

Institutional Equity Research

Goodluck India

Metals & Mining | India

2QFY18 Result Update | December 15, 2017

CMP* (Rs)	82
Upside/ (Downside) (%)	26.5
Bloomberg Ticker	GLIN IN
Market Cap. (Rs bn)	1.8
Free Float (%)	39.5
Shares O/S (mn)	22.0

BUY 

Target Price: Rs104

Flat EBITDA despite Fall in Revenue

Goodluck India (GIL) has reported a reasonably good operating performance in 2QFY18. Its consolidated net revenue grew by 9.5% YoY (down 6.2% QoQ) to Rs3.13bn vs. our estimate of Rs3.57bn due to lower demand. Led by favourable product-mix, its EBITDA rose by 16.2% YoY (flat on QoQ comparison) to Rs266mn (vs. our estimate of Rs261mn), as margins expanded by 50bps YoY and 55bps QoQ to 8.5% (vs. our estimate of 7.3%). Further, GIL managed to pass on part of the rise in key input prices during the quarter, as some contracts were short-term in nature. Notably, interest and depreciation cost grew on a YoY basis with capitalisation of new assets. Its adjusted net profit grew by 24% YoY and 43% QoQ to Rs55mn vs. our estimate of Rs89mn due to lower tax outgo both on YoY and QoQ basis. Revenue from Pipe/Steel/Structures segment grew by 9.3% YoY (down 17% QoQ) to Rs2.78bn, while revenue from Engineered Goods increased by 8.8% YoY and 13.3% QoQ largely due to increased demand for forgings. Going forward, we continue to believe that GIL is well-poised to cash in imminent opportunities in key areas like infrastructure, railways and solar power. We believe that shifting of focus to value-added products would improve profitability, while improved utilisation would boost revenue and stability in the prices of key inputs would aid margin growth, going forward.

We reiterate our BUY recommendation on the stock with a downwardly revised Target Price of Rs104 (from Rs114 earlier).

Volatility in Key Input Prices Continues to Drag Performance

Despite 6.2% fall in revenue, GIL's EBITDA remained flat on sequential comparison largely due to favourable sales mix with the recovery in the demand for forgings. Though the raw material prices continued to remain firm during the quarter, the Management expects a meaningful recovery only from 4QFY18E onwards. As per the Management, GST-led lower off-take in Jun'17 continued in Jul'17 and Aug'17 as well, which disrupted 2QFY18 sales.

Outlook & Valuation

Looking ahead, we believe that stability in the prices of key inputs would aid GIL to sustain margin growth. We expect GIL to cash in on the imminent opportunities in Engineering/Structure & Precision Tubes segments led by increased thrust of government towards infrastructure development. **We reiterate our BUY recommendation on the stock with a downwardly revised Target Price of Rs104 (from Rs114 earlier).**

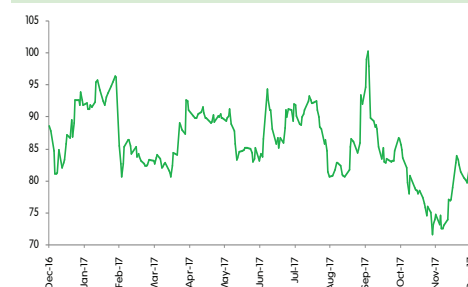
Key Financials (Rs mn)	FY16	FY17	FY18E	FY19E
Sales	9,870	12,047	12,704	13,589
EBITDA	870	878	1,105	1,318
Net Profit	328	220	242	457
EPS (Rs)	14.9	10.0	11.0	20.8
DPS (Rs)	1.5	1.5	1.8	2.0
P/E (x)	5.5	8.2	7.4	4.0
P/B (x)	0.9	0.7	0.6	0.5
EV/EBITDA (x)	5.8	6.4	4.9	4.0
ROE (%)	15.6	8.6	8.3	13.7
Div. yield (%)	1.8	1.8	2.1	2.4

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	13.7	(8.5)	(7.0)
Relative to Nifty	9.8	(13.8)	(43.0)

Shareholding Pattern (%)	Jun'17	Sep'17
Promoter	60.5	60.5
Public	39.5	39.5

1 Year Stock Price Performance



Note: * CMP as on Dec. 15, 2017

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Risks to the View

- ▶ Volatility in the prices of key inputs.
- ▶ Inherent currency risk.

Exhibit 1: Quarterly Performance

Consolidated (Rs mn)	2QFY18	2QFY17	YOY %	1QFY18	QOQ %	1HFY18	1HFY17	YOY %
Net Sales	3,132	2,861	9.5	3,340	(6.2)	6,471	5,743	12.7
Other Income	2	11	(82.2)	3	(22.8)	5	16	(71.7)
Total Income	3,134	2,872	9.1	3,342	(6.2)	6,476	5,759	12.4
Total Expenses	2,866	2,632	8.9	3,074	(6.8)	5,940	5,237	13.4
EBITDA	266	229	16.2	265	0.3	531	506	5.0
Interest	141	120	17.3	144	(1.7)	285	242	17.6
Depreciation	48	45	7.3	46	5.4	94	88	6.1
Tax	24	31	(21.2)	40	(40.1)	65	71	(8.8)
Reported PAT	55	44	23.8	38	42.7	93	121	(23.2)
Adjusted PAT	55	44	23.8	38	42.7	93	121	(23.2)
Adjusted EPS (Rs)	2.48	2	23.8	1.7	42.7	4.2	5.5	(23.2)
Ratios (%)								
EBITDA Margins (%)	8.5	8		7.9		8.2	8.8	
Profit Margins (%)	1.7	1.5		1.1		1.4	2.1	

