

WPIL Ltd

CMP : ₹949.60

Target price: ₹1500

HP* : Upto 3 years

Our Vriddhi Pick for the month of September is WPIL Ltd. WPIL, formerly known as Worthington Pump India Ltd, mainly operates in the business of water handling. The company supplies pumps for turnkey project execution. The company has expertise in designing, developing, manufacturing, erecting, commissioning and servicing of pumps and pumping systems required for lift irrigation/major irrigation schemes, thermal/nuclear power plants, etc.

The company operates through three key divisions, viz., engineered pump division, conventional pump division and turnkey solution. The company also has presence in overseas with manufacturing facilities in the United Kingdom, Italy, France, Switzerland, South Africa, Zambia, Australia and Thailand through its group companies.

Closure of loss-making Mathers Foundries to aid profitability

In July 2017, the company closed its operations at Mathers, UK, on the back of continued downturn in the offshore oil market. Thus, we believe closure of Mathers foundry is likely to lead to improvement in the company's consolidated performance.

Continuously focusing on innovative products

The company is consistently trying to upgrade its products to the latest technology, and for this, it continuously spends on research and development. Recently, the company has developed new journal bearing housing assembly, pad type for large vertical volute pumps and design enhancement of large flow (18000 m³/hr to 22000 m³/hr), low head (3 m to 4 m) propeller submersible pump for irrigation application.

Healthy orders in hand

At the end of June 2018, the company's order stood at Rs 1000 crore, which provides good revenue visibility for the next 18 to 24 months. The subsidiaries' order books amounted to Rs 800 crore, which provides revenue assurance for around 24 months. We believe with strong execution in FY19E and FY20E, the company's bottomline is likely to improve significantly.

Investment rationales

Over the last few years, WPIL's subsidiary Mathers Foundry has been posting losses due to subdued order book in oil and gas. Thus, the company's decision to shut down Mathers Foundry is likely to have positive impact on the company's consolidated statement. Mathers Foundry's share in consolidated financial for FY18 was net loss of Rs 24.43 crore. Thus, with

*HP : Holding Period

Company Details

Industry	Compressors / Pumps
Chairman Managing Director	P Agarwal
Company Secretary	U Chakravarty
ISIN	INE765D01014
Bloomberg Code	WPI IN
BSE Code	505872

Key Market Indicators (Standalone)

Latest Date	12-Sep-2018
Latest Price (Rs)	904.70
Previous Close (Rs)	886.95
1 Day Price Var%	2.00
1 Year Price Var%	76.87
52 Week High (Rs)	960.00
52 Week Low (Rs)	465.00
Beta	1.71
Face Value (Rs)	10.00
Industry PE	28.09
TTM Period	201806
TTM EPS(Rs)	68.00
TTM CEPS(Rs)	71.26
Price/TTM CEPS(x)	12.70
TTM PE (x)	13.30
Price/BV(x)	2.74
EV/TTM EBITDA(x)	8.32
EV/TTM Sales(x)	1.92
Dividend Yield%	0.44
MCap/TTM Sales(x)	1.80
Latest Book Value (Rs)	330.41
Market Cap (Rs. In Crores)	883.63
EV (Rs. In Crores)	943.17
Latest no. of shares (In Crores)	0.98

Share Holding Pattern as on 201806

Promoter No of shares (In Crores)	0.67
Promoter %	68.80
FII No of Shares (In Crores)	0.00
FII %	0.00
Total No of Shares (In Crores)	0.98
Free Float %	31.20

CONFIDENTIALITY NOTICE : Information contained in this report is intended for the subscribers of this product only. Unauthorized forwarding, printing, copying, distribution, or using the information in a searchable, machine-readable database is strictly prohibited and may be unlawful. **Disclaimer**: The recommendations are purely a view point and there is no guarantee on the returns. Hence all the clients (paid or unpaid) are requested to apply their prudence before acting on any of the recommendations. Neither DSJ Pvt Ltd nor any of its promoters, members, or employees shall be held responsible for any losses incurred (if any) by acting on the recommendations. Disclosure : Kindly refer to the detailed disclosures as per SEBI (investment advisors) regulations, 2013 placed at www.DSJI.in

DSJ Pvt. Ltd. : C - 305, Trade Center, North Main Road, Near Axis Bank, Opp. Lane no. 6, Koregaon Park, Pune - 411001 | For Customer Service : 020-49072626 OR service@dsji.in

Registered Office Address: 419-A, 4th Floor, Arun Chambers, Tardeo, Next to AC Market, Mumbai - 400034

CIN No. : CIN-U22120MH2003PTC139276 SEBI Registration No: INA000001142

DSJI INVESTMENT ADVISORY UNIT (CRU)

the closure of this loss-making unit, we expect the company's consolidated bottomline to improve going forward. After completing all closure formalities, WPIL is now exploring opportunities to monetise its assets, which will help the company to generate some cash. The company expects to cross USD 48-50 million sales in the next two years from its step-down subsidiary Gruppo Aturia and generate 10 per cent margins. Therefore, we expect WPIL's consolidated earnings would significantly improve in the years to come. Further, the government's impetus to irrigation sector is likely to create enormous opportunity for players like WPIL.

