



Farsight

MORNING FARSIGHT

Wednesday, May 23, 2018

KIRLOSKAR BROTHERS

CMP:Rs 272

TRGT:Rs 300

TIME HORIZON: 3 MTHS

Kirloskar Brothers, the largest pump manufacturer in India, with 14% market share in the domestic organized pump industry, catering to the oil and gas, defense and marine, water resource management, irrigation, power, distribution, and construction sectors, has posted good Q4FY18 earnings, with PAT of Rs 32.5 cr against Rs 9.1 cr QoQ and Rs 16.9 cr YoY, a growth of 261%QoQ and 192% YoY, leading to an EPS of Rs 4.09 for Q4FY18, on standalone basis. On consolidated basis, for full year FY18, company has achieved an income of Rs 279 cr (+ 4%), EBITDA of Rs 172 cr against Rs 125 cr (+38%) with EBITDA margin of 6.3% and PAT of Rs 50 cr against Rs 3.5 cr YoY, leading to an EPS of Rs 6.22. Company is having strong balance-sheet with Net Debt to Equity of just — 0.25x. The company engineers and manufactures pumps (industrial, agriculture and domestic), valves and hydro turbines. It also undertakes turnkey projects in large irrigation and infra projects involving design/system engineering, product supply and site erection, besides various other services involved in a large project. FY18 has been a turnaround year for the company, as it is benefiting significantly from governments policy push on affordable housing and irrigation. Moreover, in the domestic business, it has prudently realigned focus on the high-margin products business, from the loss-making projects business. Sustained investments in capacities, strong R&D capabilities, large distribution network and brand building are bound to propel the products business. Additionally, sharpening focus on the products business and waning exposure to the projects business will boost profitability, deleverage the balance sheet and improve cash flows in the domestic operation. In the international business, the company has pruned exposure to the beleaguered offshore oil business to below 25% of turnover and is diversifying into various industries and geographies, insulating itself from single segment/ geography risk. Stock is having M Cap of Rs 2,150 cr and an EV of Rs 2,400 cr, leading to an EV/EBITDA of 14x on historic basis, against 17x for Shakti Pumps, with annual EBITDA of near Rs 70 cr, and 22x for KSB Pumps with annual EBITDA of near Rs 131cr for CY18 estimated. On an estimated EBITDA of Rs 220 cr for FY19, stock is trading at an EV/EBITDA of 10.9x, which is not expensive, given behemoth presence and market leadership of Kirloskar Brothers. Share ruling at Rs 272 can move to Rs 300 in the next 3 months. Buy

DISCLAIMER: This is solely for information of clients of Farsight Securities Ltd. and does not construe to be an investment advice. It is also not intended as an offer or solicitation for the purchase and sale of any financial instruments. Any action taken by you on the basis of the information contained herein is your responsibility alone and Farsight Securities Ltd. its subsidiaries or its employees or associates will not be liable in any manner for the consequences of such action taken by you. We have exercised due diligence in checking the correctness and authenticity of the information contained in this recommendation, but Farsight Securities Ltd. or any of its subsidiaries or associates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this recommendation or any action taken on basis of this information. Technical analysis studies market psychology, price patterns and volume levels is used to forecast future price and market movements. Technical analysis is complementary to fundamental analysis and news sources. The recommendations issued herewith might be contrary to recommendations issued by Farsight Securities Ltd. in the company research undertaken as the recommendations stated in this report is derived purely from technical analysis. Farsight Securities Ltd. has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; Farsight Securities Ltd. makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. The opinions contained within the report are based upon publicly available information at the time of publication and are subject to change without notice. The information and any disclosures provided herein are in summary form and have been prepared for informational purposes. The recommendations and suggested price levels are intended purely for trading purposes. The recommendations are valid for the day of the report however trading trends and volumes might vary substantially on an intraday basis and the recommendations may be subject to change. The information and any disclosures provided herein may be considered confidential. Any use, distribution, modification, copying, forwarding or disclosure by any person is strictly prohibited. The information and any disclosures provided herein do not constitute a solicitation or offer to purchase or sell any security or other financial product or instrument. The current performance may be unaudited. Past performance does not guarantee future returns. There can be no assurance that investments will achieve any targeted rates of return, and there is no guarantee against the loss of your entire investment.

POTENTIAL CONFLICT OF INTEREST DISCLOSURE (as on date of report)

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