

Foseco India Ltd.

₹1322

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Jul 06, 2018

Company Background

Foseco has been associated with the metals industry for over 75 years and now recognized as a world leader in the supply of consumable products for use in foundry industry with a presence in 32 countries & major facilities in Germany, USA, UK, Brazil, China, India, South Korea and Japan. Company was founded by Eric Weiss in 1932 and quickly became established as a supplier to the Foundry Industry. Foundries form the heart of any manufacturing based economy. Foundries typically produce castings that go into different user segments. These segments can be broadly classified into automotive, construction, heavy machinery, general engineering and mining. It is the only company in the country that possesses the capability of offering widest range of solutions for producing casting of the highest standards in terms of quality, surface finish, soundness, integrity and dimensional tolerance. Products are sold both directly & indirectly to industries like Passenger Cars and SUVs, Commercial Vehicles, Agricultural Machinery, Construction and general purpose steel, Textile machinery, two & Three wheelers. It's products also found usage in Steel, Petrochemical and food industry valves and pumps. It has two manufacturing facilities one is located at Pune and the other one is located at Pondicherry.

Key Highlights

- ➔ Foseco is the only supplier, offers products and services across the complete foundry process in both Ferrous and Non Ferrous areas.
- ➔ Automotive, Railway and Heavy Transport, Construction and mining, General Engineering and Petro chemicals and Power are the customer segments to the company. Casting demand for Iron & Aluminium castings could grow by 35-40 % by 2019-20 from current levels.
- ➔ It has two manufacturing facilities in Pune and Puducherry. It also imports products from its group manufacturing locations across the world.
- ➔ Chinese foundry companies were facing great challenges under the pressure of strict policies of environmental protection hence, China is trying to close units that are not environment friendly, if China close units Indian casting sector will get benefit because of most of the casting products are importing.

Key Financials

| Year Ended 31 st | Dec 15 | Dec 16 | Dec 17 |
|-----------------------------|---------|---------|---------|
| Revenue (INR mn) | 3,282.2 | 3,826.1 | 3,812.2 |
| Rev. growth (%) | 11.24 | 16.57 | (0.36) |
| EBITDA (INR mn) | 527.4 | 570.0 | 536.2 |
| Net profit (INR mn) | 317.3 | 330.8 | 313.2 |
| Shares outstanding (mn) | 6.4 | 6.4 | 6.4 |
| EPS (INR) | 43.8 | 47.1 | 46.4 |
| EPS growth (%) | 25.42 | 7.56 | (1.55) |
| P/E (x) | 32.25 | 26.97 | 42.77 |
| RONW (%) | 30.69 | 28.36 | 23.20 |
| ROCE (%) | 43.88 | 43.17 | 35.16 |

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Info Codes

| | |
|-----------|-------------|
| Reuters | : FSCO.BO |
| Bloomberg | : FSC IN |
| NSE | : FOSECOIND |
| BSE | : 500150 |

Market Data

| | |
|----------------------|-------------|
| 52 Wk Range (₹) | : 1282/2336 |
| Shares in Issue (mn) | : 6.4 |
| Market. Cap (bn) | : 8.44 |
| BSE 2 Wk Avg Vol | : 575 |

Share Holding Pattern (%)

| | |
|---------------------|---------|
| Promoters Holding | : 74.98 |
| Public & Others | : 24.55 |
| Corporate Holding | : 00.00 |
| Foreign Institution | : 00.09 |
| Institutions | : 00.01 |
| Govt Holding | : 00.37 |

Investment Theme

India's foundry industry, which is 3 rd biggest globally in terms of production capacity after China & US. Industry's installed capacity of 15 MTPY. Foundry Industry has a turnover of approx \$ 19 bn with exports approx \$ 2.5 bn. Indian foundry industry manufacturers metal cast components for applications in Auto, Tractor, Railways, Machine tools, Sanitary, Pipe Fittings, Defence, Aerospace, Earth Moving, Textile, Cement, Electrical, Indian government has lot of thrust on infrastructure development, road construction, coal production, power generation, housing for all by 2022 have started driving the demand for castings from foundry industry. There is thrust on wind energy which uses castings. Focus on railway modernization & Defence manufacturing in India will also drive demand for castings.

