MUHURAt PICk DIWALi 2014

NILE
LIMITED

"Sushil Finance wishes you and your family a very Happy Crackerwali Diwali and a Wealthorious New Year ahead"

Sushil Finance
ACTIONABLE KNOWLEDGE

Nile Ltd.

Market Cap.	52 Week H/L	CMP (As on October 21, 2014)	Target Price
Rs. 549 mn	Rs. 222/48	Rs. 183	Rs. 370

STOCK DATA

Recommendation	BUY
Reuters Code	NILE.BO
Bloomberg Code	NL IN
BSE Code	530129
NSE Symbol	N/A
Face Value	Rs. 10
Shares Outstanding*	3.0 mn
Avg. Daily Volume (6m)	9,460 shares

Price Performance (%)

1M	3M	6M
(3)	48	107

200 Days EMA Rs. 130

* On fully diluted equity Shares

SHARE HOLDING (%)

Promoters	49.62
FII	3.58
FI/Bank	0.04
Body Corporate	2.62
Public & Others	44.15

- **Growing Indian battery market:** Over the past few years, Indian battery market which has been a primary consumer of lead metal, has grown at a robust rate to reach the size of ₹224 bn, according to an industry magazine citing sources including SIAM, Telecom Department and Indian Power Ministry. The Indian battery market is being driven by the growth in both automotive and industrial sectors – including telecom, railway, power and others. The market is largely dominated by the unorganized sector as only one-fourth of the total batteries manufactured are branded. As branded batteries are priced higher as compared to the non-branded batteries, the unorganized market dominates the replacement market.
- **Increasing capacities to drive growth further:** The consistently rising demand from the downstream industries and limited primary supply has led the lead recyclers to think about increasing capacities substantially. The company, in-line with other peers, has done fresh installations raising the capacities from 26,000 TPA in 2009 to 50,000 TPA by 2012 and 72,000 TPA by 2014. For the past few years, the capacity utilization has remained low on account of slowdown in the automobile industry and limited activities in the other industrial segments. Nevertheless, the recent quarters have indicated a surge in the industry activities with the substantial increase in the top-lines. For the quarter ended March 31, 2014 and June 30, 2014, the company has posted a top-line with 32.5% and 36.4% growths on an annual basis.
- **Available at cheap valuations:** Although, the shares of Nile Ltd. have rallied significantly, having returned more than 200% on the year-to-date basis and quadrupled from their 52 week low levels in November, 2013 – the stock still looks attractive at current valuations. For the year ended March 31, 2014 the company registered a revenue of ₹3094.6 mn and net profit of ₹51.1 mn with an EPS of ₹17 and thus, at current price of ₹183 the stock is trading at 10.7x FY14 earnings and with our conservative estimated EPS of ₹34 for FY16 ₹46 for FY17, it is currently trading at 5.4x and 4.0x forward P/E, respectively. We believe, the company is currently available at discounted valuations and showcases huge upside potential from current levels.

Y/E Mar (Consol.)	Revenues (Rs. mn)	EBITDA (Rs. mn)	RPAT (Rs. mn)	NPM (%)	REPS (Rs.)	PER (x)	P/S (x)	P/BV (x)
FY14	2,781.8	168.2	51.1	1.8%	16.7	10.7	0.2	0.9
FY15E	**3,540.6**	**198.3**	**64.4**	**1.8%**	**21.5**	8.5	0.2	0.8
FY16E	**4,389.9**	**250.2**	**102.6**	**2.3%**	**34.2**	**5.4**	**0.1**	**0.7**
FY17E	**5,272.8**	**305.8**	**138.6**	**2.6%**	**46.2**	**4.0**	**0.1**	**0.6**

Company Overview

NILE LIMITED

Founded in 1984, the company was originally incorporated as Navbharat Industrial Linings & Equipments Private Ltd. and turned into a public listed entity during the same year. The company commenced manufacture of glass lined equipment in 1987 and added stainless steel glass equipment, pressure vessels, glass lined bend leaf agitators and glass lined conical dryers to its portfolio in subsequent years. Meanwhile, the company changed its name to the existing one and brought in Italian design and manufacture technology and began exporting some of its products to Malaysia, Singapore and China.

