

Indian Hume Pipe Company Ltd (IHP)

No. of shares (m)	48.4
Mkt cap (Rs crs/\$m)	2634/411.1
Current price (Rs/\$)	544/8.5
Price target (Rs/\$)	693/10.8
52 W H/L (Rs.)	570/255
Book Value (Rs/\$)	80/1.2
Beta	2.0
Daily volume NSE (avg. monthly)	38330
P/BV (FY18e/19e)	5.4/4.2
EV/EBITDA (FY18e/19e)	11.6/9.7
P/E (FY18e/19e)	20.8/16.5
EPS growth (FY17/F18e/19e)	240/28.7/26.0
OPM (FY17/18e/19e)	11.5/11.5/11.6
ROE (FY17/18e/19e)	28.5/28.9/28.5
ROCE(FY17/18e/19e)	20.3/21.9/23.5
D/E ratio (FY17/18e/19e)	0.7/0.5/0.3
BSE Code	504741
NSE Code	INDIANHUME
Bloomberg	INHP IN
Reuters	INHE.BO

Shareholding pattern

	%
Promoters	69.9
MFs / Banks / FIs	5.3
Foreign Portfolio Investors	0.3
Govt. Holding	0.0
Public & Others	24.5
Total	100.0

As on June 30, 2017

Recommendation

BUY

Phone: + 91 (33) 4488 0011

E- mail: research@cdequi.com

Company Brief

Indian Hume Pipe Co. Ltd. (IHP) was established in 1926. The company has specialized in execution of turnkey water supply and sewerage projects and has also developed pc (non-cylinder), pccp, bwsc, and hume steel pipes.

Highlights

- Global Water Resources has estimated that two out of every three people will live in water-stressed areas by the year 2025. Also, it is estimated that 25 countries will be experiencing water stress (below 1,700 m3 per capita per year) by 2025. In today's times, 450 million people in 29 countries suffer from water shortage, which puts a huge pressure especially on the growing economies to use water sustainability and also resolve their growing imbalance of supply and demand (Source: FICCI).
- Government of India, State Governments and local bodies are making best efforts to supply safe drinking water. Hence, a number of water supply schemes are on the radar. Further to bring cities and rural areas under more hygienic conditions, a lot of sewerage disposals and drainage schemes are also coming up besides the endeavor towards Swachha Bharat a number of sewerage disposals and drainage schemes are being rolled out.
- IHP's order book ballooned to Rs 3097 crores in FY16 supported by unprecedented order inflows from state of Telangana- Rs 1432 crores orders (prominent ones) bagged that year. As a result, revenue jumped nearly ~92% last fiscal. Order inflows remain steady for the company has bagged order worth over 1200 crores so far this fiscal, surpassing last year's count of Rs 998 crores.
- The stock presently trades at 20.8x FY18e EPS of Rs 26.19 and 16.5x FY19e EPS of Rs 33.01. Despite economic slowdown, IHP managed to sustain a strong revenue growth last fiscal. In addition, IHP has order book of Rs 2267 crores (\$349.6m) as on FY17 which could offer strong revenue booking and expansion in margins. IHP has received various tenders from Tamil Nadu, Rajasthan, Chhattisgarh and Bangalore in the current fiscal for laying water pipelines, providing drinking water etc. Earnings would rise by 27.4% on average over the next two years, galvanizing return on capital. Considering growth prospects, we recommend buying the stock with a target price of Rs 693 based on 21x FY19e EPS (peg ratio: 0.8) over a period of 9-12 months.

Standalone (Figures in Rs crs)	FY15	FY16	FY17	FY18e	FY19e
Income from operation	1009.86	938.94	1799.54	2106.90	2510.75
Other Income	12.69	2.96	2.96	3.15	3.30
EBITDA (other income included)	122.39	99.92	210.54	246.37	293.59
Profit after EO	35.20	29.01	98.61	126.89	159.93
EPS(Rs)	7.26	5.99	20.36	26.19	33.01
EPS growth (%)	56.8	-17.6	240.0	28.7	26.0

Company Profile

Indian Hume Pipe Co. Ltd. (IHP) was established in 1926 with the object of manufacturing, popularizing and marketing hume pipes and allied products. Over a period of time the company has developed prestressed concrete pipes (non-cylinder), prestressed concrete cylinder pipes, bar wrapped steel cylinder pipes, hume steel pipes, welded steel penstocks, prestressed concrete railway sleepers and specialized in execution of turnkey water supply and sewerage projects. IHP's presence is there in almost all water supply related activities, viz. urban & rural water supply projects, penstock for hydro power generation, tunnel lining, large diameter irrigation pipelines, head works including pumping machinery, treatment plants, overhead tanks and other allied civil construction. The company also supplies concrete railway sleepers to Indian Railways.

