

12 August 2024

India | Equity Research | Q1FY25 results review

Inox India

Capital Goods

Logistics disruption-led exports impact

Revenues were flat YoY in the quarter, largely owing to issue with logistics constraints from Red Sea issues. INOX India is looking to manage these issues with better scheduling and planning. Note that >50% of the revenues comes from exports. It remains confident of meeting guidance of 15–20% revenue growth on the back of: 1) reduced logistics disruptions; 2) resumption of disposable cylinders to US; 3) expectation of beer kegs sales in H2FY25. EBITDA margin came in at 23.7% (+20bps YoY). Order inflow (OI) for the quarter was INR 3.1bn, up 8.4%. INOX India has a dominant share in India in cryogenic tanks and is gaining market share in global markets. We estimate earning growth of 20% CAGR from CY24–26E. INOX India is our preferred pick. Reiterate **BUY** and target price of **INR 1,485**.

Logistics issues weaken revenues

Revenues for the quarter came in below expectations at INR 3bn, down 4% YoY on account of: 1) container prices and availability; 2) disruption in shipping routes due to the Red Sea crisis; and 3) a high base. It quantified the impact at ~10% of the revenues (INR ~300mn). Management has reiterated its guidance of 20% YoY increase in revenues.

Muted profit

EBITDA came in at INR 702mn, down 3% YoY, with margins up 20bps YoY (23.7% in Q1FY25). Thus, PAT came in at INR 526mn, down 9% YoY. Management is committed on maintaining these margins.

Weak OI; however, few large orders booked in Jul'24

OI for the quarter came in at INR 3.1bn, + 8.4% YoY. OB stood at INR 11.1bn, up 11% YoY driven by 52% YoY growth in orders from the cyro-scientific division (INR 2.9bn). OB for industrial gas/LNG segments closed at INR 5.6bn (+8% YoY)/INR 2.5bn (-10% YoY). Management has guided for increase in the order backlog by INR 4.5–4.8bn at end-FY25.

Maintain BUY at a TP of INR 1,485 per share

We recommend a **BUY** on the stock and a TP of **INR 1,485**, valuing the stock at 45x FY26E EPS of INR 33.4/share.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	9,659	11,312	14,854	17,851
EBITDA	2,044	2,959	3,338	4,050
EBITDA Margin (%)	21.2	26.2	22.5	22.7
Net Profit	1,527	2,416	2,477	3,026
EPS (INR)	16.8	26.6	27.3	33.3
EPS % Chg YoY	17.0	58.2	2.5	22.2
P/E (x)	71.7	45.3	44.2	36.2
EV/EBITDA (x)	55.8	38.6	33.8	27.7
RoCE (%)	28.4	40.9	34.0	32.7
RoE (%)	29.0	40.3	33.4	32.1

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Market Data

Market Cap (INR)	110bn
Market Cap (USD)	1,304mn
Bloomberg Code	INOXINDI IN
Reuters Code	INOI.BO
52-week Range (INR)	1,507 /802
Free Float (%)	24.0
ADTV-3M (mn) (USD)	5.2

Price Performance (%)	3m	6m	12m
Absolute	(8.0)	18.8	0.0
Relative to Sensex	(18.1)	7.5	0.0

Previous Reports

14-05-2024: [Q4FY24 results review](#)

28-03-2024: [Initiating Coverage](#)

Q1FY25 conference call highlights

Financial highlights

- Revenues for the quarter were INR 3bn (-4% YoY)
 - The Red Sea crisis has increased shipping time to the west by 15–20 days driving up shipping costs and unavailability of containers.
 - This led clients to delay shipments resulting in a loss of INR 300mn in revenues.
- EBITDA came in at INR 702mn (-3% YoY)
- PAT was INR 526mn (-9% YoY)

OB and OI

- OI for the quarter was INR 3.1bn, down 74% QoQ.
- Order backlog at end-Q1FY25 was INR 11.1bn, with book-to-bill ratio of 1x
 - OB for the industrial gas segment stands at INR 5.6bn
 - OB for the LNG segment stands at INR 2.5bn
 - OB for the cyro-scientific segment stands at INR 2.9bn

Beer keg business

- Samples of the beer keg have been sent to companies such as Heineken and Carlsberg, awaiting approval. The feedback so far looms positive.
- Meaningful OI in the segment to come in from Q3FY25. The company has made INR 80mn in revenues this quarter through beer kegs.
- In FY25, the company is poised to 200,000 kegs which would have a revenue potential of INR ~0.8–1bn.

