



COMPANY NAME	: Elantas Beck India
BSE Code	: 500123
Time Duration	: 1 year
CMP	: ₹1619 (as on 17 Aug., 2016)
Target Price	: ₹2048

The Mid-cap for the month of August is Elantas Beck India, a company backed by its strong parent ALTANA Group, and has consistently delivered ROE of above 25 for last three years. It is a market leader in electrical insulation and will get a major push from the government's spending in infrastructure and power. The company is currently trading at a TTM P/E of 26x, which is attractive considering the premium margins it enjoys in a difficult macro environment.

**Electrical Insulation:** Company derives 80% of revenue from this segment; and enjoys 38.4% market share in primary insulation segment and 41.1% market share in secondary insulation segment. Under primary insulation product line it manufactures enameled wires with applications in transportation, automotive, white goods, consumer goods, HVAC, motors & transformers, power generation & distribution, lighting and aerospace/ defence. Secondary insulation or impregnation involves replacing air trapped inside the wire windings with insulation material. It is used in manufacturing motors and transformers, used in industrial drives, power generation & distribution, automobiles, HVAC, lightning, etc. It has ventured into motor repair, which is a high growth aftermarket. There is a direct correlation of the company's performance with the demand off take in power, auto and defence and development of Smart Cities.

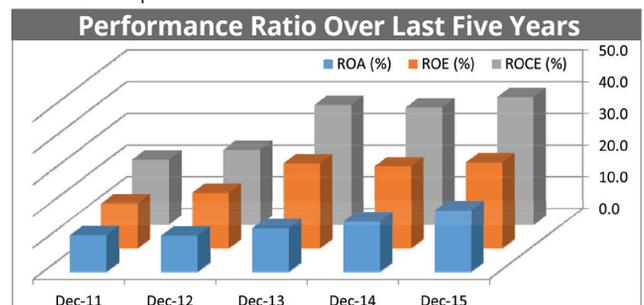
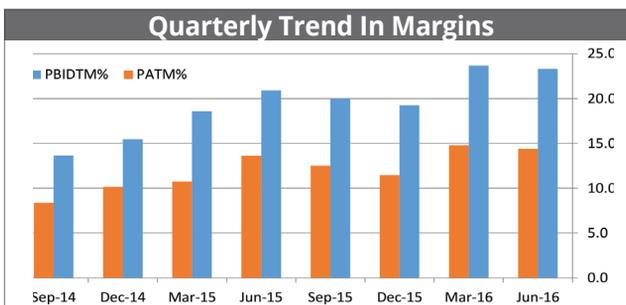
**Electronics & Engineering Materials (E & EM):** This segment contributes 14.7% to the revenues and has witnessed volume growth of 6.3% in FY15 (ending in December). E & EM can be broadly classified into - resins & coating compounds and construction chemicals with applications in electronics, auto electricals, high voltage castings and amorphous core bonding in transformers. In this segment, the company is trying to grow its presence from the current 15% market share.

**New products:** Company is looking to lead the market by introducing new products to address unique industry needs. Company has forayed into motor repair segment recently and caters to companies that overhaul and repair fans, industrial pumps, and water pumps – a steadily growing market in India. Company is also targeting polyamide based cutting agents that are used in paints, coatings and varnishes. Thirdly, company is looking at flexible insulating materials which are used in stators and rotors.

**Manufacturing facilities:** Company has manufacturing plants located at Pimpri, Pune in Maharashtra and Ankleshwar in Gujarat with manufacturing capacities of 7,400 and 16,820 MT each. The key raw materials are largely polymer precursors (MDA, TMA, MDI) and solvents (cresol, phenol, NMP) for resin synthesis which comprise ~77% of the cost. Important suppliers are BASF, Merisol, Dow Chemical, etc. Through flexible pricing strategies EBIL managed to stabilize margins during recent raw material price fluctuations. The softening of prices helps the company to improve margins; however, realisations also take a hit. Softening of Crude prices also helps it to improve margins.

**Financials:** The company has seen a substantial pick-up in demand in the last two quarters of the year FY16 with growth of above 5% vs the flattish growth over the last three years. There is pick up in volumes by 5% YoY in electrical insulation and by double digits in E&EM segment in FY16. However, realisations have been under pressure and the scenario is likely to stabilise by early FY17.

On a quarterly basis, EBITDA margin has also improved in June 2016 to 21% vs 19% YoY. Also, we can see an improving trend in the net profit margin due to softer raw material prices. Net profit margin has also shown improvement and touched 14%+ vs 11% in Dec 2016 quarter.



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Also, the performance parameters like ROE, ROA and RoCE have improved over the last three years. RoCE has consistently been above 35% for last three years. We believe that with expected growth in topline by 10% in FY17 and better margins, RoCE will improve further. Additionally, the company is debt free which is a reassuring factor and will help company to tide over any weakness in demand.

**Valuation:** The company is currently trading at 26 P/E with TTM EPS of 60.59, which is reasonable considering the highs of 76x company has seen earlier. Also, we see that company is entering a growth phase with niche offerings for catering to growth in infrastructure and power sectors. We see an upside of 28% from current level to reach target price of Rs 2048 over a year.

Inc/Exp Statement(Standalone) (Rs in Crore)					
Description	Dec - 15	Dec - 14	Dec - 13	Dec - 12	Dec - 11
Net Sales	344.16	341.45	304.32	274.46	268.97
Total Income	349.77	349.92	315.23	285.17	275.00
Total Expenditure	281.90	299.30	265.06	243.30	234.00
PBIDT	67.87	50.63	50.16	41.87	41.01
PAT	41.76	31.61	31.75	27.58	24.74
Dividend %	50.00	45.00	550.00	920.00	45.00
Adj. EPS(Rs)	52.67	39.87	40.05	34.78	31.20

Quarter On Quarter (Standalone) (Rs in Crore)					
Particulars	June-16	Mar-16	Q on Q Var%	June-15	Y on Y Var%
Net Sales	97.34	90.80	7.21	92.41	5.34
Total Expenditure	76.73	70.92	8.19	74.68	2.75
PBIDT (Excl OI)	20.93	20.18	3.72	18.10	15.67
PAT	14.06	13.49	4.23	12.63	11.32
PBIDTM% (Excl OI)	21.43	22.15	-3.25	19.50	9.90
PBIDTM%	23.29	23.67	-1.61	20.91	11.38
PATM%	14.39	14.80	-2.77	13.61	5.73
Adj. EPS(Rs)	17.73	17.01	4.23	15.93	11.30