Committed to Quality casting...!!!

Financial Statements

Income Statement

(₹ mn)

| Year end | Dec 15 | Dec 16 | % Chg | Dec 17 | % Chg |
|-------------------|---------|---------|--------|---------|--------|
| Net Sales | 2,921.4 | 3,395.1 | 16.2 | 3,576.0 | 5.3 |
| Other Income | 18.9 | 20.9 | 10.6 | 25.3 | 21.1 |
| Change in Stocks | 3.9 | 0.9 | (76.9) | 2.8 | 211.1 |
| Raw Material Con. | 1,647.5 | 1,999.0 | 21.3 | 2,161.4 | 8.1 |
| Employee Exp. | 266.5 | 266.1 | (0.2) | 312.6 | 17.5 |
| Indirect Taxes | 341.9 | 410.1 | 19.9 | 210.9 | (48.6) |
| Other Exp. | 160.8 | 171.7 | 6.8 | 382.9 | 123.0 |
| Operating Exp. | 2,416.7 | 2,846.9 | 17.8 | 3,067.8 | 7.8 |
| Operating Profit | 527.5 | 570.0 | 8.1 | 536.3 | (5.9) |
| Total Interest | 3.0 | 6.3 | 110.0 | 5.0 | (20.6) |
| Gross Profit | 524.5 | 563.7 | 7.5 | 531.3 | (5.7) |
| Net Dep. | 45.4 | 50.5 | 11.2 | 53.4 | 5.7 |
| Total Taxation | 161.8 | 182.4 | 12.7 | 164.7 | (9.7) |
| Net Profit/Loss | 317.3 | 330.8 | 4.3 | 313.2 | (5.3) |

4 Years Balance Sheet

(₹ mn)

| Balance Sheet as on 31 st | Dec 14 | Dec 15 | Dec 16 | Dec 17 |
|--------------------------------------|----------------|----------------|----------------|----------------|
| SOURCES OF FUNDS | 1,060.8 | 1,136.0 | 1,270.5 | 1,475.5 |
| Equity Share capital | 63.9 | 63.9 | 63.9 | 63.9 |
| Equity Application Money | 0.0 | 0.0 | 0.0 | 0.0 |
| Equity Share Warrants | 0.0 | 0.0 | 0.0 | 0.0 |
| Reserves & Surplus | 914.9 | 1,025.4 | 1,179.4 | 1,392.7 |
| Secured Loans | 0.0 | 0.0 | 0.0 | 0.0 |
| Unsecured Loans | 82.0 | 46.7 | 27.2 | 18.9 |
| USES OF FUNDS | 1,060.8 | 1,136.0 | 1,270.5 | 1,475.5 |
| Gross Block | 657.6 | 689.5 | 707.0 | 709.7 |
| Less : Revaluation Reserves | 0.0 | 0.0 | 0.0 | 0.0 |
| Less : Accumulated Depreciation | 396.6 | 425.3 | 450.0 | 482.0 |
| Net Block | 261.0 | 264.2 | 257.0 | 227.7 |
| Capital Work in Progress | 5.6 | 7.6 | 2.4 | 11.5 |
| Investments | 0.3 | 0.0 | 0.0 | 0.0 |
| Current Assets | 1,168.3 | 1,243.6 | 1,477.0 | 1,909.0 |
| Less : Current Liabilities | 458.2 | 491.9 | 559.1 | 733.7 |
| Total Net Current Assets | 710.1 | 751.7 | 917.9 | 1,175.3 |
| Misc. Expenses not writtenoff | 83.8 | 112.5 | 93.2 | 61.0 |
| NOTE | | | | |
| Book Value of Unquoted Investments | 0.3 | 0.3 | 0.0 | 0.0 |
| Market Value of Quoted Investments | 0.0 | 0.0 | 0.0 | 0.0 |
| Contingent Liabilities | 48.5 | 15.9 | 54.3 | 18.3 |
| Dividend (%) | 210.0 | 265.0 | 230.0 | 250.0 |