Disposable cylinder business

- Received their first order for disposable cylinders from Honeywell (USA) of 80k cylinders. The contract period is three years and the company is hoping for incremental orders of 200–300k cylinders.
- Worthington cylinders, according to management, is the only producer of disposable cylinders and has the capacity to serve only 50% of the market.

Other highlights

- Standard products sold make up 40% of the revenues while non-standard products make 60% of the revenue.
- The company has a net cash position of INR 1.8bn.

Outlook and valuation

INOX has witnessed stable growth over FY18-24 with revenue/EBITDA/PAT CAGR of 16%/16%/17%. The company has built a strong product suite across cryogenic storage tanks ranging from ship fuel storage tanks and mini terminals at ports to fuel dispensation solutions, refrigerant cylinders, non-refillable disposable cylinders, cryogenic solutions for space and medical research, and the recently introduced stainless steel kegs. INOX along with the existing growth drivers is poised to capitalise on new growth drivers such as the shift to a cleaner LNG fuel for transportation (ships and heavy-duty CVs) from diesel, increased use of cryogenic gases in the general industrial purposes, entry into stainless steel kegs market, refrigerant cylinders, etc.

We estimate INOX's revenue to grow at a 23% CAGR over FY24-26E to INR 17.8bn, EBITDA, expanding at a 26% CAGR to INR 4.05bn, as EBITDA margins inch up to 22.7% in FY26E (vs. 22% in FY23). Consequently, we envisage PAT growing at a 26% CAGR to INR 3bn in FY26E. We also see RoE improving to 31% in FY26E (vs. 30% in FY24). Given the strong moat and healthy profitability metrics, we believe a P/E multiple of 45x is fair as compared to the average P/E of 38x for FY26E of our coverage universe.

We recommend **BUY** and a TP of INR 1,485, valuing the stock at 45x FY26E EPS of INR 33.4/share.

Key risks: Part of domestic industrial gas consumption is linked to steel and refinery capex cycle; loss of competitiveness in global markets; delay in market share gains of LNG in domestic and global markets; imposition of duties in export markets; and delay in market share gain in stainless steel kegs' markets.

Exhibit 1: Quarterly result highlights (INR mn)

INR mn	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	FY24	FY23	YoY (%)
Revenue	2,964	3,078	(3.7)	2,761	7.3	11,312	9,659	17.1
EBITDA	702	723	(2.9)	532	31.9	2,503	2,044	22.5
Margin (%)	23.7	23.5	18bps	19.3	441bps	22.1	21.2	97bps
Depreciation	56	37	53.6	52	8.3	181	139	30.3
Finance Cost	20	6	218.8	15	33.2	57	37	54.1
Other Income	54	85	(36.6)	112	(52.1)	313	202	55.1
Extraordinary income								
PBT	679	765	(11.2)	577	17.7	2,578	2,069	24.6
Tax	153	187	(18.0)	136	12.1	618	522	18.3
Tax rate (%)	22.5	24.4	-187bps	23.6	-112bps	24.0	25.2	-126bps
Reported PAT	526	579	(9.0)	441	19.4	1,960	1,547	26.7
Adjusted PAT	526	579	(9.0)	441	19.4	1,960	1,547	26.7
Margin (%)	17.8	18.8	-104bps	16.0	180bps	17.3	16.0	131bps
EPS	5.8	6.4	(9.0)	4.9	19.4	21.6	17.0	26.7
Gross Margin (%)	56%	50%	5bps	64%	-9bps	56%	55%	1bps

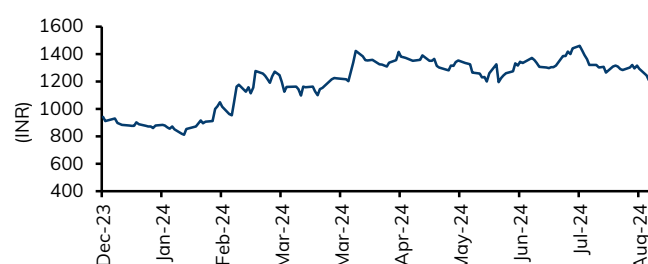
Source: I-Sec research, Company

Exhibit 2: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	75.0	75.0	75.0
Institutional investors	10.8	12.7	13.2
MFs and others	5.5	5.4	5.4
FIs/Banks	0.0	0.0	0.0
Insurance	0.6	0.7	0.9
FIIIs	4.7	6.6	6.9
Others	14.2	12.3	11.8

