Investment Precision Castings (INVPRE)

CMP: ₹ 250 | Target: ₹ 220 (-12%) | Target Period: 12-18 months | REDUCE

April 30, 2019

Headwinds persist in near to medium term…

Investment Precision Castings (IPCL) reported a weak Q4FY19 performance with revenue, EBITDA and PAT recording de-growth of 9.2%, 14.0% and 19.6%, respectively, YoY. Amid sluggish automotive sales (i.e. passenger vehicles) impacting revenue growth, higher finance costs, other expenses led to lower profitability, despite being aided by a lower tax outgo. A slowdown in automotive demand and inability to scale up high value added products i.e. vacuum casting in the non-auto segment is expected to cast a shadow on IPCL's growth prospects in the near to medium term.

Slowdown in key automotive clients impacts performance

IPCL predominantly caters to auto OEMs. The company derives ~80% revenue from the automotive sector wherein it provides casting products such as gear shifter fork, pre combustion chamber, etc. Generally, revenue contribution by sub-segment involves passenger vehicles (40%), commercial vehicles (40%), two-wheelers and tractors contribute (20%). Maruti Suzuki is the company's largest client. A slowdown and uncertain growth among leading auto OEM manufacturers over the next two to three quarters is expected to impact IPCL also. We expect the company to clock revenue of ₹ 128 crore and ₹ 138 crore in FY20E and FY21E, respectively, implying growth of 7% CAGR over FY19-21E.

Delay in scale up of value add products to lower profitability

IPCL had set up fresh capacity of 400 tonnes per annum next to its existing plant with plans to scale up manufacturing of high value-add products through vacuum castings. These find application in medical implants, aerospace and defence. Under medical implants, the company provides knee joint and prosthetic assembly parts. The realisation profile of these niche value-added segments is more than ~3x the average realisation for the company. (~₹ 25-30 lakh per tonne). However, the company has been unable to make significant inroads into this segment. IPCL's ability to expand into this non-automotive segment was expected to offset margin pressure due to a slowdown in the automotive segment. Overall, EBITDA margins are expected at 17.6% by FY21E.

Valuation & Outlook

Despite superior realisation profile, lead times in production, precision involved in manufacturing investment castings; near term headwinds such as sluggish sales of OEM manufacturers, delay in scale up of niche value-add products and inflationary raw material price push are expected to mar IPCL's near to medium term performance. Factoring in these, we scale down our earnings as well as valuation multiples and arrive at a target of ₹ 220 valuing IPCL at 6.3x EV/EBITDA on FY21E EBITDA of ₹ 48.3/share and change our view to **REDUCE**.

Particulars

Particular	Amount
Market Capitalization	₹ 125 Crore
Total Debt (FY19)	₹ 52.9 Crore
Cash and Inv (FY19)	₹ 0.2 crore
EV (FY19)	₹ 177.7 Crore
52 week H/L (₹)	440 / 260
Equity capital	₹ 5 Crore
Face value	₹ 10

Key Highlights

- Delayed pickup in high value added products such as vacuum casting to lower profitability
- Growth is expected to suffer due to slowdown in key automotive clients
- Change our view to REDUCE with revised target price of ₹ 220

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Rohan Pinto
rohan.pinto@icicisecurities.com

Company Update

ICICI Securities – Retail Equity Research

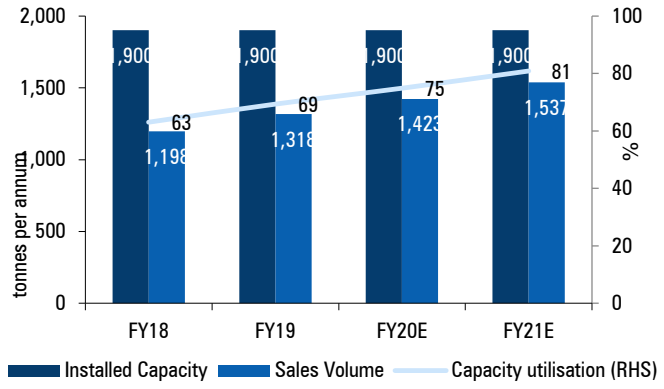
Key Financial Summary

Key Financials (₹ crore)	FY17	FY18	FY19	FY20E	FY21E	CAGR
Revenues	92	108	120	128	138	7%
EBITDA	15	21	20	22	24	10%
Net Profit	4	8	10	8	9	-2%
EPS (₹)	8	16	20	15	19	
P/E (x)	31.3	16.4	13.1	16.9	13.8	
Price / Book (x)	2.2	2.0	1.7	1.6	1.4	
EV/EBITDA (x)	10.6	8.0	9.2	7.9	7.2	
RoCE (%)	11.7	15.5	11.8	13.5	14.6	
RoE (%)	7.0	11.9	13.2	9.3	10.4	

