

**Innovative Industries (IIL) – Q3FY13 results lower than expectations; maintain Buy rating with a revised target price of ₹163**

Innovative Industries' (IIL) Q3FY13 results were below our expectations on account of lower-than-expected volumes in the CEW tubes and OCTG segment

**Key Highlights**

- IIL's standalone revenue grew 5.0% YoY and declined 5.9% QoQ to ₹1.7bn. The YoY growth was mainly on account of a 13.8% YoY growth in the motor vehicles parts business.
- IIL's standalone adjusted EBITDA for the quarter declined 3.2% YoY and 11.9% QoQ to ₹407.5mn on account of (1) margin pressure in the tubes & products segment due to slowing demand both domestically and overseas and (2) higher employee costs. Of the QoQ increase of ~31mn in employee costs, about ₹20-21mn pertained to H1FY13 as the increase in wages were given effect from April 1, 2012. Standalone adjusted PAT declined 10.9% YoY and 19.2% QoQ to ₹189.9mn on account of lower EBITDA and higher depreciation.
- Industrial promotion subsidy booked during the quarter was ~₹70mn.
- During the quarter, IIL's OCTG business' revenues declined 15.5% QoQ to ₹297.2mn on account of slower global economic growth.
- During the quarter, sales volume of CEW tubes and membrane strips grew 20.8% YoY and 32% YoY to 7,685 tonnes and 3,761 tonnes respectively. Sales volume of the low-margin ERW tubes declined 51.6% YoY to 3,850 tonnes. Although the fall was primarily due to higher captive consumption for increased production of the high-margin CEW tubes, sales of ERW tubes were lower than our expectations.
- For the quarter, Innovative consolidated PAT declined 13.1% YoY and 27.1% QoQ to ₹172.9mn.

**Outlook and valuations** – IIL's cost competitiveness and ability to do high product customisation through product and process engineering makes it well placed to drive exports in CEW tubes and volume growth in membrane panel strips. However, the weak global economy might lead to lower-than-expected growth in export volumes in CEW tubes for IIL. We reduce our volume assumptions for CEW tubes and ERW tubes for FY13E and FY14E (Refer Table-1 on Page-2). Factoring in lower sales volume, slight margin weakness and higher employee costs, we decrease our EPS estimates for FY13E and FY14E by 13.8% and 6.4% to ₹14.1 and ₹18.8 respectively. With the revision of our earnings estimates downwards and quarterly rollover of our 1 year forward SOTP value of IIL, our 1 year target price decreases by 4.2% to ₹163 per share. Our target price implies a potential upside of 20.2%. We maintain our Buy rating on IIL.

**Consolidated Financial Snapshot**

In ₹ mn	Sales	YoY(%)	EBITDA	YoY(%)	PAT	YoY(%)	EPS(₹)	YoY(%)	EBITDA (%)	RoE(%)	P/E(x)	EV/EBITDA(x)	P/B(x)
<b>FY11</b>	7,078	66.7	1,722	45.5	560	90.0	13.6	70.7	24.3	35.6	9.9	5.0	2.9
<b>FY12E</b>	7,866	11.1	2,080	20.8	806	44.0	13.5	-0.9	26.4	23.0	10.0	5.8	1.8
<b>FY13E</b>	9,157	16.4	2,310	11.0	844	4.6	14.1	4.6	25.2	16.4	9.6	5.0	1.6
<b>FY14E</b>	11,055	20.7	2,793	20.9	1,123	33.2	18.8	33.2	25.3	18.7	7.2	3.9	1.3

Source: ABML Research, company data

Rating	CMP	Target	Upside / Downside %
BUY	135.6	163	20.2

Source: NSE, ABML Research

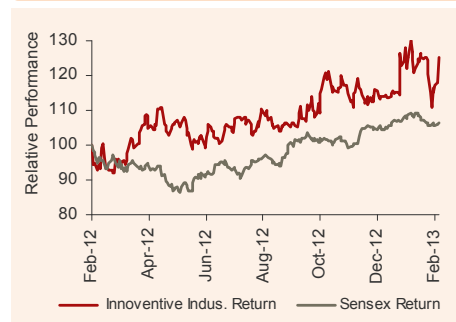
Company Data	
BSE Code	533402
NSE Code	INNOIND
Equity Capital (₹ mn)	596
Face Value (₹)	10.0
Market Cap (₹ bn)	8.1
Avg Daily Volume (Qty)	77730
52 week H/L (₹)	148.9/99.3

Source: NSE, BSE

**Shareholding (%)**

Holders	Dec-12	Sep-12	Jun-12
Promoters	45.35	45.14	45.14
FII's	14.28	14.28	12.57
MFs/Banks & FI's	13.52	13.73	14.75
Public & Others	26.85	26.85	27.54

Source: BSE

**Chart: Innovative vs. Sensex**


Source: Capitaline

**Analyst Details**

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Table 1: Change in IIL's FY13E and FY14E sales volume assumptions