Today the Company has a wide network of 22 factories spread across 8 states and it has an order pipeline of over 100 projects. In the field of water supply IHP has completed a number of prestigious turnkey projects involving various stages of project such as intake well, pumping station, main pipeline, water treatment plant, reservoirs, and distribution pipelines. In case of large orders for a specific project, IHP has the financial and organizational strength to establish local manufacturing units near to the site. As a result the company's products have found acceptance in highly competitive markets. IHP has also executed projects in neighboring countries like Nepal, Srilanka, Burma, Malaysia and Republic of Iraq.



Source: IHP



Source: IHP



Source: IHP

IHP is always on the lookout for adopting higher international specifications by suggesting changes to the Indian Standard (BIS) after a thorough investigation through in-house testing. IHP's R&D division has the expertise and is continuously working on changes to improve the quality of their products and its constant endeavor is to work towards bringing in a revolution in concrete pipe products to India that is similar to what has taken place in western countries. The Company has earned a reputation for excellence through employing modern technology, stringent quality control measures, timely execution and continuous R&D. IHP has an excellent track record as a contractor for successfully executing water supply, sewage, and irrigation & power projects.

Major clients of IHP have been Central & State Government and local bodies. IHP is actively involved in the strengthening of the nation's infrastructure in various fields like water supply, irrigation, drainage, power generation and rail transport; it executes numerous turnkey pipeline projects for water supply, sewerage and hydroelectric power generation and supplying millions of concrete sleepers for the track modernization of railways in India.

IHP is constantly working towards meeting the growing demand for large diameter concrete pipes in India. IHP is the first and only company in India to successfully manufacture and install 2000mm diameter prestressed concrete pipe (PSC) and 1800mm diameter bar wrapped steel cylinder pipe (BWSC) on a large scale. IHP's manufacturing units are well equipped to deliver large diameter pipes in most locations. This makes IHP the single largest manufacturer of concrete pressure pipes in the country along with the ability to deliver its products to clients with the optimal transport cost.

Product Portfolio

Pipes

Prestressed Concrete Pipe (PSC)

Introduced in the year 1956, in technical collaboration with Rocla Pipes, Australia, these pipes find application in pressure water transmission and distribution mains (pumping & gravity) for water supply, drainage, lift irrigation schemes, re-circulation and cooling water pipe lines. It is also used in plants like thermal power, chemical, cement, fertilizer, paper, refineries etc.

Prestressed Concrete Cylinder Pipe (PCCP)

It consists of a hydraulically tested steel cylinder with steel joint rings, centrifugally cast concrete core, high strength prestressing wire wrapped around the core and thereafter cement rich mortar coating. The joint rings are made of thicker steel plates. These pipes can be made from 350mm to 2200mm diameter for working pressure up to 16 kg / cm². Bigger diameter and higher pressure pipes are also supplied for large requirements.

Bar Wrapped Steel Cylinder Pipe (BWSC)

It is essentially a thin steel pipe cylinder; welded with thicker steel joint rings at the ends, hydraulically tested and centrifugally lined with cement mortar. The M.S bar or wire is helically wrapped on the cylinder with controlled tension ensuring intimate contact with cylinder and is then coated with cement mortar by high impaction process. These pipes can be made from 250 mm to 1900 mm diameters for working pressure up to 25 Kg/cm². Length of each pipe shall be between 5-6 meters, but longer length pipes are also manufactured for larger requirements.



Source: IHP



Source: IHP

Reinforced Cement Concrete Pipes (RCC)

Also known as Hume Pipe, these pipes are made to IS Specification (I.S. 458-1988), and compare favorably with the Australian, British or American Standards. Pipes are also manufactured to other international standards to suit a wide range of client's requirements. These pipes can be made from 900mm to 2400mm diameters with a length of 2.5 meters.

Penstocks Pipe

A Penstock is a high pressure steel pipeline that carries water from the storage reservoir to the turbines and is a vital element of hydro-electric projects. The welded pipes are subjected to hydrostatic test before painting and dispatch to ensure pipes are strong and safe enough to withstand design water pressure.

Steel Pipes (MS)

The Company started making steel pipes in collaboration with Humes of Australia during the year 1932. These steel cylinder concrete pipes, are used in the pressure ranges above 20kg/cm² and sometimes, in special situations such as exposed pipeline, under-sea pipeline etc. These pipes are made from 250mm to 2500mm diameter with a length of 6-7.5 meters.

