Dalmia Securities Private Limited

Linde India Limited - Q2 CY18 Result Update

Linde India Ltd (Linde India), Q2 CY18 result were subdue with our estimate. Operational performance and the margins were down by 2.1% q-o-q and 40 bps q-o-q basis, while PAT was up by 98.9% q-o-q due to higher other income, lower depreciation & finance cost. With the improving fundamental, we hold positive stance on the company.

Subdue Standalone Revenue and Earnings growth – Linde India's revenue grew by 0.4% q-o-q to INR 551.62 cr due to flat growth in sales of Gases & Related product. Operating EBITDA stood at INR 83.62 cr, down by 2.1% q-o-q, and margin depressed by ~40 bps q-o-q due to rise in total expense. PBT was up by 58.3% q-o-q for the quarter and stood at INR 14.74 cr vs INR 9.31 cr in Q2 CY18. PAT was up by 98.9% q-o-q for the quarter and stood at INR 10.44 cr vs INR 5.25 cr in Q2 CY18.

Global Merger update between Linde AG and Praxair Inc – Recently, Linde AG & Praxair Inc merger receive long awaited approval form US Federal Trade Commission. So far, Linde AG & Praxair has disposed of more than $ 9 bn of the assets. This merger would create a new industrial giant with ~$27 billion in annual sales and a market capitalization of ~$90 billion with ~33% market share in industrial gases.

Following the global merger Competition Commission of India (CCI) asks Linde India & Praxair to sell some of their India assets. Further Linde India has decided to voluntarily delist its shares from the Indian bourses after the completion of global merger - the floor price for the delisting proposal is INR 428.5. The objective of the delisting offer is to obtain full ownership of equity shares of the company, which will provide the promoter group with the operational flexibility to support the company's business and future financing needs.

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, the combined entity would dominate globally & India in industrial gases market. We expect sales and Op. EBITDA to grow at a CAGR of 10.1% and 8.2% respectively, in CY16-CY19E. Linde is currently trading at an EV/EBITDA of 18.4x in CY18E and 16.9x CY19E. With the anticipated improvement in financial performance, we assign an EV/EBITDA multiple of 12x (5 years average EV/EBITDA of 16.7) in CY19E and arrive at a target price of INR 546, indicating a downside of 16%.

Financials : (Consolidated) (In INR Cr.)

	CY2015	CY2016	CY2017	CY2018 (E)	CY2019 (E)
Total Revenue	1,566.6	1,825.3	2,033.1	2,288.1	2,438.4
EBDITA	261.5	318.2	335.4	365.8	387.7
PAT	23.5	19.0	16.2	34.7	101.7
EPS	2.8	2.2	1.9	4.1	11.9
EV/EBITDA	17.6	14.0	14.2	18.4	16.9

Source - DSPL Research, Company

RATING: SELL

Target: 546
Upside: -16%
CMP : 652.75 (As on 15/11/2018)
Reuter Code : LIND.NS
Bloomberg Code : LIIL IN

Market Data	
Face Value (Rs)	10.00
Equity Share Capital (cr)	85.28
Share Outstanding (cr)	8.53
Market Cap (Rs cr)	5,566.91
Book Value / share	170.10
Daily Avj. Volume	11,78,802
52 W High	678.00
52 W Low	382.25
Shareholding	**%**
Promoter	75.00
Foreign	2.77
Institutions	13.71
Public & Others	8.52