During 1999, the company established its non-ferrous division with a 3,000 TPA lead recycling plant at Choutuppal near Hyderabad (Andhra Pradesh). It took nearly five years to double the capacity to 6,000 TPA with a state-of-the-art facility. During 2009, the company established its second plant near Tirupati with the capacity of 20,000 TPA and the capacity at the Choutuppal facility was again doubled to 12,000 TPA. Subsequently, the installed capacities of lead recycling plant at Tirupati were further enhanced to 50,000 TPA in 2012 and Choutuppal to 22,000 in 2013 taking the company's current lead recycling capacities to 72,000 TPA.

Meanwhile, during July 2011, the company sold its entire glass business including glass lined-equipment and pressure vessels to a French company, De Dietrich Process Systems. The transaction which included all the assets and liabilities was considered for a sum of Rs.585 mn. The Management had stated that the company will now be focusing on building market position for its lead division and pursue further synergistic opportunities in related areas. During FY10, the glass lined equipment division had contributed Rs.301 mn to the top-line, consisting roughly 20% and was reportedly unprofitable.

Currently, the company offers pure lead (99.97%), lead antimonial alloys, lead selenium alloys, lead calcium alloys and lead tin alloys. The company supplies its products to Amara Raja, Icomm, ITW Signode, Kedar Metals and others. For the year ended March 31, 2014, the company registered a net sales of Rs.2,781.8 mn with an EBITDA of Rs.168.2 mn and a net profit of Rs.51.1 mn. Moreover, with the increased capacities, the company has showcased robust growth in Q1 FY15. The company registered net sales growth of 36.4% YoY to Rs. 837.4 mn with a net profit of Rs.28.8 mn as compared to moderate losses in Q1 FY14.

Industry Overview

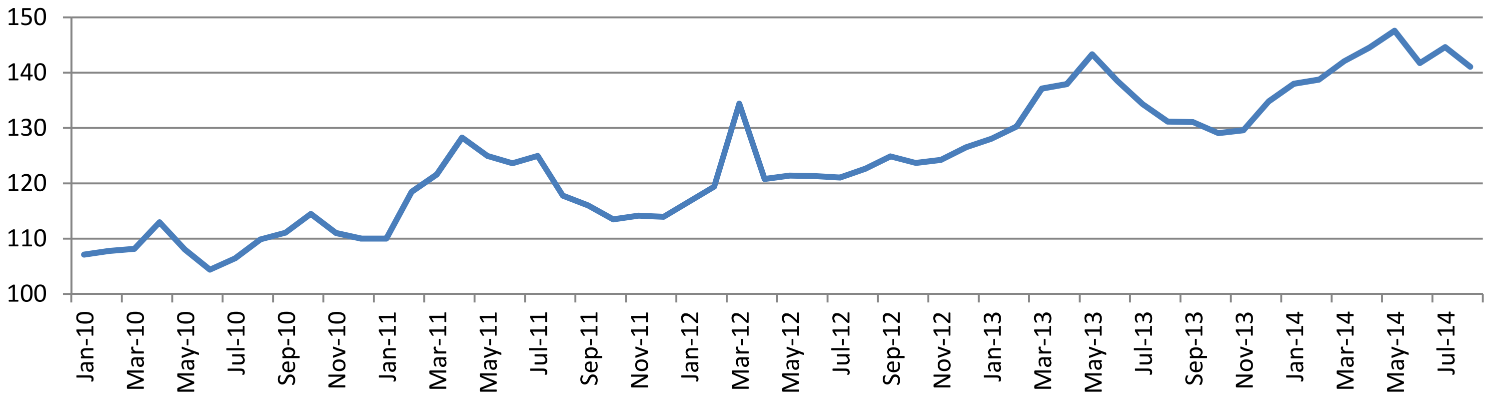
According to various industry reports, the global demand for refined lead metal is estimated to grow little over 4% during the current year to 11.7 mn MT. Over the past couple of years, the downturn in the global automobile industry weakened the demand and the emergence of alternative battery technologies also restricted the demand for the metal. Nevertheless, the last couple of quarters have showcased signs of gradual recovery, though uneven and inconsistent; there have been an uptick in the demand for automobiles.

