



**(Investment Idea)**

**Batliboi Limited**

Batliboi, one of India's oldest machine tool & engineering companies, has reported impressive performance for Q4 FY 2007.

Net sales grew @ 25% to Rs. 36.03 crore (Rs. 28.83 crore) led by 51.5% spurt in Sales of Machine Tool division to Rs. 18.61 crore (Rs. 12.28 crore). Textile Engg. division turnover was up by 15.6% to Rs. 18.08 crore (Rs. 15.64 crore). OPM% declined slightly to 11.4% (11.9%). PBIT% of Machine Tool division enhanced to 14.9% (6.7%), but that of textile division declined to 27.6% (29.2%). Nevertheless strong sales growth and sharp jump in other income of Rs. 2.4 crore (Rs. 54 lakh) led to 79.6% jump in PBT (before extra ordinary items) of Rs. 5.81 crore (Rs. 3.23 crore), while PAT shoot up by 79.1% to Rs. 4.07 crore (Rs. 2.27 crore).

For FY 2007, Net sales were up by 27.3% to Rs. 128.07 crore (Rs. 100.64 crore). OPM% improved to 14.3% (12%) led by substantial improvement in PBIT% of Machine Tool Division to 9.4% (2%). Further boosted by 32.6% higher other income of Rs. 4.41 crore (Rs. 3.33 crore), PBT (before extra ordinary items) zoomed to Rs. 19.88 crore (Rs. 12.74 crore), growth of 56%, while PAT spurted up by 54.3% to Rs. 13.22 crore (Rs. 8.57 crore).

Batliboi is a leader in textile humidification systems, which are used to maintain moisture during the spinning process. With abolition of quota regime, textile industry is on capacity expansion spree with heavy investments coming in spinning segment. As spindle capacity expands, demand for these systems will continue to rise over next couple of years. Batliboi, being a leading player with ~ 35% market share, is expected to be one of the biggest beneficiaries of this upward capex cycle in textile industry.

Machine tool division is another core business. To augment growth of this division, company acquired Quickmill Inc, Ontario for Rs 22 crore. Quickmill is engaged in making machine tools, milling & drilling machines used in heat exchangers, heavy equipment manufacturing, fabricated steel, oil & gas and aeronautical industries. It had sales turnover of Rs. 52 crore in FY 2006. Quickmill enjoys 75% market share in heat exchangers in North America. Acquisition is win-win situation for both companies as they get access to each other's market. Batliboi has added advantage because it will act more as an outsourcing base for Quickmill.

Company also has agencies mostly from reputed European firms for importing and marketing machine tools and textile machinery not manufactured in India catering to entire gamut of user requirements from spinning to garment making.

Batliboi has started process of merging promoter group companies, with proposed merger of profitable - Batliboi SPM, Bangalore having sales of Rs 10 crore. Some unlisted group Companies (engaged in exports, environmental engineering, electric motors, logistics, wind power, etc.) with combined sales of Rs 100 crore and profitable; are operating independently. It is probable that some of these companies in the group could come in fold of this listed company.

At CMP of Rs. 107.55, the share (Rs. 10/- pais up) is trading at 11 times FY 2007 actual EPS of Rs. 9.79 and 7.68 times FY 2008 expected EPS of Rs.14/-. In view of smart pick-up in offtake of textile machinery and sharp improvement in performance of machine tool division, we recommend to 'BUY' the share at CMP.

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