Sensex and Stock Movement

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Particulars	Sep-18	Jun-18	Q-o-Q (%)	Sep-17	Y-o-Y (%)
Revenue from Operation	551.62	549.60	0.4%	506.95	8.8%
Cost of Material (incl. Change in Inv.)	107.59	95.49	12.7%	62.79	71.4%
Employee Benefit Expenses	37.16	32.20	15.4%	27.36	35.8%
Power & Fuel	214.26	236.35	-9.3%	240.99	-11.1%
Contract job expenses	12.36	11.21	10.3%	7.81	58.3%
Freight & transport	43.08	39.32	9.6%	42.46	1.4%
Other Expenses	53.56	49.65	7.9%	41.97	27.6%
Total Expenses	468.00	464.21	0.8%	423.38	10.5%
Op. EBITDA	83.62	85.39	-2.1%	83.57	0.1%
Op. EBITDA Margin	*15.16%*	*15.54%*	*-0.4%*	*16.49%*	*-1.3%*
Other Income	6.83	1.15	492.5%	1.73	294.9%
EBITDA	90.45	86.55	4.5%	85.30	6.0%
EBITDA Margin	*16.40%*	*15.75%*	*0.7%*	*16.83%*	*-0.4%*
Depreciation	50.12	51.16	-2.0%	49.02	2.2%
EBIT	40.33	35.38	14.0%	36.28	11.2%
EBIT Margin	*7.31%*	*6.44%*	*0.9%*	*7.16%*	*0.2%*
Finance Costs	25.59	26.07	-1.9%	28.60	-10.5%
PBT before Exceptional Items	14.74	9.31	58.3%	7.68	92.0%
PBT	14.74	9.31	58.3%	7.68	92.0%
PBT Margin	*2.67%*	*1.69%*	*1.0%*	*1.51%*	*1.2%*
Tax Expenses	4.31	4.07	5.9%	(2.56)	
PAT	10.44	5.25	98.9%	10.23	2.0%
PAT Margin	*1.89%*	*0.96%*	*0.9%*	*2.02%*	*-0.1%*
Other comprehensive income	0.23	1.16		(2.25)	
Total comprehensive income	10.67	6.41	66.4%	7.98	33.7%
Earnings Per Share					
Basic	1.22	0.62	98.9%	1.20	2.0%
Gross Profit	444.03	454.11	-2.2%	444.17	0.0%
Gross Profit Margin	*80.50%*	*82.63%*	*-2.1%*	*87.61%*	*-7.1%*

Source - DSPL Research, Company

Particulars	Sep-18	Jun-18	QoQ (%)	Sep-17	YoY (%)
Segment Revenue					
a) Gases & Related Products	458.41	455.43	0.7%	439.69	4.3%
b) Project Engineering	96.02	99.84	-3.8%	71.33	34.6%
Sub Total	554.43	555.27	-0.2%	511.02	8.5%
Less: Inter Segment Revenue	2.81	5.67	-50.5%	4.07	-31.1%
Total	551.62	549.60	0.4%	506.95	8.8%
Segment EBIT					
a) Gases & Related Products	49.22	38.21	28.8%	37.12	32.6%
b) Project Engineering	11.07	12.70	-12.8%	10.60	4.5%
Total	60.29	50.91	18.4%	47.71	26.4%
Less: Interest	25.59	26.07	-1.9%	28.60	-10.5%
PBT & Exceptional Item	34.70	24.84	39.7%	19.11	81.6%
Other Unallocable Expenditure	19.96	15.53	28.5%	11.43	74.5%
Other Unallocable Income	-	-		-	
PBT	14.74	9.31	58.3%	7.68	92.0%

Particulars	Sep-18	Jun-18	QoQ (%)	Aug-18	YoY (%)
Revenue Mix (%)					
Gases	82.7%	82.0%	-0.7%	86.0%	-3.4%
Engineering Product	17.3%	18.0%	0.7%	14.0%	3.4%

Particulars	Sep-18	Jun-18	QoQ (%)	Sep-17	YoY (%)
EBIT Margin					
Gases	10.7%	8.4%	-2.3%	8.4%	2.3%
Engineering Product	11.5%	12.7%	1.2%	14.9%	-3.3%

Source - DSPL Research, Company

Dalmia Securities Private Limited

Financials - Consolidated (in INR Cr.)

Profit & Loss Statement	CY2017	CY2018E	CY2019E
Net Sales	2,033.1	2,288.1	2,438.4
Raw Material Cost	273.2	297.4	307.2
Gross Profit	1,759.9	1,990.6	2,131.2
Employee Cost	116.5	137.6	146.3
Other Manufacturing Cost	393.3	1,510.1	1,621.6
Total Expenditure	782.9	1,945.2	2,075.1
Operating EBITDA	**1,250.1**	**342.9**	**363.3**
Op. EBITDA Margin (%)	*61.5%*	*15.0%*	*14.9%*
Other Income	7.8	22.9	24.4
Depererication	206.3	209.8	143.8
EBIT	**1,043.9**	**133.1**	**219.5**
EBIT Margin	*51.3%*	*5.8%*	*9.0%*
Finance Cost	116.5	104.0	91.5
Exceptional Item	0.8	-	-
PBT	**934.4**	**52.0**	**152.5**
Tax	(2.8)	17.3	50.8
PAT	**937.2**	**34.7**	**101.7**
Share O/S (in cr)	8.5	8.5	8.5
EPS (INR)	1.9	4.1	11.9
Cash EPS (INR)	26.1	28.7	28.8

