

Cimmco Ltd.

₹ 40

Sick - No More!**Accumulate**

Oct 17, 2014

Company Background

Cimmco Ltd. (Cimmco) has primarily been since 1957 in the business of Railway Wagons and Heavy Engineering Projects / Products at Bharatpur (Rajasthan). The Company has an installed capacity for manufacturing of wagons, coaches, underframe 2240 Vehicular Units (VUs) and Industrial Machinery 14200 MT per annum and comes under a large Industrial Unit. The use of finished products like wagon is made for transportation of freight traffic by Indian Railways across India and close circuit transportation by some Industrial users like Thermal Power Projects. So far as Industrial Machinery is concerned it caters to Greenfield projects as well as replacement requirements in various Industrial segments viz. Cement, Fertiliser, Chemicals & Steel plants etc.

Key Highlights

- ➔ Cimmco has the largest Wagon manufacturing in the Private Sector with an install capacity of 5600 Four Wheel Units per annum. It manufactures and supplies Wagons to Indian Railways, Super Thermal Power Plants, Fertilizers, Cement & Steel Plants, Coal Mines etc. Cimmco has always pushed innovation by developing special carriage wagons like Bottom Discharge Coal Wagons for Power Houses and Bulk Cement Carrying Wagons besides Other Speciality Wagons like Tank carriers for transporting Liquefied Petroleum Gas, Liquid Ammonia, Phosphoric Acid etc.
- ➔ Cimmco has very less debt and the management has indicated that a major portion of it would be retired by INR 500 mn preferential capital that has been subscribed. Cimmco is a very asset rich company and it is difficult to create this kind of an infrastructure today. It has around 200 acres of plant area in the National Capital Region.
- ➔ Cimmco was declared a sick unit by the BIFR since 2002. However, it is looking to rehabilitate itself and restart operations. Titagarh Wagons has proposed to acquire CIMMCO for Rs 350 million. Titagarh Wagons and JP Morgan together had acquired a portion of the total outstanding secured debt of Cimmco & have stepped up their efforts to prepare the revival scheme, which will involve restructuring of borrowings & other liabilities of Cimmco.

Key Financials

Year Ended 31 st	Mar 12	Mar 13	Mar 14
Revenue (INR mn)	2,368.4	1,051.4	1,307.1
Rev. growth (%)	99.29	(55.61)	24.32
EBITDA (INR mn)	493.6	23.6	31.2
Net profit (INR mn)	41.9	(100.0)	(123.9)
Shares outstanding (mn)	20.2	20.2	20.2
EPS (INR)	2.1	(5.0)	(6.1)
EPS growth (%)	(61.70)	(338.66)	23.90
P/E (x)	28.2	(4.4)	(2.3)
RONW (%)	7.0	(40.4)	(1.8)
ROCE (%)	1.4	(9.7)	(0.4)

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Info Codes

Reuters	: CIMM.BO
Bloomberg	: CIMCO@IN
NSE	: CIMMCO
BSE	: 505230

Market Data

52 Wk Range (₹)	: 13 / 56
Shares in Issue (mn)	: 20.2
Mkt. Cap (₹ bn)	: 0.81
2Wk Avg. Qty	: 1769

Shareholding

Promoters	: 74.92
FII's	: 0.00
DII's	: 4.81
Others	: 20.27

Investment Theme

Cimmco may be a sick unit however it has the best infrastructure amongst all the Wagon manufacturing companies in the Private Sector. This is the reason that Titagarh wanted to make Cimmco its subsidiary. Looking at the rich assets that Cimmco holds including a 200 Acre landbank in the Delhi NCR region, the largest wagon manufacturing capacity, etc. Titagarh has planned to invest INR 640 mn via the optionally fully convertible debenture (OFCD) route, INR 500 mn for preferential allotment of shares & INR 80 mn to make Cimmco its subsidiary. It has already announced an open offer of INR 15.50 for it. We feel this equity infusion would help Cimmco relinquish its debts and start functioning fully. This would be a boon for the company which already had severe problems servicing its debts. In a year from now we feel the status of Cimmco would be a respectable one.

Banned Wagon turns Band Wagon!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 12	Mar 13	% Chg	Mar 14	% Chg
Total Sales + Excise	2396.3	1045.7	(56.36)	1338.6	28.01
Other Income	32.0	34.3	7.19	(117.3)	(441.98)
Change in Stocks	(92.5)	27.4	(129.62)	(77.9)	(384.31)
Raw Material Con.	1555.3	885.6	(43.06)	894.8	1.04
Employee Exp.	33.8	37.4	10.65	34.5	(7.75)
Indirect Taxes	63.6	29.1	(54.25)	39.5	35.74
Other Exp.	189.5	131.7	(30.50)	143.4	8.88
Operating Exp.	1934.7	1056.4	(45.40)	1190.1	12.66
Operating Profit	461.6	(10.7)	(102.32)	148.5	(1487.85)
Total Interest	130.3	102.3	(21.49)	92.2	(9.87)
Gross Profit	363.3	(78.7)	(121.66)	(61.0)	(22.49)
Net Dep.	283.0	17.2	(93.92)	19.0	10.47
Total Taxation	38.4	4.1	(89.32)	43.9	970.73
Net Profit/Loss	41.9	(100.0)	(338.66)	(123.9)	23.90

