

## Esab India

Esab India 55.6% subsidiary of Charter Plc-UK reported excellent performance for Q3 CY 08 ending September 30, 2008. Its top-line grew by 33.5%, operating profit grew by 31%, PBT grew by 32% and net profit grew by 32%.

Due to hardening steel prices, its main raw materials resulting raw material cost as % to sales increased to 61% from 59.1%. However, with tight control on other expenses, company has been able to improve its operating profit margin to 22.7% from 22.5%.

For the nine months of CY 08, sales grew by 29.6%, operating profit grew by 29%, PBT grew by 30% and Net profit grew by 29.7%.

Hardening of steel prices has impacted slightly to the operating profit margin of company. However, company has been able to pass on hike in steel price. Going ahead, with softening of steel price, company will stand to gain.

Promoters have increased its shareholding in EIL from 37.3% to 55.56% thru open offer. As a result of this, there is now unrestricted technology transfer in a more transparent manner for launching new sophisticated products from basket of the parent. Now EIL will be able to import parent's products, seed market and if product is successful, can manufacture the same in India. To this effect, company has launched OK – Arisorod which is a new generation bare MIG / MAG wire. It is a major launch and globally no one has this technology. As it is very costly product, market has to be created for India. Plasma cutting equipments and Engine driven welding equipment (can be used for infrastructure segment) have also been introduced. As these new products are niche products, profitability is expected to improve going forward. New products should contribute ~ 10% to turnover.

EIL is neither capital intensive nor working capital intensive company. Company has surplus cash of ~ Rs. 30 crore as on December 31, 2007. Company has paid interim dividend of 130% for CY08 and for CY07 company has paid 155% dividend. Thus, one can expect higher dividend in future. Even at 155% dividend on CMP Dividend yield is ~5%.

Esab India is an ancillary to infrastructure and industrial growth story of India. With lot of investment in infrastructure projects in pipeline, Esab is expected to grow at ~ 20% for next 3-4 years with marginal improvement in operating profit margin Y-o-Y.

At CMP of Rs 319, the share (Rs 10) is available at 7.5 times estimated CY 2008 EPS of Rs 42.40 and 6.2 times estimated CY 2008 EPS of Rs 51.30.

In CY 2007, parent company increased their stake to 55.6% from 37.3% through open offer at Rs 505/- per share. With recent relaxation by SEBI, allowing promoters to increase their stake through creeping acquisition up-to 5% every year subject to promoters holding 55% and above but below 75%, from open market. One can not rule out possibilities of Parent increasing their stake thru open market purchase as CMP is very attractive. At current market situation, it is one of the best MNC stocks available, we recommend **Strong buy** with 2-3 years investment perspective.

### Disclosures:

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