



Ess Dee Aluminium

Lack of earnings visibility

Topline grew 15%; margin improved but far below stable level

After six quarters of weak growth, Ess Dee reported a relatively better quarter with 15% revenue growth. EBITDA margin saw a 270bps improvement sequentially to 20.2%, but far off the stable state 25-27% margins done by the company in previous periods. While there have been demand constraints as well as supply side concerns from IFL over the past 2 years, the improvement in the current quarter is a positive surprise.

The account receivable has remained sticky at 195 days since the last two fiscal and management guidance of getting it down to about four months has not been met. Though bad debts and provisioning of debtors has been low, we may not be able to rule out the link between high debtors and future margin cut, owing to either debtors provisioning or price cuts taken to shorten receivable days.

Expect modest 11% revenue growth, 280bps EBITDA margin drop in FY13E

The Daman capacity is running at peak levels of 90%, but the FY09 acquired IFL facility, which holds 50% capacity has been the stumbling block taking time to ramp up and curtailing growth. Management is vouching IFL utilizations to scale up from 50% in FY12 to nearly 80-90% in FY13E. However, IFL restructuring has taken longer than expected and thus we factor a moderate 11% and 16% growth in FY13E and FY14E. We expect EBITDA margin to remain weak at 19.6% and 20.2% far from the previous 25% plus margin, owing to the slow recovery in IFL plant and absence of operating leverage.

Low earnings visibility, stretched balance sheet suppress valuations

On FY13E basis, the stock is valued at EV/EBITDA and P/E of 7.1x and 16.2x respectively, despite below par ROC of 10%, weak earnings growth visibility and high working capital cycle. This may keep the stock under pressure until we see earning visibility. We have kept an under review rating, until we see clarity of business outlook.

Rating : Under review

CMP : INR294 (as on 9 November 2012)

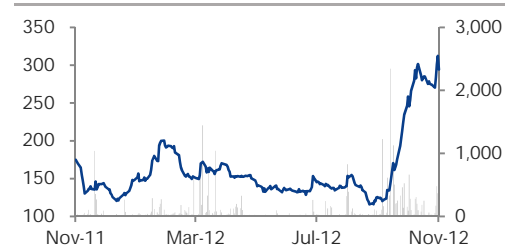
Key data*

Bloomberg /Reuters Code	EDA IN/ESDA.BO
Current /Dil. Shares O/S (mn)	32/32
Mkt Cap (INRbn/US\$m)	9/172
Daily Vol. (3M NSE Avg.)	155,821
Face Value (INR)	10

1 US\$= INR54.8

Source: Bloomberg ; * As on 9 November 2012

Price & Volume



Source: Bloomberg

Share holding (%)	Q3FY12	Q4FY12	Q1FY13	Q2FY13
Promoter	59.5	59.5	59.5	59.5
Institutional Investors	26.4	27.7	27.0	28.8
Other Investors	7.2	6.3	6.8	4.8
General Public	6.9	6.5	6.8	6.9

Source: BSE

Price performance (%)	3M	6M	12M
Sensex	6.4	13.4	7.6
ESS DEE Aluminium	91.7	104.2	68.2

Source: Bloomberg

Y/E Mar (INR mn)	Q2FY13	Q2FY12	YoY(%)	Q1FY13	QoQ (%)	Q1FY13E	Variance (%)
Net Sales	1,799	1,601	12.3	1,557	15.5	1,604	12.1
Operating Expenses	1,436	1,204	19.2	1,285	11.7	1,311	9.5
% of Sales	79.8	75.2	4.6	82.5	(2.7)	81.7	(1.9)
EBITDA	363	397	(8.6)	272	33.3	293	23.9
EBITDA Margins (%)	20.2	24.8	4.62	17.5	2.7	18.3	1.9
Interest	117.13	82.73	41.6	106.79	9.7	112	5.0
Depreciation	91	109	(16.6)	91	-	93	(2.2)
PBT	205	252	(18.7)	112	83.2	132	55.4
Tax	53	63	(15.4)	41	28.6	46	15.2
Effective Tax Rate (%)	26.0	25.0	4.1	37.0	(29.8)	35.1	(25.9)
Adjusted PAT	151	189	(19.8)	70	115.2	85	77.2
NPM (%)	8.4	11.8	(3.4)	4.5	3.9	5.3	3.1
Reported PAT	151	189	(19.8)	70	115.2	85	77.2
EPS	4.72	5.89	(19.8)	2.19	115.2	2.7	77.2

