

## Elantas Beck India Ltd.

### Leader in liquid insulation

Elantas Beck India (Elantas) is the Indian market leader in liquid insulation segment used in electrical equipments like motors, transformers, generators etc. Part of global specialty chemicals leader ALTANA Group, the company practically has no visible peer in ₹ 600 cr+ market in India. Elantas enjoys market leadership in both primary and secondary insulation market with over 35% market share.

**Liquid insulation forms small but critical part of the equipment:** Liquid insulation forms a small part of the total equipment cost (<1-2%); however, it performs a critical function. This helps the company in commanding tangible pricing power which helped in improving margins. It has almost doubled its margin to 21% over CY12-16, taking advantage of falling crude prices and premium pricing. This has helped in registering 6% CAGR in revenue and 17% CAGR in PAT over the same period.

**Demand from user industries likely to be robust-** It derives demand from several industries including electronic equipment's, power segment and automotive component Industries which are expected to register 10%+ CAGR in demand in the coming years. Elantas with strong R&D support from its global parents and diversified product offerings is likely to benefit from such buoyant demand.

**Deleveraged company generates healthy free cash flow:** It is a debt free company which generates robust free cash flows. Its robust business model also helps in limiting its working capital cycle ~65-70 days and its capex requirements. This has led to liquid investments crossing ₹128cr in H1FY18. The company shares this wealth in every 2-3 years with investors in the form of rich dividends. We expect the company to soon announce a lumpy dividend.

**Outlook & Valuation:** Elantas is likely to post subdued CY17 mainly marred by GST woes and poor off take from customer side. The demand to pick up from CY18 onwards which will boost the earnings CAGR to 17% over CY18-20. Current valuations at 22.4x CY19 EPS, looks attractive considering its growth potential and high return ratios. **We initiate coverage on Elantas with a Buy recommendation and Target Price of ₹2500 (26x CY19E EPS), indicating an upside of ~16% from the current levels.**

#### Key Financials

Y/E March (₹ cr)	CY2016	CY2017E	CY2018E	CY2019E
<b>Net Sales</b>	<b>365</b>	<b>373</b>	<b>435</b>	<b>508</b>
% chg	6.1	2.0	16.7	16.7
<b>Net Profit</b>	<b>54</b>	<b>55</b>	<b>66</b>	<b>76</b>
% chg	30.6	1.4	18.6	16.3
OPM (%)	21.5	21.5	21.8	22.0
<b>EPS (Rs)</b>	<b>68.7</b>	<b>69.7</b>	<b>82.7</b>	<b>96.2</b>
P/E (x)	31.4	30.9	26.1	22.4
P/BV (x)	7.7	6.3	5.1	4.2
RoE (%)	24.6	20.2	19.6	18.8
RoCE (%)	33.1	27.3	26.4	25.8

Source :Company, Angel Research; Note: CMP as of February 07, 2018

## Quick take

February 7, 2018

### BUY

CMP	₹2155
Target Price	₹2500

Investment Period 12 Months

#### Stock Info

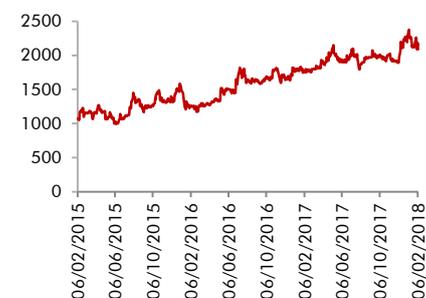
Sector	Chemicals
Market Cap (₹ cr)	1,701
Beta	0.3
52 Week High / Low	2395/1726
Avg. Daily Volume	1,704
Face Value (₹)	10
BSE Sensex	34,082
Nifty	10,476
Reuters Code	BECK.BO
Bloomberg Code	EBECK IN

#### Shareholding Pattern (%)

Promoters	75
MF / Banks / Indian Fls	5
FII / NRIs / OCBs	4
Indian Public / Others	16

Abs.(%)	3m	1yr	3yr
Sensex	1.4	20.2	20.8
Elantas Beck	7.5	21.7	100.2

#### 3-year price chart



Source: Company, Angel Research

#### Nidhi Agrawal

022 – 3935 7800 Ext: 6872

Nidhi.agrawal@angelbroking.com

## Company Background

Incorporated in 1956 as Dr. Beck & Company India Ltd., ELANTAS is present in India for 60+ years. It was acquired by world's leading company in Liquid Electrical Insulation ELANTAS GmbH, part of global specialty chemicals leader ALTANA Group, in 2003. It is engaged in the business of manufacturing and marketing of Electrical Insulation Systems and Electronic & Engineering Materials having applications in Electrical Equipment, Power and Automotive Sectors. Its manufacturing plants located at Pimpri, Pune in Maharashtra and Ankleshwar in Gujarat with combined capacity of 24000 MT.