Prestressd Concrete Railway Sleepers

IHP introduced the prestressed concrete monoblock sleepers for railways in 1970. Indian Railways is one of the largest buyers of IHP's railway sleepers. The life of an IHP sleeper in track is estimated at not less than 50 years. The heavier sleeper produces a higher resistance to lateral movement and also reduces the vertical movement under traffic of imperfectly packed sleepers. In condition of excessive heat, a concrete sleeper track is less prone to vertical and horizontal distortion, and this has important safety as well as maintenance implications.



Source: IHP



Source: IHP

Air Rifles & Pistols

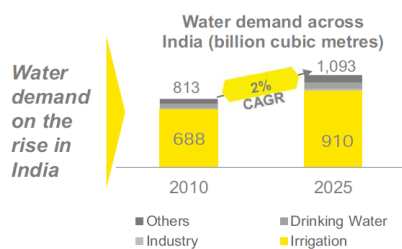
IHP is the only manufacturer in the organized sector in India, manufacturing quality air rifles or air pistols. With its imported machinery it has a capacity of manufacturing 12,000 air rifles per annum. To market its air rifles and air pistols for target shooting and sports, the company has an extensive distribution network throughout India. Its rifles division occupies the largest market share for air rifles and air pistols in India.

Investment Thesis

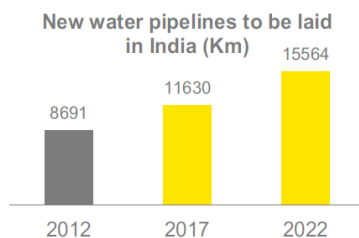
Civil Construction

Infrastructure sector is a key driver for the Indian economy. The sector is highly responsible for propelling India's overall development and enjoys intense focus from Government for initiating policies that would ensure time-bound creation of world class infrastructure in the country. Infrastructure sector includes power, bridges, dams, roads and urban infrastructure development. India needs Rs 31 trillion to be spent on infrastructure development over the next five years, with 70 per cent of funds needed for power, roads and urban infrastructure segments according to Associated Chambers of Commerce & Industry of India (ASSOCHAM). In 2016, India jumped 19 places in World Bank's Logistics Performance Index (LPI) 2016, to rank 35th amongst 160 countries. FDI received in Construction Development sector (townships, housing, built up infrastructure and construction development projects) from April 2000 to March 2017 stood at \$24.3 billion, according to the Department of Industrial Policy and Promotion (DIPP). The Government of India has made a record allocation Rs 2,21,246 crore for several infrastructure projects in Union Budget 2016-17, which is expected to provide significant boost to Indian infrastructure sector (Source: GOI).

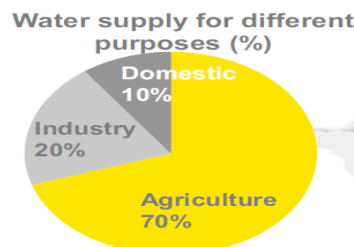
There is huge potential for water supply, sewage disposal, head works, treatment plants etc. During the last decade, urban area limits are spreading wider and wider to peripheral areas, but at the same time, the basic amenities like water supply, drainage, etc; are not keeping pace with the requirement of more and more urbanization. Apart from the above, most of the rural areas in India fall short of access to drinking water. Government of India, State Governments and local bodies are making best efforts to supply safe drinking water. Hence, a number of water supply schemes is on the radar. Further to bring cities and rural areas under more hygienic conditions, a lot of sewerage disposals and drainage schemes are also coming up, besides the endeavor towards Swachha Bharat a number of sewerage disposals and drainage schemes are also coming up which provides companies like IHP an opportunity to cater more projects.



Source: GWSSB



Source: GWSSB



Source: GWSSB

Approximately, 225 million people in India do not have access to safe drinking water. Growing water needs of population and uneven water distribution in India is giving rise to investment in interstate water pipelines to water scarcest areas. The projected municipal and domestic water demand in India by 2025 will grow to 1093bcm from 813bcm in 2010, at a CAGR of 2%. Total water production is estimated to rise but water production per household is expected to decrease. Rising demand and low per capita production is increasing the over exploitation of ground water. The trend of urbanization in India and the rapid growth of population have exerted stress on civic authorities to provide basic requirement such as safe drinking water, sanitation and infrastructure which requires exploration of raw water sources, developing treatment and distribution systems. (Source: Gujarat Water Supply & Sewerage Board)

