



Farsight

MORNING FARSIGHT

Tuesday, September 04, 2018

NELCAST

CMP:RS 84

TRGT:RS 100

TIME HORIZON: 1 YEAR

Nelcast, deriving more than 95% of its revenue from Domestic CV & Tractor segment, is a true hidden treasure which market will reward soon, with Promoter Stake of —75%, sectorial tailwind from domestic CV / Tractor up cycle (infra push, BSVI pre buying, scrappage policy, rural demand), PE of less than 15x, ongoing capacity expansion which will boost capacity by 50%, consistent strong earnings growth for past 5 quarters and rising revenue contribution from Railways for the company. Company is manufacturing wide variety of products for CV (Wheel Hubs, Brake Drums, Axle Housing, Shackles And Brackets), Tractors (Transmission Case, Centre Housing, Front Engine Support, Forward Differential Carrier, Rear Axle Housing And Hydraulic Lift Cover), Off-Highway/Army Vehicles (Axle Housing, Planetary Carrier, Differential Case), Steering Systems (Housing for Manual & Power Steering) and Railways (Ribbed plates and brake discs used in metro rail projects and railways), with current capacity of 150,000 TPA, at its two factories located near Ponneri, Tamil Nadu and Gudur, Andhra Pradesh. Currently, company is undertaking capacity expansion by 60,000 TPA, which will take effective capacity to 210,000 TPA. This coupled with strong demand environment for Domestic CV & Tractor Industry coupled with huge pre buying to be seen in FY20, augur well for the company. Further, given the adequate financial flexibility in the form of cash and liquid investments to the tune of Rs 55 cr, as on March 31, 2018, along with buffer on working-capital limits available (average utilisation of 62% during FY2018), Nelcast's liquidity position is expected to remain at comfortable levels in the medium term, despite ongoing capex. Current Market Cap of the company is at Rs 735 cr and EV at Rs675 cr, with FY18 income of Rs 764 cr (EV/Sales 0.9x) and EBITDA of Rs 76 cr (EV/EBITDA 8.9x) and EPS of Rs 4.4. Now, this is where things get interesting. For Q1FY19, company has already achieved an income of Rs 205 cr (up 36% YoY), EBITDA of Rs 21.2 cr (up 40%QoQ, 13 % YoY) and PAT of Rs 11.3 cr against Rs 7.7 cr YoY and Rs 9.8 cr QoQ, a growth of 47%YoY and 15%QoQ, leading to an EPS of Rs 1.31for Q1FY19. We estimate FY19 Income at Rs 830 cr, EBITDA of Rs 90 cr (EV/EBITDA 7.5x) and EPS of Rs 5.5 (PE 15x). Further, given capacity expansion will get completed by Q4FY19 and will start contributing from Q1FY20, coupled with BS V1 related pre buying in FY20, company can easily cross EBITDA of Rs 110 cr in FY20, which can raise current M Cap to more than Rs 1,000 cr. Share looks quite undervalued and this is why promoters are holding big chunk (75%), as stock looks ripe to hit century and build further gains in the coming months, as company also enjoys strong credit rating of ICRA A+/A1+ on Long-term/Short-term Fund-based Limits. Share now ruling at Rs 84 can move to Rs 100 in 1 year.

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Disclosure of interest statement – • Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.