## Product Profile

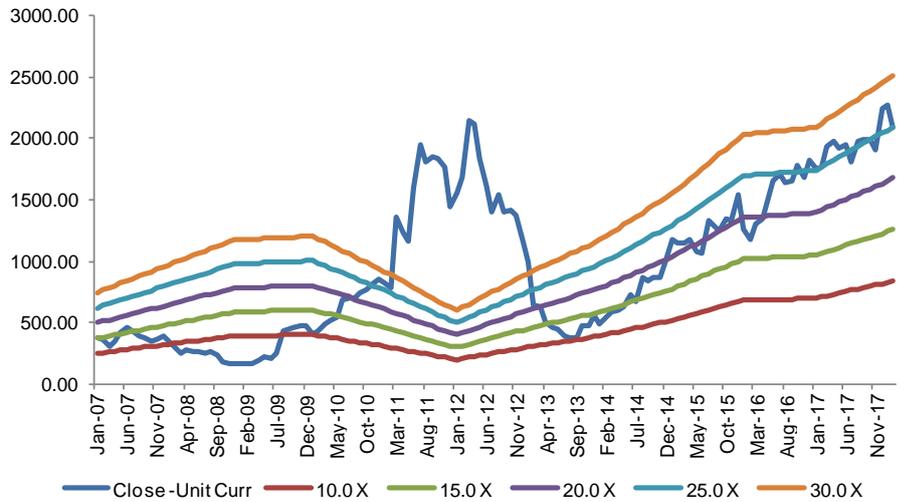
Primary Insulation	Secondary Insulation	Electronic and Engineering Materials
<ul style="list-style-type: none"> <li>• Wire enamels for the primary insulation of magnet wire</li> <li>• Magnet wire is applied in electronic motors, generators and transformers</li> </ul> <p><b>•Products</b></p> <ul style="list-style-type: none"> <li>• Theic PEI- Polyesterimide</li> <li>• PEI- Including Solderable</li> <li>• PAI- Polyamideimid</li> <li>• Modified PE(include theic)-Polyester</li> <li>• PE Low End- Polyester</li> <li>• PUR- Polyurethane</li> <li>• PVF/PVA- Formvar</li> <li>• PA (nylon)</li> <li>• Self Bonding</li> </ul>	<ul style="list-style-type: none"> <li>• Secondary insulation of winding wire after it is mounted in a device (electric motor, generator or transformer)</li> <li>• Applied through various application techniques (dip, roll-dip, hot-dip, trickle, VPI etc.)</li> </ul> <p><b>•Products</b></p> <ul style="list-style-type: none"> <li>• Unsaturated Polyester Acrylates (AC)</li> <li>• Alkyds (AD)</li> <li>• Auxilliaris (AUX)</li> <li>• Epoxy Resins (EP)</li> <li>• Insulation Fluids (IF)</li> <li>• Monomer Free Resins (MF)</li> <li>• Other Varnish (OV)</li> <li>• Unsaturated Polyester Resins incl.</li> <li>• Hardeners (UP)</li> <li>• Water varnish - alkyd (WA)</li> <li>• Water Varnish - Epoxy Emulsion</li> <li>• (WE)</li> <li>• White Unsaturated Polyester</li> <li>• Resins (WUP)</li> <li>• Solvented Varnish (SV)</li> </ul>	<p>It comprises two major product groups – electronic and electrical (EL) compounds and construction chemicals (CC)</p> <ul style="list-style-type: none"> <li>• Resin (EP &amp; PU based) system for casting, potting &amp; encapsulation of Electrical &amp; Electronic components</li> <li>• Resins (Ep &amp; PU) for Clean room flooring, Protective coatings &amp; Water proofing applications</li> </ul> <p><b>•Products</b></p> <ul style="list-style-type: none"> <li>• Epoxy Compounds (EP)</li> <li>• Polyurethane Compounds (PU)</li> <li>• Halogen free flame retardant (EP &amp; PU)</li> <li>• Water based compounds (PU &amp; EP)</li> <li>• Water based coatings (PU &amp; Acrylics)</li> </ul>