Minister of Housing and Urban Poverty Alleviation, Government of India, launched 352 affordable housing projects worth Rs 38,000 crore in 53 cities across 17 states for building over 200,000 houses costing Rs 18 lakhs per house on average. The Government of India plans to invest Rs 11,421 crore to improve basic urban infrastructure in 61 cities and towns of Uttar Pradesh, having population exceeding 100,000 each by 2019-20, under the Atal Mission for Rejuvenation and Urban Transformation (AMRUT) scheme (Source: Media Sources). The Ministry Of Urban Development has approved investment of Rs 2,863 crore in six states under the Atal Mission for Rejuvenation and Urban Transformation (AMRUT) scheme, for improving basic urban infrastructure over FY 2017-20. "Housing for All" is the commitment made by GOI with an objective that by the time nation completes 75 years of Independence, every homeless and households living in dilapidated houses have a pucca house. The major initiative of the Ministry of Rural Development to achieve the objective of "Housing for All" by 2022 is the launch of Pradhan Mantri Awas Yojana – Gramin which came into effect from 1st April, 2016. Also Pradhan Mantri Awas Yojana - Urban for ensuring housing for all in urban areas was launched on 25th June 2015 which is to be implemented during 2015-2022 (Source: Minister of Housing and Urban Poverty Alleviation).

ROOF FOR ALL

LAUNCHES OF AFFORDABLE HOUSING UNITS		
City	No. of Project	No. of Units
Pune	74	61,067
NCR Delhi	29	41,921
Mumbai*	40	38,687
Ahmedabad	73	21,752
Bengaluru	9	5,153
Others	116	27,504
Total	352	2,03,851

Source: GOI

SHELTER CRISIS

Shortage of Urban Housing

Likely shortage by 2022

3 crore

1.87 crore

Present

Shortage in states

UP (30 lakh) | Maharashtra (19 lakh) | WB (13 lakh) | Seemandhra & Telengana (13 lakh) | TN (12 lakh) | Bihar (12 lakh) | Rajasthan (11 lakh) | Karnataka (10 lakh) | Gujarat (9 lakh) & Jharkhand (6 lakh)

Source: GOI

2.2 lakh Houses built in past 3 years by government agencies

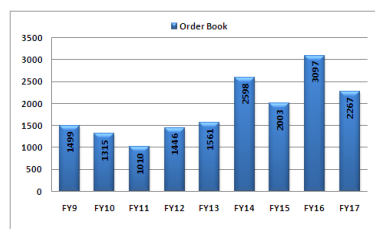
25 lakh Requirement to build houses per year to meet shortage

Considerable progress has been made over the past few decades to provide access to safe drinking water in urban and rural areas. As a result of several programs initiated at the city level, the access to improved sources of water has increased from 88 per cent in 1990 to 97 per cent in 2010 in urban areas. The availability of water supply ranges from four hours or less per day in Delhi, Bangalore and Hyderabad to nine hours in Kolkata. A household study conducted in seven cities in India found that the average per capita consumption of water is 92 liters per capita per day (lpcd), which is close to the WHO guideline of 100 lpcd for optimal access. Further analysis of the data by socio-economic quintiles shows that water consumption increases with a rise in socio-economic status, although the inter-quintile differences are not significant (Source: Minister of Housing and Urban Poverty Alleviation).

CD Equisearch Pvt Ltd

Order Book

As per last reporting IHP order book stood at Rs 2656 crores (\$409.6m) which provide improved revenue visibility. Over the years IHP's order book has grown from Rs 1010 crores (\$226.3m) in FY11 to Rs 2656 crores (\$409.6m) - by mid May, 2017 - a 2.6x fold increase in order book. Order inflow of some of the prominent projects was Rs 998 crores (\$148.8m) in FY17. Over the last 9 years, IHP has completed many projects out of which it has completed nearly 300 major projects- 74 prominent projects under construction or near completion at the end of last fiscal. Currently the company is executing some of the major projects amounting to Rs 1913.41 crores in Telangana state. Out of total order inflows (prominent ones) of Rs 2000.30 crores & Rs 997.90 crores in FY16 & FY17 respectively, order inflows from Telangana state represents ~72% and ~18% in FY16 & FY17 respectively. However, increasing concentration in Telangana along with operation in handful of state could be gauged as a matter of concern; Chhattisgarh's order inflow share zoomed to 30% last fiscal. However, orders from Maharashtra and Tamil Nadu have dried up in last few years. IHP's order book is well diversified across various states in India along with diversification in sizes of the projects.