Source: ICICI Direct Research, Company

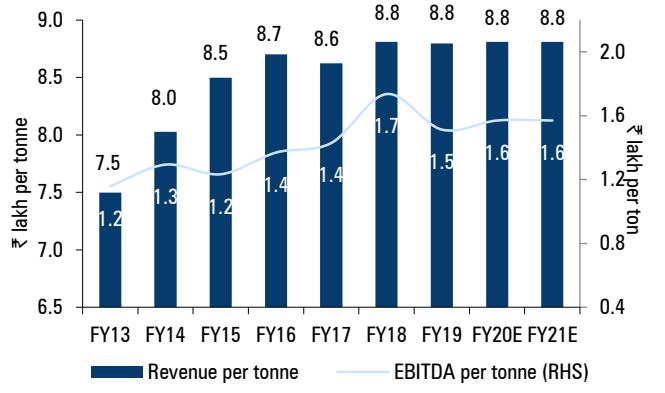
Key Metrics in Charts

Exhibit 1: Capacity, Sales volume and utilisation



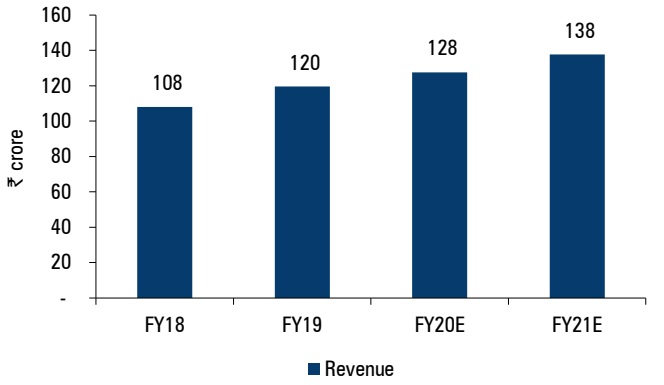
Source: Company, ICICI Direct Research

Exhibit 2: Realisation and profitability per tonne



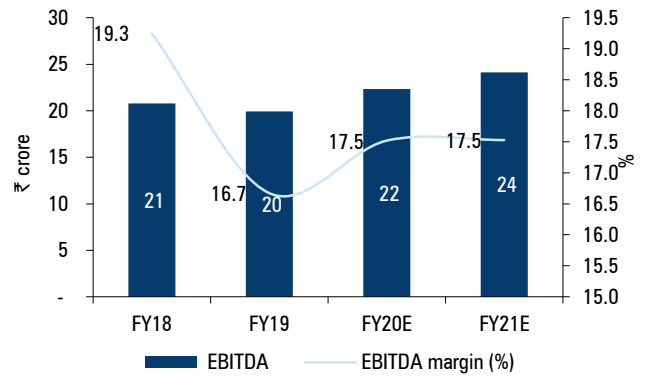
Source: Company, ICICI Direct Research

Exhibit 3: Revenue trend



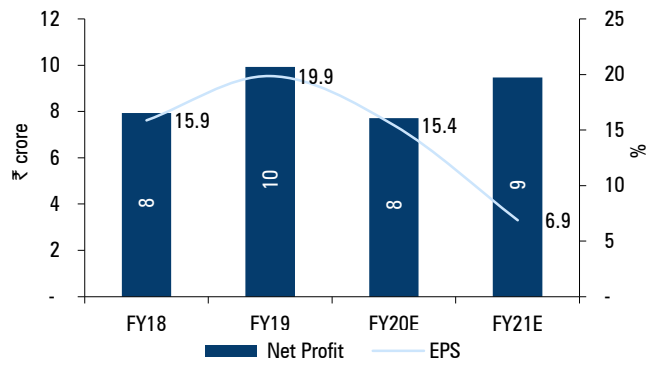
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA and EBITDA margin trend