The lead metal demand in India is roughly slated to be around 10% of the global lead demand. It is largely driven by the consumption of lead acid batteries in various industries, primarily, the automobile industry. The demand from solar and telecom industry has also increased during the recent times. The lead consumption of the country is directly linked to the automobile production as more than 75% of the total lead consumed in the country finds application in the lead battery sector, largely automobile and industrial while 20% of the consumption goes to alloys and chemicals and the remaining 5% in cables and other areas.

The country's lead production during the current year is likely to be around 0.8 MT with more than 80% of it being attributable to secondary sources, i.e. recycled batteries. The demand for lead scrap recycling has gone up owing to the requirement of downstream industries. The global ministries working for environmental development have framed battery management and handling rules in order to organize and streamline the collection and recycling of scrap lead batteries in an eco-friendly manner as lead production through recycling of scrap lead batteries saves two-third of energy required to extraction of metal from its ores.

Thus, we believe that the demand for lead battery is likely to remain strong on account of our robust outlook for automobile sector and the increasing need for power back-up from homes and industries will further boost the demand for the batteries; and recycled lead batteries, specially. This is primarily due to lack of any major lead-ore deposit in the country and thus very limited primary production; Hindustan Zinc is the only primary producer of lead in the country. The space of extraction of lead from recycling scrap is largely dominated by the unorganized segment. Most of the leading organized players have substantially increased their capacities in the recent years owing to strong demand expected for the metal driven by robust outlook on automobile and other sectors. In addition, the Indian manufacturers have been preparing themselves to meet the increasing global demand. Going forward, the lead acid battery in India is expected to continue with its healthy growth.

Lead Price - Bombay Metal Market (INR/Kg)



Lead Price

As mentioned earlier, the automobile sector which is the biggest consumer of this non-ferrous metal plays a significant role in the pricing of lead. Till September, 2013 the lead prices remained subdued on account of slowdown in the automobile sector. Nevertheless, as seen in the above chart, the lead prices have started creeping up with the revival of auto demand. Going forward, we have positive outlook on the lead prices owing to strong demand expected from the robust outlook on the automobile sector and power back-up solutions alongwith industries such as chemical, solar and telecom.

On Bombay Metal Market, the lead price hovered around Rs.108/Kg during the end of FY10, scaled up to Rs.122/Kg at the end of FY11. The non-ferrous metal which traded in a narrow range of Rs.134 to Rs.137 between March, 2012 and March, 2013 shot up to Rs.145 in the recent months. On the international front, according to the International Lead and Zinc Study Group and Metal Bulletin Research, the lead prices are likely to strengthen going forward as the inventories at the London Metals Exchange and the Shanghai Futures Exchange are low because of low supply and increasing demand.

Growth Drivers & Investment Rationale

Growing Indian battery market: Over the past few years, Indian battery market which has been a primary consumer of lead metal, has grown at a robust rate to reach the size of ₹224 bn, according to an industry magazine citing sources including SIAM, Telecom Department and Indian Power Ministry. The Indian battery market is being driven by the growth in both automotive and industrial sectors – including telecom, railway, power and others. The market is largely dominated by the unorganized sector as only one-fourth of the total batteries manufactured are branded. As branded batteries are priced higher as compared to the non-branded batteries, the unorganized market dominates the replacement market. According to the magazine, the Indian battery market is likely to grow at a compounded annual growth rate of 20% over the next four years on account of potential demand-supply gap in the power sector, rising number of vehicles sold every year and growing telecom penetration. As India is seen as the global manufacturing hub for auto industry, the chances of rise in demand for lead metal consumption for the automotive batteries are bright.