Source: Company

## Outlook and Valuation

Elantas is likely to witness a subdued CY17 mainly marred by GST woes and poor off take from customer side. We expect the demand to pick up from CY18 onwards which boost the earnings CAGR to 17% over CY18-20. We also expect the company to announce a lumpy dividend in next few months to reduce its burgeoning liquid investment. Current valuations at 22.4x CY19 EPS, looks attractive considering its growth potential and high return ratios. **We initiate coverage on Elantas with a Buy recommendation and Target Price of ₹2500 (26x CY19E EPS), indicating an upside of ~16% from the current levels.**

**Exhibit 1: One Year Forward P/E**



Source: Company, Angel Research

### Risks to our estimates

- Revenues may get impacted if the demand from the user industries i.e. electrical equipments slows down
- Abrupt fluctuations in raw material price i.e. crude oil and its derivatives may adversely impact profitability

**Profit & Loss Statement**

Y/E March (₹ cr)	CY2016	CY2017E	CY2018E	CY2019E
<b>Total operating income</b>	<b>365</b>	<b>373</b>	<b>435</b>	<b>508</b>
% chg	6.1	2.0	16.7	16.7
<b>Total Expenditure</b>	<b>287</b>	<b>292</b>	<b>340</b>	<b>396</b>
Raw Material	220	224	262	306
Personnel	22	23	26	30
Others Expenses	45	45	52	60
<b>EBITDA</b>	<b>79</b>	<b>80</b>	<b>95</b>	<b>112</b>
% chg	26.3	2.0	18.4	17.8
(% of Net Sales)	21.5	21.5	21.8	22.0
Depreciation & Amortisation	5	6	7	7
<b>EBIT</b>	<b>73.5</b>	<b>75</b>	<b>88</b>	<b>105</b>
% chg	30.4	1.6	18.4	18.5
(% of Net Sales)	20.1	20.0	20.3	20.6
Interest & other Charges	0	0	0	0
Other Income	8	10	12	12
(% of PBT)	9.4	11.8	12.0	10.3
Share in profit of Associates	-	-	-	-
<b>Recurring PBT</b>	<b>80.9</b>	<b>84</b>	<b>100</b>	<b>117</b>
% chg	31.0	4.4	18.6	16.3
Tax	28	29	35	40
(% of PBT)	34.5	34.5	34.5	34.5
Deferred tax	(1.5)	-	-	-
<b>PAT (reported)</b>	<b>54</b>	<b>55</b>	<b>66</b>	<b>76</b>
Extraordinary Items	(0)	-	-	-
<b>ADJ. PAT</b>	<b>54.5</b>	<b>55</b>	<b>66</b>	<b>76</b>
% chg	30.6	1.4	18.6	16.3
(% of Net Sales)	14.9	14.8	15.1	15.0
<b>Basic EPS (Rs)</b>	<b>68.7</b>	<b>69.7</b>	<b>82.7</b>	<b>96.2</b>
<b>Fully Diluted EPS (Rs)</b>	<b>68.7</b>	<b>69.7</b>	<b>82.7</b>	<b>96.2</b>
% chg	30.6	1.4	18.6	16.3

