

September 29, 2017

## EPC Industrie (EPCIND)

₹ 170

### Maharashtra ban revocation bodes well...

EPC Industrie (EPC) in a latest press release has disclosed registration as a recognised micro-irrigation player in the state of Maharashtra for a period of 5 years (up to Sep 2022). The said order supersedes the ban imposed on the company dated July 2016 and now makes it eligible to participate in the state government administered micro irrigation subsidy scheme. EPC has also indicated a loss of sales for the company as well as industry in the month of July 2017 due to transition towards GST and pending pricing finalisation by various state governments.

#### Our take

The move is in tandem with the management guidance during the AGM held in July 2017. Given the Maharashtra's state government thrust on making drip irrigation mandatory for sugarcane cultivation in the state and the consequent incremental opportunity size (~₹ 9000 crore), the said order bodes well for the company. EPC will now be able to address this incremental opportunity given its stronghold in the state prior to imposition of ban. Maharashtra accounted for a significant share of revenues for EPC (amounting to ~15%).

#### Exhibit 1: Sugarcane opportunity Sizing (Maharashtra)

Particulars	Units	Amount
Total Area Under Sugarcane Cultivation in Maharashtra (A)	Lakh hectares	9.4
Existing area Under Drip Irrigation (B)	Lakh hectares	2.3
Potential/opportunity Size (C=A-B)	Lakh hectares	7.2
Cost incurred for drip irrigation (D)	₹ /hectare	125,000
<b>Total Opportunity Size (C*D/100)</b>	<b>₹ crore</b>	<b>8938</b>

Source: Company, ICICIdirect.com Research

#### Strong parentage (M&M); balance sheet strength to grow, retain BUY

We maintain our positive view on EPC given the strong parentage (M&M) and focus on quality driven product profile. We have maintained our estimates and continue to assign a BUY rating on the stock. We value EPC at ₹ 230, i.e. 2.2x MCap/sales on FY19E sales of ₹ 288 crore. Per se, EPC is a rare play on the MIS theme that can create wealth from a three to five-year perspective, given the trajectory of farmer awareness on MIS & subsequent capitalisation of opportunity by EPC.

Rating matrix		
Rating	:	Buy
Target	:	₹ 230
Target Period	:	12-18 months
Potential Upside	:	35%

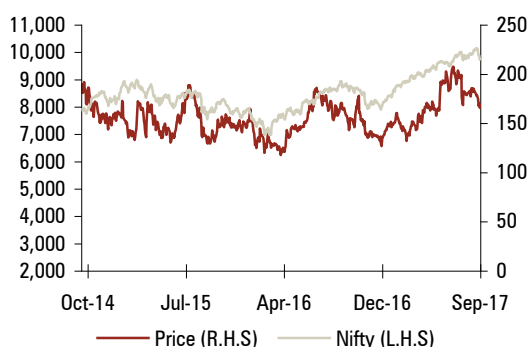
What's changed?	
Target	Unchanged
EPS FY18E	Unchanged
EPS FY19E	Unchanged
Rating	Unchanged

Key financials				
₹ Crore	FY16	FY17	FY18E	FY19E
Net Sales	202.5	201.7	242.1	288.1
EBITDA	11.7	12.4	21.8	28.8
Net Profit	9.2	9.8	13.4	18.4
EPS (₹)	3.3	3.5	4.8	6.7

Valuation summary				
	FY16	FY17	FY18E	FY19E
P/E	50.8	48.0	35.1	25.5
Target P/E	68.7	64.9	47.4	34.5
EV / EBITDA	38.1	36.6	20.3	14.8
P/BV	3.8	3.5	3.2	2.8
RoNW	7.5	7.3	9.1	11.1
RoCE	7.3	6.9	12.9	15.7

Stock data	
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Market Capitalization	₹ 469.9 Crore
Total Debt (FY17)	₹ 0.2 Crore
Cash and Investments (FY17)	₹ 17.3 Crore
EV	₹ 452.8 Crore
52 week H/L	215 / 122
Equity capital	₹ 27.6 Crore
Face value	₹ 10
MF Holding (%)	2.7
FII Holding (%)	0.0

#### Price Chart



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## ANALYST CERTIFICATION

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