Quarterly Income Sheets

(₹ mn)

| Quarter Ended | Jun 17 | Sep 17 | Dec 17 | Mar 18 |
|-----------------------|--------|--------|--------|--------|
| Net Sales | 872.9 | 903.4 | 918.9 | 936.1 |
| Cost Of Sales | 743.9 | 761.0 | 797.8 | 809.5 |
| Operating Profit | 129.0 | 142.4 | 121.1 | 126.6 |
| Other Income | 5.6 | 5.8 | 9.2 | 9.3 |
| Adjusted PBDIT | 134.6 | 148.2 | 130.3 | 135.9 |
| Financial Expenses | 0.5 | 1.1 | 1.1 | 0.8 |
| Depreciation | 13.2 | 14.1 | 13.1 | 11.7 |
| Other Write Offs | 0.0 | 0.0 | 0.0 | 0.0 |
| Adjusted PBT | 120.9 | 133.0 | 116.1 | 123.4 |
| Tax Charges | 42.3 | 45.2 | 41.3 | 44.1 |
| Reported Profit | 78.6 | 87.8 | 74.8 | 79.3 |
| Extra Ordinary Items | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Non Cash Adjust | 0.0 | 0.0 | 0.0 | 0.0 |
| Adjusted Net Profit | 78.6 | 87.8 | 74.8 | 79.3 |

52 Week Index Relative Percentage Appreciation

Foseco India vs SENSEX
Risks Associated

- ➔ The foundry sector in India is struggling for survival due to low demand from domestic manufacturing sector and import duty levied on primary raw materials including metallic scrap.
- ➔ Wind turbine uses imported castings from China for their products, Government support is required to safeguarding the domestic casting industry.
- ➔ The technology & processes in foundry sector over the last few decades have changed radically and the technologies adopted today will become outmoded in next 5-7 years. Moreover, the average production in Indian foundry is very less as compare to foundries in other countries.

Scope of Growth

- ➔ India's foundry industry is expected to double its revenue over the next 1-2 years with the huge opportunity in railway infrastructure in the budget, defence and revival of automotive sector as per Institute of Indian Foundrymen President.
- ➔ Thrust on infrastructure development, road construction, coal production, power generation, housing for all by 2022 have started driving the demand for castings from foundry industry.
- ➔ Recently, the government has announced investments of ₹ 70,000 crore in nuclear power generation, which will need equipment and machinery using castings.
- ➔ The focus on railway modernization and Defence manufacturing in India will also drive demand for castings Pradhan Mantri Gram Sadak Yojana for rural road construction is another opportunity for Foundry industry.
- ➔ Capital Goods Policy of the government forecast the sector to grow from \$ 35 bn to \$ 115 bn industry by 2025. Indian government is focused on infrastructure development, is a growth driver.

In a Nutshell

Foseco is a world leader in the supply of consumable products for use in the foundry industry with a presence in 32 countries & major facilities in Germany, USA, UK, Brazil, China, India, South Korea and Japan. Foundries form the heart of any manufacturing based economy. Foundry products will serve to different segments. These segments can be broadly classified into automotive, construction, heavy machinery, general engineering and mining. Out of all those segments, automotive sector is a major consume of foundry products, it has two manufacturing facilities. Company is producing the products and sold in directly and indirectly ways to industries like Passenger Cars and SUVs, Commercial Vehicles, Agricultural Machinery, Construction and general purpose steel, Textile machinery, two & Three wheelers. It's products also used in Steel, Petrochemical and food industry valves and pumps. Foundry sector in India is struggling for survival due to slow demand from domestic manufacturing sector and import duty. Indian government initiatives of Make in India, Skill Development & Ease of Doing business are expected to drive the demand for castings. There will be a chance to ease FDI norms and promote investments in infrastructure & manufacturing sectors also create demand for casting products. During the year company registered a growth of 5.4 % in revenue & drop in Net Profit by 5.3 % over the year 2016. Margins dropped due to severe volatility in raw material prices. There was a lag in recovery of prices of raw materials from the market due to competitive environment. Prices of casting products were under pressure due to stiff competition arising out of narrow market opportunities.

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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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