Source: Bloomberg

Exhibit 3: Price chart



Source: Bloomberg

Financial Summary

Exhibit 4: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	9,659	11,312	14,854	17,851
Operating Expenses	2,810	3,411	4,149	4,982
EBITDA	2,044	2,959	3,338	4,050
EBITDA Margin (%)	21.2	26.2	22.5	22.7
Depreciation & Amortization	139	181	238	244
EBIT	1,904	2,777	3,100	3,806
Interest expenditure	37	57	71	78
Other Non-operating Income	183	313	274	306
Recurring PBT	2,050	3,034	3,302	4,034
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	523	618	826	1,009
PAT	1,527	2,416	2,477	3,026
Less: Minority Interest	-	-	-	-
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	1,527	2,416	2,477	3,026
Net Income (Adjusted)	1,527	2,416	2,477	3,026

Source Company data, I-Sec research

Exhibit 5: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	7,247	6,838	10,670	14,384
of which cash & cash eqv.	137	50	1,247	2,076
Total Current Liabilities & Provisions	5,770	5,140	7,507	9,022
Net Current Assets	1,477	1,697	3,163	5,362
Investments	2,489	2,467	2,467	2,467
Net Fixed Assets	1,645	2,555	3,332	3,688
ROU Assets	-	-	-	-
Capital Work-in-Progress	2	48	48	48
Total Intangible Assets	-	-	-	-
Other assets	100	82	82	82
Deferred Tax Assets	-	-	-	-
Total Assets	5,714	6,848	9,091	11,646
Liabilities				
Borrowings	-	49	-	-
Deferred Tax Liability	83	85	85	85
provisions	-	-	-	-
other Liabilities	136	224	675	1,021
Equity Share Capital	182	182	182	182
Reserves & Surplus	5,313	6,309	8,150	10,359
Total Net Worth	5,495	6,491	8,332	10,541
Minority Interest	-	-	-	-
Total Liabilities	5,714	6,848	9,091	11,646

Source Company data, I-Sec research

Exhibit 6: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	1,784	794	2,518	2,978
Working Capital Changes	270	(1,409)	(268)	(370)
Capital Commitments	(489)	(955)	(778)	(356)
Free Cashflow	1,294	(161)	1,740	2,622
Other investing cashflow	376	747	274	(694)
Cashflow from Investing Activities	(113)	(208)	(504)	(1,050)
Issue of Share Capital	-	-	-	-
Interest Cost	(37)	(57)	(71)	(78)
Inc (Dec) in Borrowings	(456)	(49)	49	-
Dividend paid	(1,044)	(567)	(794)	(1,021)
Others	(9)	-	-	-
Cash flow from Financing Activities	(1,545)	(673)	(817)	(1,099)
Chg. in Cash & Bank balance	125	(87)	1,197	829
Closing cash & balance	137	50	1,247	2,076

Source Company data, I-Sec research

Exhibit 7: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	16.8	26.6	27.3	33.3
Adjusted EPS (Diluted)	16.8	26.6	27.3	33.3
Cash EPS	18.4	28.6	29.9	36.0
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	60.5	71.5	91.8	116.1
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	23.4	17.1	31.3	20.2
EBITDA	21.9	44.8	12.8	21.4
EPS (INR)	17.0	58.2	2.5	22.2
Valuation Ratios (x)				
P/E	71.7	45.3	44.2	36.2
P/CEPS	65.7	42.2	40.3	33.5
P/BV	19.9	16.9	13.1	10.4
EV / EBITDA	55.8	38.6	33.8	27.7
P / Sales	12.1	10.3	7.9	6.5
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	50.2	56.3	50.4	50.6
EBITDA Margins (%)	21.2	26.2	22.5	22.7
Effective Tax Rate (%)	25.5	20.4	25.0	25.0
Net Profit Margins (%)	15.8	21.4	16.7	17.0
NWC / Total Assets (%)	23.5	24.1	21.1	28.2
Net Debt / Equity (x)	(0.5)	(0.4)	(0.4)	(0.4)
Net Debt / EBITDA (x)	(1.3)	(0.8)	(1.1)	(1.1)
Profitability Ratios				
RoCE (%)	28.4	40.9	34.0	32.7
RoE (%)	29.0	40.3	33.4	32.1
RoC (%)	28.4	40.9	34.0	32.7
Fixed Asset Turnover (x)	6.5	5.4	5.0	5.1
Inventory Turnover Days	172	151	153	147
Receivables Days	60	56	61	59
Payables Days	27	28	28	27

Source Company data, I-Sec research

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