Increasing capacities: The consistently rising demand from the downstream industries and limited primary supply has led the lead recyclers to think about increasing capacities substantially. The company, in-line with other peers, has done fresh installations raising the capacities from 26,000 TPA in 2009 to 50,000 TPA by 2012 and 72,000 TPA by 2014. For the past few years, the capacity utilization has remained low on account of slowdown in the automobile industry and limited activities in the other industrial segments. Nevertheless, the recent quarters have indicated a surge in the industry activities with the substantial increase in the top-lines. For the quarter ended March 31, 2014 and June 30, 2014, the company has posted a top-line with 32.5% and 36.4% growths on y-o-y basis. Going forward, we not only anticipate a substantial increase in the volumes but we also have a stable outlook on the lead price which would augment the future top-line growth.

Available at cheap valuations: Though the shares of Nile Ltd. have rallied significantly, having returned more than 200% on the year-to-date basis and quadrupled from their 52 week low levels in November, 2013 – the stock looks attractive at current valuations. For the year ended March 31, 2014 the company registered a revenue of ₹3094.6 mn and net profit of ₹51.1 mn with an EPS of ₹17 and thus, at current price of ₹183 the stock is trading at 10.7x FY14 earnings and with our conservative estimated EPS of ₹46 for FY17, it is currently trading at 4.0x FY17 estimated EPS. The company's competitor Gravita India which also boasts a similar capacity levels of 78,800 MT (as compared to Nile's 72,000 MT) commands a market capitalization of ₹5,728 mn (closing price as on October 21, 2014) with an overall net debt of ₹854 mn; Nile's market capitalization stands at ₹549 mn with a total net borrowings of ₹515 mn. The company is currently trading at cheap valuations at 0.2x FY14 sales and 0.1x FY17 estimated sales and showcases huge upside potential from current levels.

PROFIT & LOSS STATEMENT (Consol.) (Rs.mn)

Y/E Mar.	FY14	FY15E	FY16E	FY17E
Net Sales	**2,781.8**	**3,540.6**	**4,389.9**	**5,272.8**
Raw material cost	2,243.3	2,846.6	3,522.9	4,223.5
Employee cost	43.0	53.1	61.5	68.5
Other costs	327.3	442.6	555.3	674.9
Total Expenditure	2,613.6	3,342.3	4,139.7	4,967.0
EBITDA	**168.2**	**198.3**	**250.2**	**305.8**
Depreciation	32.3	34.1	34.2	36.0
Finance cost	69.8	85.7	81.5	82.4
Other Income	16.8	17.7	18.6	19.5
PBT	**83.0**	**96.2**	**153.1**	**206.9**
Tax expense	31.8	31.7	50.5	68.3
PAT	**51.1**	**64.4**	**102.6**	**138.6**
EPS	**17.0**	**21.5**	**34.2**	**46.2**

BALANCE SHEET STATEMENT (Consol.) (Rs.mn)

As on 31st Mar.	FY14	FY15E	FY16E	FY17E
Share Capital	30.0	30.0	30.0	30.0
Reserves & Surplus	579.2	631.7	722.2	848.8
Net Worth	**609.2**	**661.6**	**752.2**	**878.8**
Total Loan funds	**489.9**	**509.4**	**549.1**	**615.2**
Deferred Tax	31.0	31.0	31.0	31.0
Trade Payables	195.6	273.0	357.1	451.3
Other Current Liabilities	69.5	85.8	106.2	127.3
Provisions	29.0	29.0	29.0	29.0
Fixed Assets	340.5	341.9	360.4	398.2
Other non-current assets	85.2	85.2	85.2	85.2
Trade Receivables	532.7	582.0	661.5	751.2
Cash & Bank Bal.	15.7	15.9	24.3	52.6
LT Loans & Advances	9.8	9.8	9.8	9.8
Inventory	370.2	485.0	613.4	765.6
ST Loans & Advances	69.6	69.6	69.6	69.6
Others	10.3	10.3	10.3	10.3
Total Assets	**1,424.3**	**1,589.9**	**1,824.7**	**2,132.6**

Source: Company, Sushil Finance Research Estimates

CASH FLOW STATEMENT (Consol.)