Source: Company, Elara Securities Estimate

Key Financials											
Y/E Mar (INR mn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Rep PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY10	5,885	30.3	1,576	26.8	1,933	(586.1)	16.0	38.1	20.5	18.4	6.5
FY11	6,807	15.7	1,706	25.1	1,180	(38.9)	36.8	16.9	16.5	8.0	6.0
FY12	6,591	(3.2)	1,471	22.3	681	(42.3)	21.3	9.0	11.2	13.8	6.9
FY13E	7,324	11.1	1,432	19.6	582	(14.6)	18.1	7.2	10.4	16.2	7.1
FY14E	8,523	16.4	1,718	20.2	703	20.8	21.9	8.1	11.2	13.4	5.9

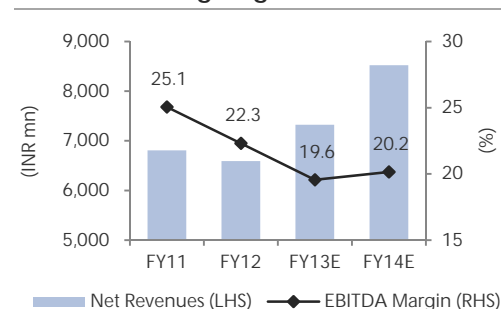
Source: Company, Elara Securities Estimate

Consolidated Financials (Y/E Mar)

Income Statement (INR mn)	FY11	FY12	FY13E	FY14E
Net Revenues	6,807	6,591	7,324	8,523
EBITDA	1,706	1,471	1,432	1,718
Less :- Depreciation & Amortization	203	355	369	503
EBIT	1,503	1,115	1,064	1,215
Less:- Interest exp	221	358	442	442
Non operating inc/(exp)	260	240	192	192
PBT	1,542	997	814	965
Less :- Taxes	362	316	232	263
PAT	1,180	681	582	703
Adjusted PAT	1,180	681	582	703
Balance Sheet (INR mn)	FY11	FY12	FY13E	FY13E
Share Capital	320	320	320	320
Reserves	6,660	7,267	7,773	8,401
Warrants	0	0	0	0
Borrowings	2,140	2,380	2,140	2,140
Net Deferred Sales Tax Liabilities	210	210	210	210
Total Liabilities	9,331	10,178	10,444	11,072
Gross Block	4,343	4,793	9,954	10,154
Less:- Accumulated Depreciation	1,542	1,897	2,266	2,768
Net Block	2,802	2,896	7,688	7,385
Add:- Capital work in progress	2,461	2,461	0	0
Investments	586	586	586	586
Net Deferred Tax Assets	698	618	618	618
Net Working Capital	2,784	3,617	1,552	2,482
Miscellaneous	-	-	-	-
Total Assets	9,331	10,178	10,444	11,072
Cash Flow Statement (INR mn)	FY11	FY12	FY13E	FY13E
Cash profit adjusted for non cash items	1,327	1,710	1,555	1,840
Add/Less : Working Capital Changes	1,113	2,331	2,028	1,955
Operating Cash Flow	794	2,096	1,865	1,761
Less:- Capex	(1,681)	(450)	(2,700)	(200)
Free Cash Flow	(887)	1,646	(835)	1,561
Financing Cash Flow	918	(192)	(757)	(516)
Investing Cash Flow	(1,681)	(450)	(2,700)	(200)
Net change in Cash	31	1,454	(1,592)	1,045
Ratio Analysis	FY11	FY12	FY13E	FY13E
Income Statement Ratios(%)				
Revenue Growth	15.7	(3.2)	11.1	16.4
EBITDA Growth	8.2	(13.8)	(2.6)	19.9
PAT Growth	(38.9)	(42.3)	(14.6)	20.8
EBITDA Margin	25.1	22.3	19.6	20.2
Net Margin	17.3	10.3	7.9	8.2
Return & Liquidity Ratios				
Net Debt/Equity (x)	0.3	0.1	0.3	0.1
ROE (%)	16.9	9.0	7.2	8.1
ROCE (%)	16.5	11.2	10.4	11.2
Per Share data & Valuation Ratios				
Diluted EPS (INR/Share)	36.8	21.3	18.1	21.9
EPS Growth (%)	130.5	(42.3)	(14.6)	20.8
DPS (INR/Share)	2.1	2.0	2.0	2.0
P/E Ratio (x)	8.0	13.8	16.2	13.4
EV/EBITDA (x)	6.0	6.9	7.1	5.9
EV/Sales (x)	1.5	1.5	1.4	1.2
Price/Book (x)	1.4	1.2	1.2	1.1
Dividend Yield (%)	0.7	0.7	0.7	0.7

