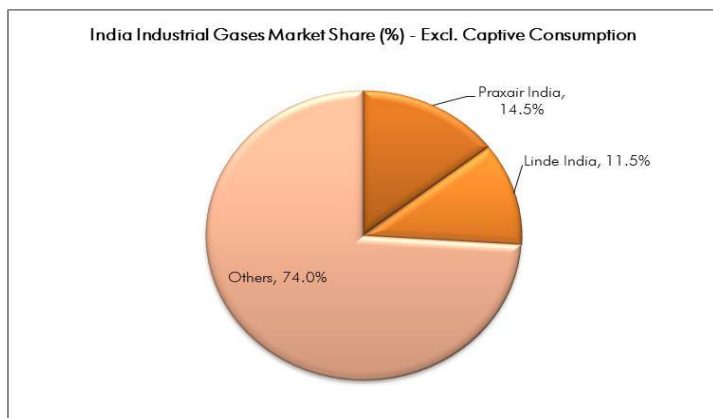


Source - Company, DSPL Research

**Investment Rationale**

- Leadership position in Indian industrial gas -**

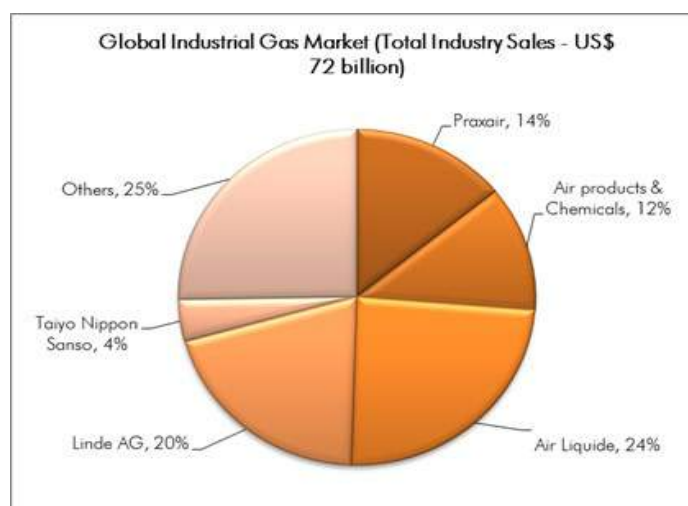
Linde India is undisputed leader in the domestic industrial gas industry with diverse product portfolio and strong presence in the industrial and medical gases segment, providing a one-stop solution to all businesses for gas supply and related equipment and services. Further Linde India’s position will strength with the merger of Linde AG and Praxair which would lead to increase in their market share close to ~26%.



Source - Company, TechSci Research, DSPL Research

- Strong Parentage & Global Merger Effect -**

Global industrial and medical gases market is controlled by the trio of Linde AG (~20%), Praxair (~14%) and France's Air Liquide (~24%), with the merger of Linde AG & Praxair, combined entity would have a market share of ~33% and ~26% in global and Indian markets respectively. Demand for industrial gases in the Asia-Pacific market is expected to dominate the global market in the coming future due to increasing domestic consumption in the developing market of India and China. Asia-Pacific accounted for the largest share (38.9 %) in the global industrial gases market in 2015, and it is also anticipated to witness the highest growth (CAGR 6.6 %) during 2016 to 2022. Thus we believe Linde India is strategically important for Linde AG for growing its business expansion plan in Asia & other emerging markets.