**Balance Sheet**

	CY2016	CY2017E	CY2018E	CY2019E
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	8	8	8	8
Reserves & Surplus	214	265	326	398
<b>Shareholders Funds</b>	<b>222</b>	<b>273</b>	<b>334</b>	<b>406</b>
Total Loans	-	-	-	-
Deferred Tax Liability	(1)	-	-	-
Other Long Term Liabilities	0.5	0.5	0.5	0.5
Long-Term Provisions	3.5	4.7	4.9	5.2
<b>Total Liabilities</b>	<b>225</b>	<b>278</b>	<b>340</b>	<b>412</b>
<b>APPLICATION OF FUNDS</b>				
	<b>(4)</b>	<b>30</b>	<b>12</b>	<b>10</b>
Gross Block	96	126	138	148
Less: Acc. Depreciation	60	65	72	79
Net Block	<b>36</b>	<b>61</b>	<b>66</b>	<b>69</b>
Capital Work-in-Progress	5	2	2	2
Investments	109	129	149	169
Long-Term Loans and Advances	3.6	2.6	2.6	2.6
Other non current assets	0.2	0.2	0.2	0.2
Current Assets	134	149	196	259
Inventories	56	57	67	78
Sundry Debtors	53	54	63	74
Cash	17	27	54	93
Loans & Advances	4	4	4	5
Other Assets	4	6	7	9
Current liabilities	64	66	77	90
<b>Net Current Assets</b>	<b>70</b>	<b>83</b>	<b>119</b>	<b>169</b>
<b>Deferred Tax Asset</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Mis. Exp. not written off	-	-	-	-
<b>Total Assets</b>	<b>225</b>	<b>278</b>	<b>340</b>	<b>412</b>

**Cash Flow Statement**

Y/E March (Rs cr)	CY2016	CY2017E	CY2018E	CY2019E
Profit before tax	81	84	100	117
Depreciation	5	6	7	7
Change in Working Capital	1	(1)	(9)	(11)
Interest / Dividend (Net)	(1)	0	0	0
Direct taxes paid	(26)	(29)	(35)	(40)
Others	(4)	0	0	0
<b>Cash Flow from Operations</b>	<b>56</b>	<b>68</b>	<b>51</b>	<b>62</b>
(Inc.)/ Dec. in Fixed Assets	(5)	(30)	(12)	(10)
(Inc.)/ Dec. in Investments	(45)	(20)	(20)	(20)
Other income	5	10	12	12
<b>Cash Flow from Investing</b>	<b>(51)</b>	<b>(40)</b>	<b>(20)</b>	<b>(18)</b>
Issue of Equity	0	0	0	0
Inc./ (Dec.) in loans	0	0	0	0
Dividend Paid (Incl. Tax)	(5)	(4)	(4)	(5)
Interest / Dividend (Net)	(0)	0	0	0
<b>Cash Flow from Financing</b>	<b>(5)</b>	<b>(4)</b>	<b>(4)</b>	<b>(5)</b>
Inc./ (Dec.) in Cash	0	24	27	39
<b>Opening Cash balances</b>	<b>0</b>	<b>3</b>	<b>27</b>	<b>54</b>
<b>Closing Cash balances</b>	<b>0</b>	<b>27</b>	<b>54</b>	<b>93</b>
<b>Free cash flow</b>	<b>106</b>	<b>108</b>	<b>71</b>	<b>80</b>

### Key Ratios

Y/E March	CY2016	CY2017E	CY2018E	CY2019E
<b>Valuation Ratio (x)</b>				
P/E (on FDEPS)	31.4	30.9	26.1	22.4
P/CEPS	28.6	28.1	23.7	20.5
P/BV	7.7	6.3	5.1	4.2
Dividend yield (%)	0.2	0.2	0.3	0.3
EV/Sales	4.3	4.2	3.5	2.8
EV/EBITDA	20.1	19.4	15.8	12.9
EV / Total Assets	7.0	5.6	4.4	3.5
<b>Per Share Data (Rs)</b>				
EPS (Basic)	68.7	69.7	82.7	96.2
EPS (fully diluted)	68.7	69.7	82.7	96.2
Cash EPS	75.2	76.7	91.0	105.2
DPS	4.5	5.0	5.5	6.1
Book Value	279.8	344.5	421.7	511.9
<b>Returns (%)</b>				
ROCE	33.1	27.3	26.4	25.8
Angel ROIC (Pre-tax)	77.1	64.1	67.5	72.9
ROE	24.6	20.2	19.6	18.8
<b>Turnover ratios (x)</b>				
Asset Turnover (Gross Block)	3.8	3.0	3.1	3.4
Inventory / Sales (days)	56	56	56	56
Receivables (days)	53	53	53	53
Payables (days)	41	41	41	41
Working capital cycle (ex-cash) (days)	68	68	68	68

Source: Company Angel research, Note - Valuation done on closing price of 07/02/2018

Research Team Tel: 022 - 39357800

 E-mail: [research@angelbroking.com](mailto:research@angelbroking.com)

 Website: [www.angelbroking.com](http://www.angelbroking.com)

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1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No