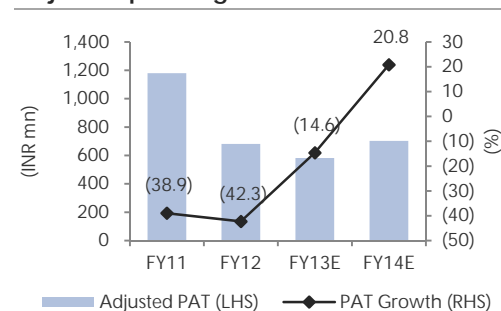
Source: Company, Elara Securities Estimates

Revenue & margins growth trend



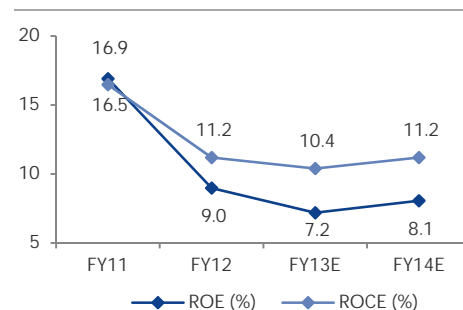
Source: Company, Elara Securities Estimates

Adjusted profits growth trend



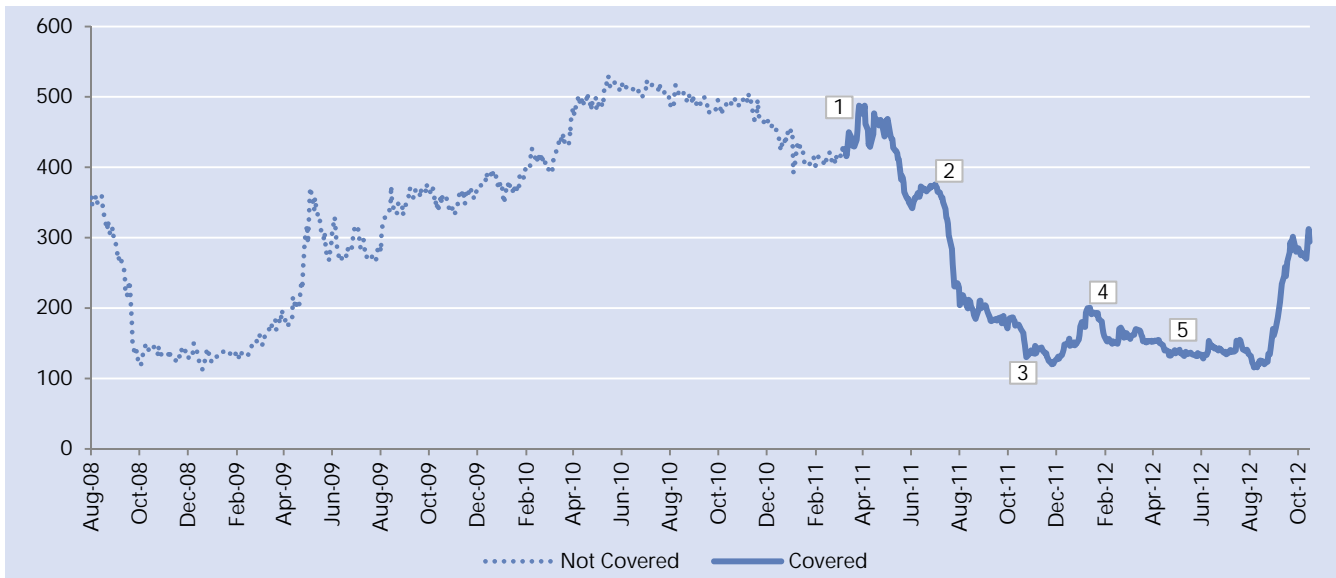
Source: Company, Elara Securities Estimates

Return ratios



Source: Company, Elara Securities Estimates

Coverage History



Date	Rating	Target Price	Closing Price
1 4-Apr-2011	Buy	INR598	INR425
2 12-Aug-2011	Buy	INR501	INR305
3 17-Nov-2011	Reduce	INR144	INR140
4 15-Feb-2012	Sell	INR144	INR190
5 31-May-2012	Reduce	INR144	INR137

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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