Particulars (in tonnes)	FY13E (earlier)	FY13E (revised)	Change (%)	FY14E (earlier)	FY14E (revised)	Change (%)
ERW Tubes	26700	21000	-21.3	24400	20700	-15.2
CEW Tubes	33000	31000	-6.1	46000	43000	-6.5

Source: Company, ABML Research

## Standalone Financial Results (Q3FY13) – Innoventive Industries Ltd.

Quarterly Results (₹ in mn)	Q3FY13	Q3FY12	YoY%	Q2FY13	QoQ%
<b>Net Sales</b>	<b>1,689.3</b>	<b>1,608.9</b>	<b>5.0</b>	<b>1,795.7</b>	<b>(5.9)</b>
Total Expenses	1,281.9	1,188.0	7.9	1,333.3	(3.9)
Inc / Dec in stock	(127.8)	10.9	(1,269.3)	119.1	(207.3)
Raw material consumed	1,053.5	948.6	11.1	856.5	23.0
Employee cost	72.2	53.9	33.9	62.4	15.7
Purchase of Traded Goods	58.6	18.1	223.3	25.0	134.5
Other Expenses	225.3	156.4	44.1	270.3	(16.6)
<b>EBITDA</b>	<b>407.5</b>	<b>420.9</b>	<b>(3.2)</b>	<b>462.3</b>	<b>(11.9)</b>
Depreciation	92.5	54.6	69.4	90.5	2.2
Non-operating income	6.1	1.8	241.3	1.0	487.6
<b>EBIT</b>	<b>321.0</b>	<b>368.1</b>	<b>(12.8)</b>	<b>372.8</b>	<b>(13.9)</b>
Interest	129.1	147.4	(12.5)	131.1	(1.5)
Extraordinary Income/(loss)	(21.0)			0.0	
<b>PBT</b>	<b>171.0</b>	<b>220.6</b>	<b>(22.5)</b>	<b>241.7</b>	<b>(29.3)</b>
Tax	34.3	48.4	(29.1)	51.9	(33.8)
<b>PAT</b>	<b>136.6</b>	<b>172.2</b>	<b>(20.7)</b>	<b>189.9</b>	<b>(28.0)</b>
<b>Adjusted PAT</b>	<b>153.4</b>	<b>172.2</b>	<b>(10.9)</b>	<b>189.9</b>	<b>(19.2)</b>
Equity	596.4	596.4	0.0	596.4	0.0
<b>EPS</b>	<b>2.3</b>	<b>2.9</b>	<b>(20.7)</b>	<b>3.2</b>	<b>(28.0)</b>
<b>Adjusted EPS</b>	<b>2.6</b>	<b>2.9</b>	<b>(10.9)</b>	<b>3.2</b>	<b>(19.2)</b>

## Key Ratios (%)

EBITDA Margin	24.1	26.2	25.7
Interest/sales	7.6	9.2	7.3
Tax/PBT	20.1	21.9	21.5
NPM	8.1	10.7	10.6

Source: Company data, ABML Research

## Risk factors

- Lower-than-expected volume growth
- Cancellation of Industrial Promotion Subsidy
- Volatility in raw material prices that is not passed on to customers
- Slowdown in the automobile sector
- Adverse trade protectionism in export markets

## Recommendation summary

Date	Reports	Rating	Last Closing Price (₹)	Target Price (₹)	Upside / Downside %
23-04-12	Initiating Coverage	Buy	117.6	169	43.8
11-06-12	Result Update (Q4FY12)	Buy	111.1	169	52.1
17-08-12	Result Update (Q1FY13)	Buy	121.9	157	28.8
02-11-12	Result Update (Q2FY13)	Buy	128.7	170	32.1
20-02-13	Result Update (Q3FY13)	Buy	135.6	163	20.2