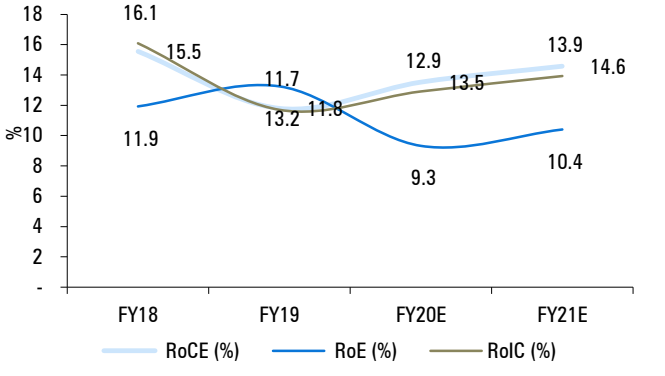
Source: Company, ICICI Direct Research

Exhibit 5: PAT and PAT margin trend



Source: Company, ICICI Direct Research

Exhibit 6: Return ratios profile



Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Name	Latest Date	O/S	Position	Position Change
1	Tamboli (Piyush Indulal)	31-12-2018	21.26%	1.06M	+0.48M
2	Meche Pvt. Ltd.	31-12-2018	16.19%	0.81M	0
3	Shah (Rekha N)	31-12-2018	10.00%	0.50M	0
4	Tamboli (Vishakha Piyush)	31-12-2018	6.26%	0.31M	0
5	Tamboli (Jainam P)	31-12-2018	5.92%	0.30M	0
6	Jain (Saurabh)	31-12-2018	1.50%	0.08M	0
7	Tamboli (Kavya Piyushbhai)	22-11-2018	0.19%	0.01M	+0.01M
8	Shah (Akshay R.)	09-10-2018	0.12%	0.01M	+0.01M

Source: Company, ICICI Direct Research

Exhibit 9: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Tamboli (Piyush Indulal)	+2.12M	+0.48M	NA		
Tamboli (Kavya Piyushbhai)	+0.04M	+0.01M			
Shah (Akshay R.)	+0.03M	+0.01M			

Source: Company, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	50.0	50.0	50.1	50.1	50.1
FII	0.0	0.0	0.0	0.0	0.0
DII	0.0	0.0	0.0	0.0	0.0
Others	50.0	50.0	50.0	49.9	49.9

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 11: Profit and loss statement (₹ Crore)

	FY18	FY19	FY20E	FY21E
Revenue	**107.6**	**118.7**	**126.6**	**136.8**
% Growth		*10.3*	*6.7*	*8.0*
Other income	0.4	0.9	0.9	0.9
Total Revenue	108.0	119.6	127.6	137.7
% Growth		*10.7*	*6.7*	*7.9*
Total Raw Material Costs	30.8	29.9	36.4	39.3
Employee Expenses	8.2	7.9	8.8	9.5
Other expense	47.8	61.0	59.16	63.9
Total Operating Expense	86.8	98.7	104.3	112.6
Operating Profit	**20.8**	**19.9**	**22.3**	**24.1**
% Growth		*(4.1)*	*12.1*	*8.0*
Interest	4.1	5.1	6.6	5.9
PBDT	17.1	15.7	16.7	19.1
Depreciation	5.1	6.2	6.0	6.0
PBT before Exceptional Ite	12.0	9.6	10.7	13.2
Total Tax	4.1	(0.4)	3.0	3.7
PAT before MI	7.9	9.9	7.7	9.5
Minority Interest	-	-	-	-
PAT	**7.9**	**9.9**	**7.7**	**9.5**
% Growth		*25.1*	*(22.3)*	*22.7*
EPS	15.9	19.9	15.4	18.9