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 11	Mar 12	Mar 13	Mar 14
SOURCES OF FUNDS	1,966.5	1,438.0	1,179.1	921.0
Equity Share capital	201.5	201.5	201.5	201.5
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	120.9	162.8	62.8	(61.2)
Long Term Loans	1,481.9	757.5	757.6	504.0
Short Term Loans	162.2	316.2	157.2	276.7
USES OF FUNDS	1,966.5	1,438.0	1,179.1	921.0
Gross Block	2,195.3	2,209.1	2,230.3	2,261.9
Less : Revaluation Reserves	1,464.6	1,453.3	1,441.9	1,430.6
Less : Accumulated Depreciation	471.7	499.6	527.1	551.0
Net Block	259.0	256.2	261.3	280.3
Capital Work in Progress	31.1	26.5	25.4	1.6
Investments	0.0	0.0	0.0	0.0
Current Assets	2,609.2	1,355.9	1,207.8	892.1
Less : Current Liabilities	932.8	200.6	315.4	253.0
Total Net Current Assets	1,676.4	1,155.3	892.4	639.1
Misc. Expenses not written	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	0.0	0.0	0.0	0.0
Mkt Val. Quoted Investments	0.0	0.0	0.0	0.0
Contingent Liabilities	1,786.1	2,001.6	1,336.3	1,476.6
Dividend (%)	0	0	0	0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Sep 13	Dec 13	Mar 14	Jun 14
Net Sales	271.8	459.3	515.8	39.9
Cost Of Sales	265.3	422.2	400.9	67.7
Operating Profit	6.5	37.1	114.9	(27.8)
Recurring Income	0.2	0.2	5.2	21.5
Adjusted PBDIT	6.7	37.3	120.1	(6.3)
Financial Expenses	21.2	18.3	12.7	25.9
Depreciation	2.7	3.4	2.3	7.1
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	(17.2)	15.6	105.1	(39.3)
Tax Charges	(47.9)	7.1	104.6	0.0
Adjusted PAT	30.7	8.5	0.5	(39.3)
Non Recurring Items	(125.0)	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	(94.3)	8.5	0.5	(39.3)

52 Week Index Relative Percentage Appreciation



Cimmco vs SENSEX

Risks Associated

- Uncertainty as to timely availability of Raw Materials & Components is one of the major Challenges for the Wagon Industry in India. Further the whole industry is dependant on a single customer i.e. The Indian Railways which again is a Government Enterprise. Therefore any change in the Government Policies stands to impact the industry directly.
- Steel scrap is one of the major Raw Material which is used in the casting of Rail Coaches. The casting industry is normally exposed to ever fluctuating prices and uncertainty in availability of the steel scrap and further troubled due to the rising prices of power and fuel which is also put to extensive use.
- Apart from the Wagons and Rail Coaches Titagarh also caters to the Heavy Earth moving machinery segment which in addition to the volatility in Raw Material prices and the rise in input cost is also exposed to the financial capacity of the customers in this space and the right marketing task in construction and mining.
- The Company needs to import certain raw materials and technology since all the segments which it caters to require safety in operation by complex technology. The fluctuating rupee also poses high risk of loss.
- Clauses related to performance guarantee, warranty and liquidated damages which are a part of many a contracts signed by the company due to the nature of business also pose a operating and financial risk on the working.

In a Nutshell

Cimmco was incorporated in 1943 and is part of the SK Birla group. Its manufacturing capabilities broadly categorise into Wagon Manufacturing, Engineering & Projects Divisions (EPD), Hydro Mechanical Division (HMD) and Specialized Products. It has the largest Wagon manufacturing in the Private Sector with an install capacity of 5600 Four Wheel Units per annum. The unit manufactures and supplies Wagons to Indian Railway, Super Thermal Power Plants, Fertilizers, Cement & Steel Plants, Coal Mines for haulage of variety of materials. The EPD is organized into two business segments viz the Cement Group and the Project Group which operate from two closely coordinated locations. The manufacturing facilities are located at Bharatpur while the Marketing and Design base is at New Delhi. This integrated facility for fabrication and machining is one of the largest of its kind in the country. The Cement Group supplies Core Machinery for Cement Plants in the country and has imbibed technology from World renowned Companies like KHD Humboldt Wedge; Gber Pfeiffer AG; IBAU GmbH, etc. The Project group provides entire range of services from Concept to Commissioning for the Industrial Plants. The HMD does Designing, Engineering, Manufacturing, & Installation of Equipment for Water flow control and Hydropower generation plants for domestic and export purpose. The Specialised Division caters to equipments tailor made to customer-specific requirements for Hydrocarbon, Fertilizer, Power & other core Sector Industries.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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