Balance Sheet	CY2017	CY2018E	CY2019E
Share Capital	85.3	85.3	85.3
Reserves and Surplus	1,365.3	1,384.6	1,465.9
Shareholders Fund	**1,450.6**	**1,469.9**	**1,551.1**
Total Loan	931.8	831.8	731.8
Deferred Tax Liailities	92.2	92.2	92.2
Total Liabilities	**2,474.6**	**2,393.9**	**2,375.2**
Net Fixed Assets	**2,591.3**	**2,431.6**	**2,337.8**
Investments	**0.0**	**0.0**	**0.0**
Sundry Debtors	352.7	438.8	467.6
Cash & Bank	38.6	79.2	163.0
Loans & Advances	253.2	366.1	390.2
Inventories	68.3	84.6	90.2
Other Current Assets	87.4	251.7	268.2
Total Current Assets	**800.3**	**1,220.4**	**1,379.2**
Sundry Creditors	257.4	319.7	340.7
Provision	74.1	371.8	396.2
Other Current Liabilities	602.6	583.5	621.8
Total Current liabilities & Provision	**934.0**	**1,275.0**	**1,358.8**
Net Assets	**(133.7)**	**(54.6)**	**20.4**
Total Assets	**2,457.7**	**2,377.0**	**2,358.2**

Cashflow Statement	CY2017	CY2018E	CY2019E
PBT	**13.4**	**52.0**	**152.5**
Depreciation & Amortization	206.3	209.8	143.8
Finance Cost	116.16	103.97	91.47
Others	(0.8)	-	-
(Incr)/Decr in Working Capital	(77.6)	(38.6)	8.8
Tax Paid	(5.3)	(17.3)	(50.8)
Cash Flow from Operating	**252.1**	**309.9**	**345.7**
(Incr)/ Decr in Gross PP&E	(79.8)	(50.0)	(50.0)
Others	21.3	-	-
Cash Flow from Investing	**(58.5)**	**(50.0)**	**(50.0)**
(Decr)/Incr in Debt	(136.1)	(100.0)	(100.0)
Interest Paid	(117.3)	(104.0)	(91.5)
Others	-	-	-
Dividend Paid	(7.7)	(15.4)	(20.5)
Cash Flow from Financing	**(261.0)**	**(219.3)**	**(211.9)**
Incr/(Decr) in Balance Sheet Cash	(67.5)	40.5	83.8
Op Cash and cash equivalents	**105.7**	**38.2**	**78.8**
Other Bank Balance	0.4	0.4	0.4
Cl Cash and cash equivalents	**38.6**	**79.2**	**163.0**

Ratios Analysis	CY2017	CY2018E	CY2019E
Per Share Value			
EPS (Rs)	1.9	4.1	11.9
BVPS (Rs)	170.1	172.4	181.9
DPS (Rs)	1.0	1.5	2.0
Turnover Ratio			
Inventory Days	12	12	13
Debtors Days	64	63	68
Creditors Days	50	46	49
Cash Conversion Cycle	26	29	31
Asset Turnover Ratio	0.6	0.6	0.7
Profitabiliy Ratio			
EBITDA Margin	16.5%	16.0%	15.9%
PAT margin	0.8%	1.5%	4.2%
ROA	0.5%	0.9%	2.7%
ROE	1.1%	2.4%	6.7%
ROCE	13.2%	14.3%	15.3%
Solvency Ratio			
Debt / Equity Ratio	0.6	0.6	0.5
Current Ratio	0.7	0.8	0.9
Quick Ratio	0.6	0.7	0.8
Interest Coverage Ratio	1.1	1.5	2.7
Valuation Ratios			
PE (x)	232.4	160.5	54.7
P/B (x)	2.6	3.8	3.6
EV/EBITDA (x)	14.2	18.4	16.9
Mcap/Sales (x)	1.9	2.4	2.3
Earning Yield (%)	0.4%	0.6%	1.8%
Dividend Yield (%)	0.2%	0.2%	0.3%
Free Cash Flow Yield (%)	5.1%	4.7%	5.3%

Source - DSPL Research

DISCLOSURE

Investment Rating	Expected return (Over 1 year)
Buy	> 15%
Hold	> -10% to 15%
Sell	< -10%
Not Rated	We have forward looking estimates for the stock but we refrain from assigning recommendation

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Buy	> 5%
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