Source: Company, ICICI Direct Research

Exhibit 12: Cash Flow Statement

	FY18	FY19	FY20E	FY21E
Profit after Tax	7.9	9.9	7.7	9.5
Depreciation	5.1	6.2	6.0	6.0
Interest	4.1	5.1	6.6	5.9
Cash Flow before WC chan	17.2	21.2	20.2	21.4
Changes in inventory	(3.2)	(11.8)	8.0	(1.9)
Changes in debtors	(4.7)	2.0	(6.9)	(2.2)
Changes in loans & Advanc	(1.1)	0.9	(1.2)	(0.2)
Changes in other current as	0.9	0.6	4.0	(0.5)
Net Increase in Current Ass	(8.1)	(8.2)	3.9	(4.7)
Changes in creditors	4.2	4.4	(2.5)	1.2
Changes in provisions	(0.1)	(0.2)	0.2	0.0
Net Inc in Current Liabilities	5.9	3.6	(2.1)	5.0
CF from Operations	**14.9**	**16.6**	**22.1**	**21.6**
Changes in deferred tax ass	-	-	-	-
(Purchase)/Sale of Fixed As	(20.5)	(22.8)	(10.0)	(10.0)
CF from Investing	**(19.5)**	**(25.9)**	**(10.0)**	**(10.0)**
Dividend and Dividend Tax	(1.4)	(1.2)	(1.2)	(1.2)
CF from Financing	**4.7**	**9.0**	**(11.4)**	**(12.1)**
Net Cash flow	0.1	(0.3)	0.7	(0.5)
Opening Cash/Cash Equival	0.6	0.7	0.4	1.1
Closing Cash/ Cash Equivale	0.7	0.4	1.1	0.5

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet

	FY18	FY19	FY20E	FY21E
Equity Capital	5.0	5.0	5.0	5.0
Reserve and Surplus	61.6	70.0	77.8	86.1
Total Shareholders funds	66.6	75.0	82.8	91.1
Total Debt	37.3	52.9	47.9	42.9
Total Liabilities	**108.9**	**132.3**	**135.0**	**138.3**
Gross Block	115.4	137.1	153.7	163.7
Acc: Depreciation	52.4	58.4	64.1	70.3
Net Block	63.0	78.7	89.6	93.4
Capital WIP	5.6	6.7	-	-
Total Fixed Assets	68.6	85.4	89.6	93.4
Non Current Assets	5.5	7.8	7.8	7.8
Inventory	20.3	32.1	24.1	26.0
Debtors	22.4	20.4	27.3	29.4
Loans and Advances	1.6	0.7	1.9	2.0
Other Current Assets	11.0	10.4	6.4	6.9
Cash	0.7	0.2	1.1	0.5
Total Current Assets	56.0	63.8	60.7	64.9
Current Liabilities	21.1	24.7	22.6	27.6
Provisions	0.3	0.4	0.4	0.4
Net Current Assets	34.9	39.1	38.1	37.3
Total Assets	**108.9**	**132.3**	**135.0**	**138.3**

Source: Company, ICICI Direct Research

Exhibit 14: Key Ratios

	FY18	FY19	FY20E	FY21E
Per Share Data				
EPS	15.9	19.9	15.4	18.9
BV	133.2	150.0	165.6	182.2
Dividend per share	2.5	2.0	2.0	2.0
Dividend payout ratio	15.7	10.1	13.0	10.6
Operating Ratios				
EBITDA Margin	19.3	16.7	17.5	17.5
PAT Margin	7.5	8.6	6.2	7.0
Return Ratios				
RoE	11.9	13.2	9.3	10.4
RoCE	15.5	11.8	13.5	14.6
RoIC	16.1	11.7	12.9	13.9
Valuation Ratios				
EV / EBITDA	7.8	8.9	7.7	6.9
P/E	15.7	12.6	16.2	13.2
EV / Net Sales	1.5	1.5	1.3	1.2
Sales / Equity	1.6	1.6	1.5	1.5
Market Cap / Sales	1.2	1.0	1.0	0.9
Price to Book Value	1.9	1.7	1.5	1.4
Turnover Ratios				
Asset turnover	1.0	1.0	1.0	1.1
Debtors Turnover Ratio	5.4	5.6	5.4	4.9
Creditors Turnover Ratio	9.5	7.6	7.7	8.6
Solvency Ratios				
Debt / Equity	0.6	0.7	0.6	0.5
Current Ratio	2.6	2.6	2.6	2.3
Quick Ratio	1.7	1.3	1.6	1.4

Source: Company, ICICI Direct Research

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Buy : >15%

Hold : -5% to 15%;

Reduce : -5% to -15%;

Sell : < -15%



Pankaj Pandey | **Head – Research** | **pankaj.pandey@icicisecurities.com**

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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