

Stone India Ltd.

₹ 78

Back on Track!**Buy**

Dec 19, 2014

Company Background

Stone India Ltd. (Stone India), a multi-product engineering company located in Kolkata, has been serving the Indian rail road industry for over seven decades. A pioneer in brake systems and train lighting alternators, today Stone India is the undisputed leader in locomotive brake systems and has a wide range of mechanical and electrical products for the rail road industry. Over the years, the company has grown from strength to strength. Today it boasts of cutting-edge manufacturing facilities, systems and practices. Currently the company operates in 3 Business all related to the rail Road Industry : The Carriage Business, The Locomotive Business and The Train Power Business. The company has also initiated in some more segments like Bio Toilets and Solar. It has also set up plans to diversify in Metro Segment which is an upcoming segment in India.

Key Highlights

- ➔ Stone India has designed and developed Biological Toilets which convert human waste into non toxic non contaminating water through multi strain aerobic bacteria culture in a multi chamber bio digester tank. The path breaking technology has been supported and validated by the Ministry of Science and Technology. And has a large application in railways and the Swaccha Bharat Abhiyaan.
- ➔ Stone India through its Subsidiary has a collaboration with RailRunner Inc., USA, to design, manufacture and operate a rail-cum-road bi-modal door-to-door cargo transport system in India. This unique, innovative solution is patented and is designed to ship the entire container-chassis between rail and road with no intermediate handling. This technology offers the efficiency of rail and flexibility of road in one package and will eliminate major capital investment in expensive cranes or large terminal facilities and aid just-in-time door-to-door delivery to customers. Currently, the project is under prototype construction, on completion of which trial trains will start operating.
- ➔ Stone India has been a preferred supplier of the Indian Railways since 7 decades. The recent talks of expansion and modernisation of the Railway Infrastructure would be beneficial to the company.

Key Financials

Year Ended 31 st	Mar 12	Mar 13	Mar 14
Revenue (INR mn)	1,007.8	974.3	1,049.2
Rev. growth (%)	8.4	(3.3)	7.7
EBITDA (INR mn)	120.7	89.7	88.8
Net profit (INR mn)	32.0	(30.4)	(25.0)
Shares outstanding (mn)	7.6	7.6	8.2
EPS (INR)	4.2	(4.0)	(3.1)
EPS growth (%)	(29.8)	(195.0)	(23.5)
P/E (x)	5.7	(3.8)	(6.8)
RONW (%)	4.2	(8.5)	(9.7)
ROCE (%)	2.4	(4.5)	(5.0)

Nishant Chopra

nishantc@indiratrade.com

Info Codes

Reuters	: STON.BO
Bloomberg	: STON@IN
NSE	: -
BSE	: 522085

Market Data

52 Wk Range (₹)	: 14 / 92
Shares in Issue (mn)	: 8.2
Mkt. Cap (₹ bn)	: 0.62
BSE 2 Wk Avg Vol	: 45,000

Share Holding Pattern (%)

Promoters	: 35.25
FII's	: 0.00
DII's	: 0.01
Others	: 64.74

Investment Theme

Stone India is a part of multi-billion Dollar Duncan Goenka Group. It has been supplying Indian Railways various assembly line products since 7 decades. The last few years however the company was not able to perform due to the high dependence on a single customer who was already in a cash crunch. However now with the change in Government and the talks about modernisation and expansion we expect the company to highly benefit. The company has also diversified into horizontal business segments viz. the Bio-Toilets and Solar. Bio-Toilet technology has been already validated by the Ministry of Science & Technology. Going forward with Swacch Bharat Abhiyaan and the Hygiene campaigns, we expect the Bio-Toilets business to perform better both in Government schemes and the Railways. The Solar aspect also looks good.

The Nature's Call !