Besides, the company's healthy order book provides good revenue visibility for the next few quarters. In addition to this healthy order book, the government's increasing spending on irrigation and infrastructure projects is likely to fuel growth of players like WPIL. We believe WPIL is well-poised to reap benefits arising in the industry. Further, going forward, it is eyeing to cement its position in the various geographies and markets in which it operates.

In FY18, the company has acquired alloy and stainless-steel casting foundry in Nagpur, which would enable WPIL in its backward integration for producing pumps.

The company is actively leveraging technology and innovation for innovative products, which indicates that WPIL is committed to remaining competitive in the market. Further, it is also in the process of designing and developing high performance models, which will add to the range of HSC pumps. The company would also install new CNC machines to enhance manufacturing capability of pump components in large numbers. The new plant layout for machining and assembly of pumps will enhance productivity.

Risk

WPIL is engaged in a business which requires high levels working capital. It receives 10-15 per cent of the contract value on finalisation of design, 50-60 per cent on delivery of pump and the balance on successful erection and commissioning. However, the major buyers withhold a percentage (generally 10-15 per cent) of the contract price as retention money, and the same is paid after six to 12 months after completion of the contract. Thus, any delay in execution can lead to strain on the balance sheet.

Valuations and outlook

In terms of valuation, the stock of WPIL is currently available at P/E multiple of 13.4x on TTM earnings, which looks attractive when we compare it with its five-year median P/E of 22.8x. Also, the return ratios such as ROE and ROCE stand at comfortable levels of 13 per cent and 18.3 per cent, respectively. The company's D/E also stands at a comfortable 0.21x. We believe the company's strong position in the pump division, healthy order book, continues investment in R&D and efforts of various state governments to provide a boost to the irrigation sector augurs well for WPIL. Considering all these aspects, we have arrived at a target price of Rs 1500, which gives potential upside of around 58 per cent.

“ **Increase in promoters' stake from 64.08% in Dec 2017 to 68.8% in June 2018 is an icing on the cake.** ”

“ **Closure of loss-making entity to boost profitability** ”

“ **Continuous spending on R&D indicates management's commitment to remain competitive** ”

Company Name	PAT Margin (%)	ROA (%)	ROE (%)	ROCE (%)	P/B (x)	TTM PE (x)
WPIL	11.26	8.64	15.93	26.87	1.67	13.30
Kirloskar Brothers	3.42	3.17	7.32	11.72	2.73	26.00
KSB Pumps*	7.16	6.57	10.21	15.48	4.66	36.80
Shakti Pumps (India)	6.56	6.04	10.88	20.94	4.03	21.50

All data on standalone basis *Data as on CY17
 Source: Dion Global

Financial

Over the past 10 years the company has exhibited impressive net profit growth of 21.4 per cent CAGR. Its revenue has grown at a 11.5 per cent CAGR during the same period. Besides, WPIL started FY19 with stellar performance in the first quarter. The company's sales for Q1FY19 surged almost 88 per cent to Rs. 142.5 crore from the corresponding quarter of the last year. Also, PBITD for the period soared almost 417 per cent YoY to Rs 35.44 crore. Notably, the company's net profit for the quarter jumped to almost Rs 24.2 crore from Rs. 5.32 crore in the corresponding quarter of the last fiscal.

On a full year (FY2017-18) basis, the company's consolidated revenue from operation was Rs 846.9 crore, as against Rs 716.4 crore in FY17, representing a growth of 18.2 per cent YoY. Remarkably, the company managed to turn around its bottomline from a loss of Rs 1.9 crore in FY17 to net profit of Rs 35.7 crore in FY18. The company has cost escalation clauses in most of its contracts for supply of engineered pumps and execution of EPC contracts, which would help the company to sustain its margin going forward.

Over the years, the company's margins have been improving continuously, which can be seen from the table below:

Margin Ratios							
	Mar-18	Mar-17	Mar-16	Mar-15	Mar-14	Mar-13	Mar-12
PBITDM (%)	13.41	7.96	8.04	13.6	16.02	18.18	13.43
EBITM (%)	10.79	4.93	4.42	12.14	14.72	16.88	12.8

Source: Ace Equity

The increase in promoters' stake from 64.08 per cent in Dec 2017 to 68.8 per cent in June 2018 is an icing on the cake. Considering all these factors, we urge our investors to **BUY** this scrip.