Source: Company, RSec Research

Exhibit 2: Segment Revenue

(Rs mn)	2QFY18	2QFY17	YOY %	1QFY18	QOQ %
Pipe/Steel/Structure	2,777	2,541	9.3	3,341	(16.9)
Engineering goods	348	320	8.8	307	13.3
Auto Tubes / Other steel products	7	-		-	
Net Sales and operating revenue	3,132	2,861	9.5	3,649	(14.2)
Segment PBIT (Rs mn)					
Pipe/Steel/Structure	187	161	16.4	192	(2.7)
Engineering goods	24	24	2.2	25	(2.5)
Auto Tubes / Other steel products	7	-		3	
Margins (%)					
Pipe/Steel/Structure	6.7	6.3		5.8	
Engineering goods	7.0	7.4		8.1	

Source: Company, RSec Research

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Profit & Loss Statement

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Net sales	9,870	12,047	12,704	13,589
% yoy change	(8.3)	22.1	5.5	7.0
Adjusted RM cost	6,855	8,897	8,918	9,404
Employee expenses	463	573	597	639
Other expenses	1,682	1,699	2,083	2,229
Total operating expenditure	9,000	11,169	11,599	12,271
EBIDTA	870	878	1,105	1,318
EBIDTA margin (%)	8.8	7.3	8.7	9.7
Depreciation	151	176	217	287
EBIT	719	702	889	1,031
Other income	149	55	11	10
Interest costs	397	477	535	354
PBT	471	279	364	687
Taxes	143	60	122	230
Tax rate (%)	30.3	21.4	33.5	33.5
Adjusted PAT	328	220	242	457
% yoy change	19.1	(33.1)	10.3	88.5
Reported PAT	328	220	242	457
% yoy change	17.7	(33.1)	10.3	88.5
Adjusted EPS	14.9	10.0	11.0	20.8

Balance Sheet

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
SOURCES OF FUNDS				
Equity Share Capital	44	44	44	44
Reserves & Surplus	2,058	2,508*	2,884	3,287
Shareholders Funds	2,102	2,552	2,928	3,331
Total Loans	3,380	3,916	3,692	3,542
Other long term liabilities	287	731	841	908
Deferred tax liability	226	257	257	257
Total Liabilities	5,995	7,456	7,717	8,038
APPLICATION OF FUNDS				
Gross Block	2,340	2,540	3,610	3,960
Less: Acc. Depreciation	-	176	393	680
Net Block	2,340	2,364	3,217	3,280
Capital Work-in-Progress	93	62	85	100
Current Assets	4,284	5,482	5,189	5,518
Cash	115	124	74	138
Loans & Advances	656	1,079	864	883
Other	3,513	4,279	4,251	4,496
Current liabilities	722	452	775	860
Net Current Assets	3,562	5,029	4,414	4,657
Total Assets	5,995	7,456	7,717	8,038

*Includes application money received against warrants issued to promoters

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Cash Flow Statement

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Profit before tax	471	279	364	687
Depreciation	151	176	217	287
Interest provided	397	477	535	354
Change in Working Capital	(397)	(1,015)	675	(112)
Tax Paid	(143)	(60)	(122)	(230)
Others	(118)	301	180	-
Cash Flow from Operations	362	160	1,848	986
(Inc./ Dec. in Fixed Assets)	(346)	(169)	(1,093)	(365)
Cash Flow from Investing	(346)	(169)	(1,093)	(365)
Inc./ (Dec.) in loans	410	536	(224)	(150)
Dividend Paid (Incl. Tax)	(40)	(40)	(46)	(53)
Interest provided	(397)	(477)	(535)	(354)
Cash Flow from Financing	(27)	19	(806)	(557)
Inc./ (Dec.) in Cash	(11)	9	(50)	64
Opening Cash balances	127	115	124	74
Closing Cash balances	115	124	74	138

Key Ratios

Y/E March	FY16	FY17	FY18E	FY19E
Valuation Ratio (x)				
P/E (on FDEPS)	5.5	8.2	7.4	4.0
P/CEPS	3.8	4.6	3.9	2.4
P/BV	0.9	0.7	0.6	0.5
Dividend yield (%)	1.8	1.8	2.1	2.4
EV/Sales	0.5	0.5	0.4	0.4
EV/EBITDA	5.8	6.4	4.9	4.0
EV / Total Assets	0.8	0.8	0.7	0.6
Per Share Data (Rs)				
Adjusted EPS	14.9	10.0	11.0	20.8
EPS (fully diluted)	14.9	10.0	11.0	20.8
Cash EPS	21.8	18.0	20.9	33.8
DPS	1.5	1.5	1.8	2.0
Book Value	96	116	133	151
Returns (%)				
RoCE	14.5	10.1	11.7	13.0
RoE	15.6	8.6	8.3	13.7
Turnover ratios (x)				
Asset Turnover (Gross Block)	4.2	4.7	3.5	3.4
Inventory / Sales (days)	68	71	65	65
Receivables (days)	62	61	61	60
Payables (days)	24	20	19	20
Working capital cycle (days)	127	149	125	121

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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