Source: ABML Research

## Consolidated Financials – Innovative Industries

Profit & Loss					Balance Sheet				
In ₹ mn	FY11	FY12	FY13E	FY14E	In ₹ mn	FY11	FY12	FY13E	FY14E
<b>Net sales</b>	<b>7,078</b>	<b>7,866</b>	<b>9,157</b>	<b>11,055</b>	Equity capital	411	596	596	596
YoY (%)	67	11	16	21	Reserves	1,480	3,905	4,552	5,414
Total expenses	5,356	5,785	6,847	8,262	<b>Net worth</b>	<b>1,890</b>	<b>4,502</b>	<b>5,149</b>	<b>6,010</b>
Inc/dec in stock	(466)	366	0	0	Total borrowings	3,551	4,126	3,776	3,026
Raw material cost	4,668	4,135	5,375	6,485	Deferred tax liability	346	509	621	742
Staff cost	262	330	403	483	<b>Total liabilities</b>	<b>5,938</b>	<b>9,425</b>	<b>9,964</b>	<b>10,367</b>
Operating expenses	534	563	650	784	Asset Block	4,034	6,681	6,886	6,891
Other expenses	358	390	420	509	Investments	1	1	1	1
<b>EBIDTA</b>	<b>1,722</b>	<b>2,080</b>	<b>2,310</b>	<b>2,793</b>	Goodwill	81	84	84	84
YoY (%)	45	21	11	21	<b>Current assets</b>	<b>4,195</b>	<b>5,019</b>	<b>5,777</b>	<b>6,677</b>
<b>EBIDTA (%)</b>	<b>24.3</b>	<b>26.4</b>	<b>25.2</b>	<b>25.3</b>	Inventories	2,194	2,314	2,570	3,056
Depreciation	220	267	394	446	Debtors	272	772	873	1,114
Non-operating income	7	33	15	7	Cash	483	185	337	175
<b>EBIT</b>	<b>1,508</b>	<b>1,846</b>	<b>1,931</b>	<b>2,355</b>	Loans and advances	1,245	1,748	1,997	2,332
Interest	712	673	644	586	Current liabilities	2,041	1,940	2,336	2,706
Extraordinary income/(exp.)	64	(3)	0	0	Provisions	332	419	447	580
<b>PBT</b>	<b>861</b>	<b>1,170</b>	<b>1,287</b>	<b>1,769</b>	<b>Net current assets</b>	<b>1,821</b>	<b>2,660</b>	<b>2,993</b>	<b>3,391</b>
(-) Tax	178	277	314	475	Net Deferred tax asset	0	0	0	0
Current Tax	191	122	202	354	Miscellaneous expenses	0	0	0	0
Deferred Tax	79	155	113	120	<b>Total assets</b>	<b>5,938</b>	<b>9,425</b>	<b>9,964</b>	<b>10,367</b>
MAT Credit	(92)	0	0	0	<b>Cash Flow (in ₹ mn)</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>
Tax/ PBT (%)	59	90	134	171	Net profit (before MI)	684	893	973	1,294
<b>PAT</b>	<b>684</b>	<b>893</b>	<b>973</b>	<b>1,294</b>	Depn and w/o	220	267	394	446
MI	59	90	129	171	Change in working cap	(626)	(1,136)	(181)	(560)
<b>PAT (after MI)</b>	<b>624</b>	<b>803</b>	<b>844</b>	<b>1,123</b>	Non-operating income	7	33	15	7
YoY (%)	124	31	9	33	Others	-1	166	113	120
<b>Adjusted net profit (after MI)</b>	<b>560</b>	<b>806</b>	<b>844</b>	<b>1,123</b>	<b>Operating cash flow</b>	<b>270</b>	<b>157</b>	<b>1,283</b>	<b>1,293</b>
YoY (%)	90	44	5	33	Non-operating income	7	33	15	7
<b>Adj. net profit (excl.subsidy)</b>	<b>260</b>	<b>502</b>	<b>556</b>	<b>804</b>	Capex	(826)	(2,913)	(600)	(450)
YoY (%)	56	93	11	44	Investments	(1)	0	0	0
					Others	64	-6	0	0
					<b>Investing cash flow</b>	<b>(755)</b>	<b>(2,886)</b>	<b>(585)</b>	<b>(443)</b>
					Dividend	(139)	(209)	(197)	(262)
					Equity	642	2,017	0	(0)
					Debt	286	575	(350)	(750)
					Others	0	48	0	0
					<b>Financing cash flow</b>	<b>789</b>	<b>2,432</b>	<b>(547)</b>	<b>(1,012)</b>
					Net change in cash	303	(298)	152	(162)
					Opening cash	179	483	185	337
					Closing cash	483	185	337	175

Key Ratios				
	FY11	FY12	FY13E	FY14E
Diluted EPS (₹)	15.2	13.5	14.1	18.8
Adjusted diluted EPS (₹)	13.6	13.5	14.1	18.8
Adjusted diluted EPS (₹)- excluding subsidy	6.3	8.4	9.3	13.5
CEPS (₹)	20.6	17.9	20.8	26.3
Book value (₹)	46.0	75.5	86.3	100.8
Dividend per share (₹)	2.9	3.0	2.8	3.8
Net debt-equity (x)	1.6	0.9	0.7	0.5
ROCE (%)	21.9	17.7	14.6	16.2
ROE (%)	35.6	23.0	16.4	18.7

Valuations				
	FY11	FY12	FY13E	FY14E
PE (x)	9.9	10.0	9.6	7.2
PE (excluding subsidy)	17.8	13.4	12.1	8.4
Cash PE (x)	6.6	7.6	6.5	5.2
Price/book value (x)	2.9	1.8	1.6	1.3
Dividend yield (%)	2.1	2.2	2.1	2.8
P/sales	0.8	1.0	0.9	0.7
EV/sales (x)	1.2	1.5	1.3	1.0
EV/EBITDA (x)	5.0	5.8	5.0	3.9

Source: ABML Research, company data

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ABML research is also accessible in Bloomberg at ABMR

## Our Rating Methodology

Stock Ratings	Absolute Returns (R)
Buy	$R > 15\%$
Accumulate	$5\% < R \leq 15\%$
Neutral	$-5\% < R \leq 5\%$
Reduce	$-10\% < R \leq 5\%$
Sell	$R \leq -10\%$

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