Source - Praxair Investor Presentation, DSPL research

- **Low competition & huge entry barrier -**

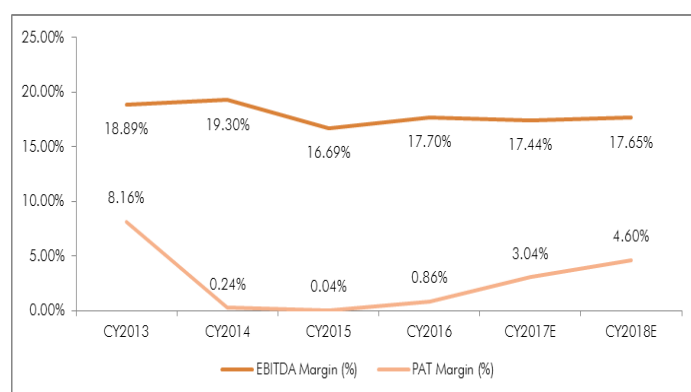
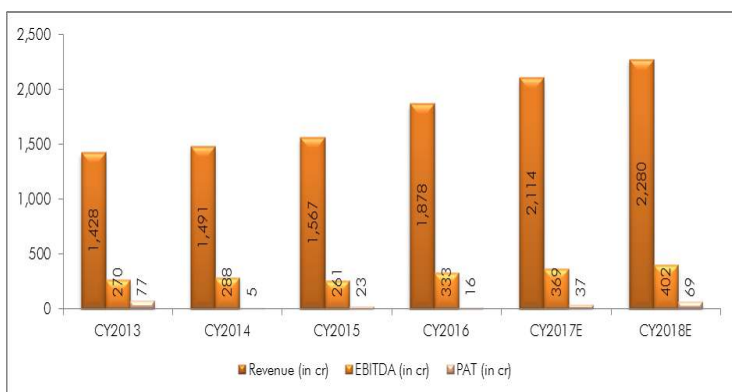
The gases business is a capital intensive business by nature as it requires large investments in setting up of air separation unit as well as new packaged gases sites. The supply chain in the Gases business also requires significant investments in the form of distribution assets and storage networks to service bulk volumes as well as in the form of cylinders to service relatively smaller volumes in packaged gases.

High pressure cylinders and liquid tanks have safety issues and need skilled manpower for which there is a scarcity as there are no established centres for providing relevant skills to the work force. Yet another problem is that it is a consumable product and not a stand-alone finished product. Being a derived demand, its growth and profitability depends on the growth and profitability of user industries.

- **Strong financial position -**

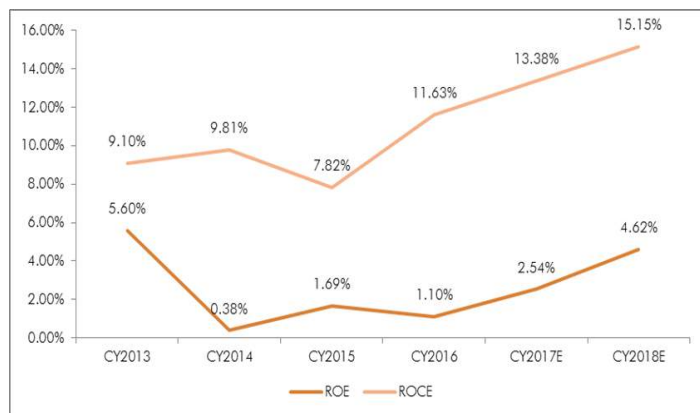
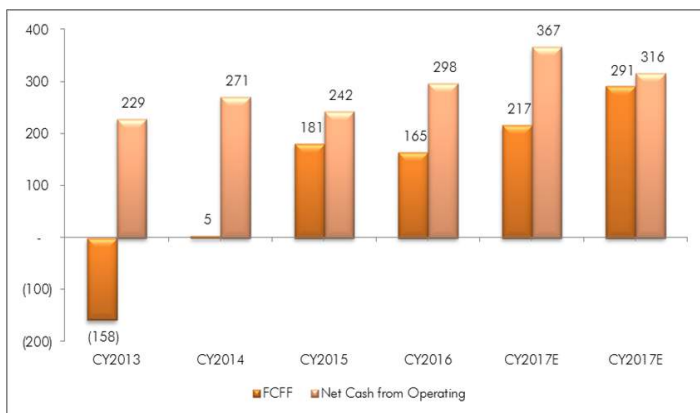
Linde India is a well-established player in industrial gases business. Its core operating segments consists of two segment i.e. (a) the gases & related products and (b) project engineering division. The company earns majority of its revenue from gas segment (~84% of CY16 consolidated total revenue) from long term contract typically 15-20 year's i.e from tonnage/installation, which provide stable cash flow and profitability. In CY16, Linde India's total revenue stood at INR 1,878.5 crores, up by ~15.5% YoY led by strong performance from project engineering division. Revenue from project engineering business recorded growth of ~38% YoY largely due to pick-up in project execution. Gases & related products recorded growth of ~16.6% YoY due to overall rise in demand from industrial gases, tonnage & packaged gas business. EBITDA margin was slightly weak for CY13-16 due to slowdown in industrial activity. However, the company witnessed subdued profit of INR 15.55 crores in CY16 due to rise in depreciation and finance cost. The current order book of project engineering division stands at ~INR 597.4 as on June 2017.