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 12	Mar 13	% Chg	Mar 14	% Chg
Total Sales + Excise	1086.0	1074.9	(1.02)	1117.6	3.97
Other Income	19.1	5.8	(69.63)	14.3	146.55
Change in Stocks	11.9	0.8	(93.28)	(1.1)	(237.50)
Raw Material Con.	625.0	594.5	(4.88)	671.5	12.95
Employee Exp.	161.4	167.7	3.90	166.9	(0.48)
Indirect Taxes	99.3	117.0	17.82	86.8	(25.81)
Other Exp.	123.4	124.1	0.57	127.9	3.06
Operating Exp.	997.2	1002.5	0.53	1054.2	5.16
Operating Profit	88.8	72.4	(18.47)	63.4	(12.43)
Total Interest	58.2	62.1	6.70	61.3	(1.29)
Gross Profit	49.7	16.1	(67.61)	16.4	1.86
Net Dep.	9.1	60.3	562.64	54.1	(10.28)
Total Taxation	8.6	(13.8)	(260.47)	(12.7)	(7.97)
Net Profit/Loss	32.0	(30.4)	(195.00)	(25.0)	(17.76)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 11	Mar 12	Mar 13	Mar 14
SOURCES OF FUNDS	659.9	742.0	722.5	709.6
Equity Share capital	76.1	76.1	76.1	81.8
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	300.1	332.1	301.7	287.2
Long Term Loans	77.1	75.8	94.6	63.4
Short Term Loans	206.6	258.0	250.1	277.2
USES OF FUNDS	659.9	742.0	722.5	709.6
Gross Block	603.4	638.0	680.2	692.0
Less : Revaluation Reserves	6.3	0.0	0.0	0.0
Less : Accumulated Depreciation	247.9	274.0	300.6	327.3
Net Block	349.2	364.0	379.6	364.7
Capital Work in Progress	0.0	0.0	0.0	0.0
Investments	0.1	2.2	2.2	2.2
Current Assets	690.9	808.5	806.5	871.4
Less : Current Liabilities	380.3	432.7	465.8	528.7
Total Net Current Assets	310.6	375.8	340.7	342.7
Misc. Expenses not written	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	0.1	2.2	2.2	2.2
Mkt Val. Quoted Investments	0.0	0.0	0.0	0.0
Contingent Liabilities	45.6	44.7	29.7	31.6
Dividend (%)	0	0	0	0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 13	Mar 14	Jun 14	Sep 14
Net Sales	262.7	259.9	227.5	238.1
Cost Of Sales	233.9	256.3	213.1	222.6
Operating Profit	28.8	3.6	14.4	15.5
Recurring Income	0.2	0.9	0.6	0.4
Adjusted PBDIT	29.0	4.5	15.0	15.9
Financial Expenses	14.3	15.7	13.0	12.7
Depreciation	6.7	6.7	6.3	6.2
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	8.0	(17.9)	(4.3)	(3.0)
Tax Charges	0.0	0.0	1.0	0.0
Adjusted PAT	8.0	(17.9)	(5.3)	(3.0)
Non Recurring Items	(2.8)	6.0	0.0	0.5
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	5.2	(11.9)	(5.3)	(2.5)

52 Week Index Relative Percentage Appreciation



Stone India vs SENSEX

Risks Associated

➤ **Major Business with few customers**

Since the major business of the company comes through the Railways the lacklustre in Budget spending of the Railways directly hampers the growth and development of the company This is evident for the past few years where very few orders were released.

➤ **Springing Competition and Price War**

There has been severe undercutting of prices of various products supplied by the company and to withstand competition a pressure on margins was evident just to maintain marketshare.

➤ **Sudden Change in Technology**

The current focus of the Railways suddenly has turned to modernise technology and thereby improve service though there are many R&D products in the pipeline a lack of timely delivery of the same would hamper the company functions.

➤ **Coordinative issues with orders**

Considering the majority business is of assembly parts to various rail units the orders can be held due to non delivery of other suppliers which can hamper the payment schedule.

Stone India

In a Nutshell

Stone Indian is a company majorly based into Kolkata but with branches and service Centres located at all major towns and cities of India. It operates in 3 major business segments. The Carriage Business Group deals with pneumatic Brake Systems for Carriage & Freight stock for Railway rolling stock operation. The company has been a pioneer supplier of Air Brake systems since 1980's. Other than this the division also manufacturers important equipments like Brake Cylinders, Angle Cocks, Dirt Collectors, Hoses, etc. The Locomotive Business Group deals with Locomotive Brake Systems for Diesel and Electric Locomotives. Stone India has been the first Indian Company to indigenously manufacture and supply Pneumatic Brake System. The division also manufacturers critical brake valves as required for the Brake System, Modular Panel Mounted Brake Systems, etc. The Train Power Business Group deals with Electro-Mechanical, Electrical & Electronic products used in Railways. The products include Brushless Alternators, Electronic Regulators and Pantographs, etc. Stone India has been supplying the Indian Railways since the last 7 decades, however it was beaten up by the competition and the price war for the last few years. There were no fresh orders and its major customer the Railways were in a severe cash crunch. Things are however changing with the new Government coming in. Talks about modernisation of the Railway infrastructure are in the air along with the expansion of Railways. This would translate into an opportunity considering that the company commands a good marketshare in most of its products. The company is also diversifying horizontally with newer products like Bio-Toilets for which it has already received validation from Ministry of Science and Technology.

Indira Group Offices

Registered Office : 5, Indira House, 3rd Floor, Topiwala Lane, Lamington Road, Mumbai – 400007

Tel : 022-66224202 **Fax** : 022-66224201 **Email** : im@indiratrade.com

Administrative Office : 204-205 “Amardarshan” 28/2 Old Palasia, Indore (MP) 452018

Tel : 0731-4097170 **Fax** : 0731-4215999 **Email** : customercare@indiratrade.com

Institutional Dealing Unit : 5, Indira House, 3rd Floor, Topiwala Lane, Lamington Road, Mumbai – 400007

Tel : 022-66224209 **Fax** : 022-66224201 **Email** : ie@indiratrade.com

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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