(Rs.mn)

Y/E Mar.	FY14	FY15E	FY16E	FY17E
Profit	50.2	64.4	102.6	138.6
Depreciation & Amortization	32.3	34.1	34.2	36.0
Chg. in Working Capital	(252.7)	(70.5)	(103.3)	(126.7)
Cash Flow from Operating	**(177.3)**	**28.0**	**33.4**	**48.0**
(Incr)/ Decr in Investments	19.5	-	-	-
(Incr)/Decr In Fixed Assets	(8.3)	(35.4)	(52.7)	(73.8)
Cash Flow from Investing	**11.2**	**(35.4)**	**(52.7)**	**(73.8)**
(Decr)/Incr in Loans & Advance	32.4	-	-	-
(Decr)/Incr in Debt	107.2	19.5	39.7	66.1
(Decr)/Incr in Share Capital	-	-	-	-
Dividend & Related Taxes	(9.0)	(12.0)	(12.0)	(12.0)
Change in others	**(2.4)**	-	-	-
Cash Flow from Financing	**137.2**	**7.5**	**27.7**	**54.1**
Opening Cash	**44.6**	**15.7**	**15.9**	**24.3**
Cashflow during the year	(28.9)	0.1	8.4	28.3
Cash at the End of the Year	**15.7**	**15.9**	**24.3**	**52.6**

FINANCIAL RATIO STATEMENT (Consol.)

Y/E Mar.	FY14	FY15E	FY16E	FY17E
Growth (%)				
Net Sales	6.9	27.3	24.0	20.1
EBITDA	17.0	17.9	26.2	22.2
Reported Net Profit	29.0	26.0	59.2	35.2
Profitability (%)				
EBIDTA Margin (%)	6.0	5.6	5.7	5.8
Net Profit Margin (%)	1.8	1.8	2.3	2.6
ROCE (%)	12.4	14.0	16.6	18.1
ROE (%)	8.4	9.7	13.6	15.8
Per Share Data (Rs.)				
EPS (Rs.)	17.0	21.5	34.2	46.2
CEPS (Rs.)	27.8	32.8	45.6	58.2
BVPS (Rs)	203.1	220.5	250.7	292.9
Valuation				
PER (x)	10.7	8.5	5.4	4.0
P/BV (x)	0.9	0.8	0.7	0.6
EV/EBITDA (x)	6.1	5.2	4.1	3.3
P/ Sales (x)	0.2	0.2	0.1	0.1
Turnover				
Debtor Days	70	60	55	52
Creditor Days	31	35	37	39
Inventory Days	49	50	51	53
Gearing Ratio				
D/E	0.8	0.8	0.7	0.7

Source: Company, Sushil Finance Research Estimates

Outlook & Valuation

The growth of Nile is directly linked to the growth of country's battery market which is dominated by the automobile sector. India is emerging as a favourite destination for global automakers and is likely to be the manufacturing hub for the global automobile companies in times to come. There would be demand from Original Equipment Manufacturers (OEMs) and there would be equally robust parallel demand from the replacement market. Apparently, the Indian battery market is expected to double over the next four years. The growth is coming from both automotive and industrial sectors on account of surge in usage in telecom, railways, power and other industrial applications. Though the lead demand has remained low for past few years on account of global economic slowdown, there has been an uptick witnessed over the last few quarters with the pick-up in demand from automobile and industrial spaces. In line with our robust outlook on automobile and auto-ancillary, we expect strong traction in lead demand mirroring the demand for batteries. Furthermore, the company has recently enhanced capacities and showcased strong top-line growth in quarter ended June 30, 2014. At current price of Rs.183, the company is trading cheap at 10.7x its FY14 EPS of Rs.17.0 and going forward, we expect company to register an EPS of Rs.46.2 in FY17 and by allocating a target multiple of 8.0x, we derive a target price of Rs.370 for the stock .

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