We believe Linde India's consolidated revenue to grow at a CAGR of ~13.3% CY15-CY18E to INR 2280 crores due to improving manufacturing & industrial activity whereas EBITDA & PAT to grow faster at a CAGR of ~15.5% & ~43.9% during the same period. EBITDA & PAT margin will improve in CY15-CY18E due to change in product mix, higher execution of order in project engineering division, lower finance and depreciation cost. However, we also believe the company's power and freight expenses which ~52% (CY16) of expenses would restrict any sharp movement in the EBITDA margin owing to slow pick up in volume growth due to intense competition.



Source - Company, DSPL research

Return ratios of Linde India have been compressed due to capital expenditure (in last 5 years average investment in capex was ~INR 1,200 crores) and weak industrial growth. Going ahead, we believe Linde India would generate higher FCFF due to minimum capex requirement, further with a pick-up in execution and margins, we expect RoEs to recover to 2.5% in CY18E and 4.6% in FY19E. Even RoCEs are expected to improve 13.4% and 15.1% in CY17E-18E. Linde India has maintained its average debt – equity ratio around 1x over CY12-16. Going forward, we believe that the company will reduce it to 0.5x over CY17- 18E.



Source - Company, DSPL research

### Outlook

Linde India is one of the key beneficiaries with increasing government initiatives towards developing India’s manufacturing sector, coupled with rapid industrialization; demand for industrial gases is anticipated to grow at a robust pace over the next five years. With the merger of Linde AG and Praxair, both would dominate globally & Indian in industrial gases market. We expect sales and EBITDA to grow at a CAGR of ~13.3% and 15.5% respectively, in CY15-CY18E. Linde is currently trading at an EV/EBITDA of 12x in CY17E and 11x CY18E. With the anticipated improvement in financial performance, we assign an EV/EBITDA multiple of 12x (5 year average EV/EBITDA of 16.7) in CY18E and arrive at a target price of INR 566, indicating a potential upside of 43%. We initiated with a BUY rating.

### Key Risk

- Economic & Industrial activity slow down
- Rising Power & Fuel cost (~52% of total Revenue)
- Increasing competition due to commoditised natural of business

Financials - Consolidated (in INR Cr.)