Inc/Exp Statement(Standalone) (Rs in Crore)					
Description	201803	201703	201603	201503	201403
Net Sales	422.05	279.80	212.10	233.03	264.60
Total Income	441.37	288.21	218.36	238.89	271.00
Total Expenditure	356.60	242.65	183.51	200.00	227.02
PBITD	84.77	45.55	34.85	38.89	43.98
PAT	47.56	20.28	17.18	16.84	17.17
Dividend %	40.00	20.00	20.00	20.00	20.00
Adj. EPS(Rs)	48.69	20.76	17.59	17.24	21.56



Elevated oil and gas prices to aid company's topline



Government's impetus for irrigation sector bodes well for players like WPIL



Available at discount despite above industry average return ratios

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201806	201803	Q on Q Var%	201706	Y on Y Var%
Net Sales	142.46	174.15	-18.20	75.77	88.00
Total Expenditure	107.02	129.85	-17.58	68.92	55.27
PBIDT (Excl OI)	35.44	44.31	-20.01	6.85	417.13
PAT	24.18	33.59	-28.01	5.32	354.42
PBIDTM% (Excl OI)	24.88	25.44	-2.20	9.04	175.22
PBIDTM%	28.36	29.95	-5.31	15.55	82.38
PATM%	16.98	19.29	-11.98	7.02	141.88
Adj. EPS(Rs)	24.76	34.39	-28.00	5.45	354.31

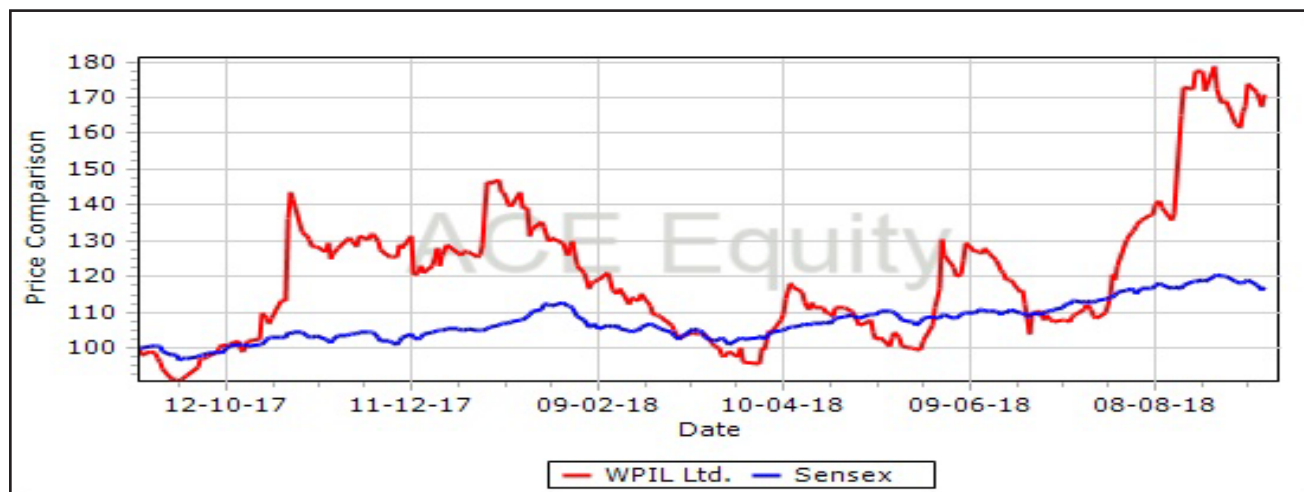
Investing in the company

We urge our investors to enter the stock in a staggered manner and accumulate as per the below table.

Price	Accumulation
920-930	50%
900-908	30%
868-876	20%

About the company

WPIL Limited was incorporated in the year 1952 as Johnston Pumps India. Since then, the company has earned expertise in design, development, manufacturing, marketing, installation and servicing of complete range of centrifugal pumps required for lift irrigation/major irrigation schemes, thermal/nuclear power plants, etc. The company enjoys around 20 per cent market share (for 2017) in domestic conventional/engineered pumps in power, irrigation, city and industrial segments. The company's three major divisions are engineered pump division (EPD), conventional pump division (CPD) and turnkey solution. The EPD offers specialised water handling solution to conventional power generation, nuclear power solutions and other industrial sectors. The division is based in Kolkata and has three plants with manufacturing area of 20,000 M². The CPD caters to standard pumps that are largely utilised in the irrigation and water treatment systems. The division is located near Delhi which has a manufacturing area of 15,000 M². It is the only manufacturer of large submersible sea water lift pumps in India with capacity up to 1500 KW. In turnkey solution division, the company provides complete solution from concept to commissioning in the field of water handling, covering the complete domain of hydraulic/civil/mechanical/electrical and instrumentation engineering.



**Track calls using our new investor app