Profit & Loss Statement						Cashflow Statement					
	CY2014	CY2015	CY2016	CY2017E	CY2018E		CY2014	CY2015	CY2016	CY2017E	CY2018E
Net Sales	1,491.3	1,566.6	1,878.5	2,114.4	2,280.4	PBT	3.6	0.6	16.1	64.3	104.9
Raw Material Cost	169.2	169.4	242.1	274.9	296.5	Depreciation & Amortization	181.3	161.5	201.9	205.6	209.4
Gross Profit	1,322.2	1,397.2	1,636.4	1,839.5	1,984.0	Finance Cost	102.29	87.47	113.28	98.67	88.17
Employee Cost	90.9	92.4	102.0	120.6	136.6	Others	(4.1)	(21.0)	(1.9)	-	-
Other Manufacturing Cost	954.3	1,075.1	1,221.0	1,368.0	1,464.0	(Incr)/Decr in Working Capital	9.9	3.9	(20.6)	8.8	(59.0)
Total Expenditure	1,214.4	1,337.0	1,565.1	1,763.4	1,897.0	Tax Paid	(21.6)	9.9	(11.1)	(21.4)	(34.9)
<b>Operating EBITDA</b>	<b>277.0</b>	<b>229.7</b>	<b>313.4</b>	<b>350.9</b>	<b>383.4</b>	<b>Cash Flow from Operating</b>	<b>271.4</b>	<b>242.4</b>	<b>297.6</b>	<b>356.0</b>	<b>308.6</b>
Op. EBITDA Margin (%)	18.6%	14.7%	16.7%	16.6%	16.8%	(Incr)/ Decr in Gross PP&E	(304.1)	(81.0)	(138.2)	(75.0)	(75.0)
Other Income	10.8	31.8	19.2	17.7	19.1	Others	39.8	23.4	6.8	-	-
Depreciation	181.3	161.5	201.9	205.6	209.4	<b>Cash Flow from Investing</b>	<b>(264.3)</b>	<b>(57.6)</b>	<b>(131.4)</b>	<b>(75.0)</b>	<b>(75.0)</b>
<b>EBIT</b>	<b>95.6</b>	<b>68.1</b>	<b>111.5</b>	<b>145.3</b>	<b>174.0</b>	(Decr)/Incr in Debt	142.5	(126.6)	50.0	(150.0)	(100.0)
EBIT Margin	6.4%	4.3%	5.9%	6.9%	7.6%	Interest Paid	(135.8)	(127.4)	(123.1)	(98.7)	(88.2)
Finance Cost	102.9	89.9	114.6	98.7	88.2	Others	-	47.9	-	-	-
Exceptional Item	-	9.5	-	-	-	Dividend Paid	(15.0)	(15.4)	(8.3)	(8.7)	(11.3)
PBT	3.6	0.6	16.1	64.3	104.9	<b>Cash Flow from Financing</b>	<b>(8.4)</b>	<b>(221.5)</b>	<b>(81.4)</b>	<b>(257.4)</b>	<b>(199.4)</b>
Tax	(1.8)	(22.9)	0.5	21.4	34.9	Incr/(Decr) in Balance Sheet Cash	(1.2)	(36.8)	84.8	23.6	34.1
<b>PAT</b>	<b>5.4</b>	<b>23.5</b>	<b>15.6</b>	<b>42.9</b>	<b>70.0</b>	<b>Cash and cash equivalents at the Start of the Year</b>	<b>58.3</b>	<b>57.2</b>	<b>22.5</b>	<b>108.0</b>	<b>131.6</b>
Share O/S (in cr)	8.5	8.5	8.5	8.5	8.5	<b>Cash and cash equivalents at the End of the Year</b>	<b>57.2</b>	<b>21.0</b>	<b>108.0</b>	<b>131.6</b>	<b>165.7</b>
EPS (INR)	0.6	2.8	1.8	5.0	8.2						
Cash EPS (INR)	21.9	21.7	25.5	29.1	32.8						

Balance Sheet						Ratios Analysis					
	CY2014	CY2015	CY2016	CY2017E	CY2018E		CY2014	CY2015	CY2016	CY2017E	CY2018E
Share Capital	85.3	85.3	85.3	85.3	85.3	<b>Per Share Value</b>					
Reserves and Surplus	1,303.9	1,307.3	1,355.3	1,389.5	1,448.2	EPS (Rs)	0.6	2.8	1.8	5.0	8.2
<b>Shareholders Fund</b>	<b>1,389.2</b>	<b>1,392.6</b>	<b>1,440.6</b>	<b>1,474.8</b>	<b>1,533.5</b>	BVPS (Rs)	162.9	163.3	168.9	172.9	179.8
Total Loan	1,252.4	1,388.3	1,089.7	939.7	839.7	DPS (Rs)	1.5	0.8	0.8	0.9	1.1
Deferred Tax Liabilities	182.9	154.3	164.5	164.5	164.5	<b>Turnover Ratio</b>					
<b>Total Liabilities</b>	<b>2,824.5</b>	<b>2,935.1</b>	<b>2,694.8</b>	<b>2,579.0</b>	<b>2,537.8</b>	Inventory Days	18	16	13	13	13
<b>Net Fixed Assets</b>	<b>2,556.9</b>	<b>2,734.1</b>	<b>2,764.9</b>	<b>2,634.2</b>	<b>2,499.8</b>	Debtors Days	73	75	69	69	69
<b>Investments</b>	<b>15.0</b>	<b>15.0</b>	<b>5.5</b>	<b>5.5</b>	<b>5.5</b>	Creditors Days	69	54	48	51	51
Sundry Debtors	307.4	336.3	375.7	422.9	437.3	Cash Conversion Cycle	23	36	34	31	31
Cash & Bank	57.2	21.0	108.0	131.6	165.7	Asset Turnover Ratio	0.4	0.4	0.5	0.6	0.6
Loans & Advances	665.6	338.7	361.5	348.9	364.9	<b>Profitability Ratio</b>					
Inventories	70.9	65.3	70.7	78.2	84.3	EBITDA Margin	19.3%	16.7%	17.7%	17.4%	17.6%
Other Current Assets	206.6	153.7	194.9	211.4	250.8	PAT margin	0.2%	0.0%	0.9%	3.0%	4.6%
<b>Total Current Assets</b>	<b>1,307.6</b>	<b>915.1</b>	<b>1,110.8</b>	<b>1,193.0</b>	<b>1,303.1</b>	ROA	0.1%	0.6%	0.4%	1.1%	1.8%
Sundry Creditors	250.8	216.2	280.5	312.8	318.6	ROE	0.4%	1.7%	1.1%	2.9%	4.7%
Provision	351.9	309.7	325.1	364.7	370.6	ROCE	9.8%	7.8%	11.6%	13.6%	15.1%
Other Current Liabilities	452.2	203.2	580.7	576.2	581.5	<b>Solvency Ratio</b>					
<b>Total Current Liabilities &amp; Provision</b>	<b>1,055.0</b>	<b>729.1</b>	<b>1,186.3</b>	<b>1,253.7</b>	<b>1,270.7</b>	Debt / Equity Ratio	0.9	1.0	0.8	0.6	0.5
<b>Net Assets</b>	<b>252.6</b>	<b>186.0</b>	<b>(75.6)</b>	<b>(60.7)</b>	<b>32.4</b>	Current Ratio	0.7	1.2	0.8	0.8	0.9
<b>Total Assets</b>	<b>2,824.5</b>	<b>2,935.1</b>	<b>2,694.8</b>	<b>2,579.0</b>	<b>2,537.8</b>	Quick Ratio	0.6	1.1	0.7	0.8	0.8
						Interest Coverage Ratio	1.0	1.1	1.1	1.7	2.2
						<b>Valuation Ratios</b>					
						PE (x)	704.4	115.1	194.6	77.9	47.8
						P/B (x)	2.7	1.9	2.1	2.3	2.2
						EV/EBITDA (x)	17.9	17.6	12.8	11.8	10.5
						Mcap/Sales (x)	2.5	1.7	1.6	1.6	1.5
						Earning Yield (%)	0.1%	0.9%	0.5%	1.3%	2.1%
						Dividend Yield (%)	0.3%	0.2%	0.2%	0.2%	0.3%
						Free Cash Flow Yield (%)	0.2%	6.8%	5.5%	8.4%	7.0%

Source - DSPL Research



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Business activity of the research entity	Stock Broker, Merchant Banker, Depository Participant, Mutual Fund Distributor			
Disciplinary history of the research entity	Nil			
Terms & Conditions for offering Research Report by research entity				
On principal, we do not sell our research reports.				
The Research Report should be kept confidential.				
The Research Report is published with honesty and in good faith.				
The Research Report is prepared after thorough analysis of the Stock Market.				
Research analyst or research entity shall effectively address conflict of interest which may affect the impartiality of its research analysis and research report and shall make appropriate disclosures to address the same.				
Research analyst or research entity or any employees will not engage in insider trading or front running or front running of its own research report.				
Research analyst or research entity shall comply with all regulatory requirements applicable to the conduct of its business activities.				
Research analyst or research entity or its employees engaged in research analysis shall observe high professional standard while preparing research report.				
Details of associate of research entity				
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