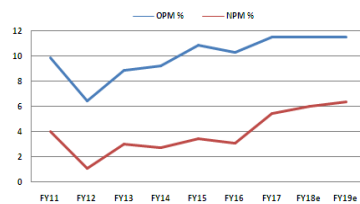
Source: IHP

Clients

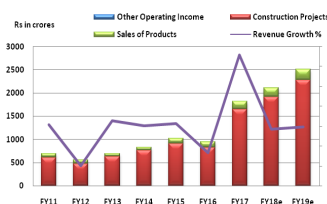
IHP's largest clients are state government which accounts for most of the revenue generated by the company. Various projects like water treatment plant, water supply, irrigation, sewerage disposals and drainage projects, etc., has been undertaken by the company at various location in India. IHP has diversified its water project portfolio and by now it has presence in more than 8 states. Order inflows from states like Telangana, Rajasthan, Madhya Pradesh, Andhra Pradesh and Chhattisgarh have gained traction in last few years. But it has failed to bag orders from states like Haryana and Tamil Nadu in last three years.

Financial & Valuation

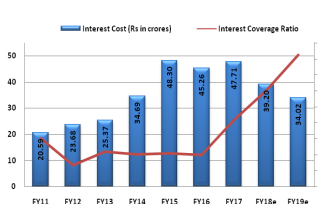
Execution of Telangana Water Grid Project drove the growth of IHP last fiscal. Revenue surged by 91.7% and PAT by 240%. Operating profit also rose by 110.7% to Rs 207.58 crore in FY17 as compared to Rs 96.96 crores in the same quarter last year. However, growth in operating profit has outpaced the revenue growth due to benefits of operating leverage. Overall debt of the company has declined by 15.6% to Rs 268.41 crores (\$41.4m), last fiscal, thus bringing down the debt-equity ratio to 0.7. Construction contracts of water supply schemes, pipe supply & laying projects contribute nearly 99% to the total revenues. In FY17, company has completed some of the prominent projects like rural habitation, pump sets, service reservoirs, pump rooms, and water pipeline etc worth Rs 361.15 crores in Pudukottai district & Rs 236.54 crores in Thanjavur district of Tamil Nadu, Rs 70.14 crores for Chalisgaon Municipal Council, Maharashtra etc.



Source: IHP, CD Equisearch



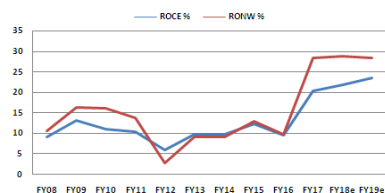
Source: IHP, CD Equisearch



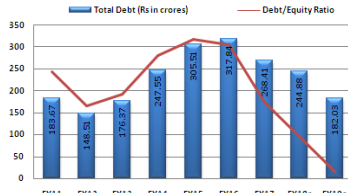
Source: IHP, CD Equisearch

CD Equisearch Pvt Ltd

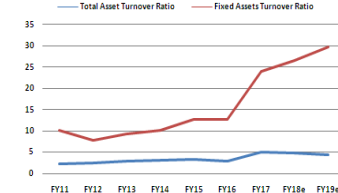
During the FY17 company has successfully realized profit from its sales by generating net profit margin of 5.5% as compare to 3.1% in FY16. This is amongst one of the highest margin which company has posted at least since FY11. However, on operating front too, company has posted the margin of 11.5% which is the highest reading in last seven years. IHP's financial performance can be gauged from its strong return ratios as it has posted ROCE of 20.3% in FY17, while it has generated more than 28.5% return on equity during the same period.



Source: IHP, CD Equisearch

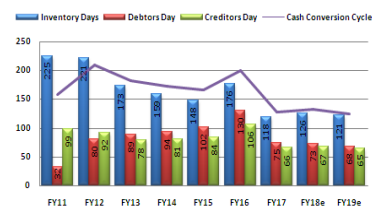


Source: IHP, CD Equisearch

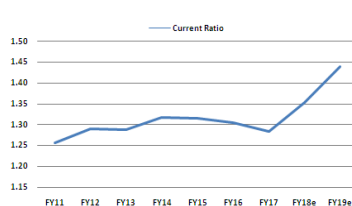


Source: IHP, CD Equisearch

The BWSC and PCCP pipes introduced by the company as alternative pipe materials to M.S. and D.I. pipes have become popular amongst various government authorities. The company has undertaken several projects involving BWSC pipes. To meet the demand of BWSC pipes, IHP had specially set up manufacturing plants at Choutuppall in Telangana, Chilamathur in Andhra Pradesh and Dhule in Maharashtra. These plants are running continuously with better productivity yields. In addition to the above the company has also created facilities to manufacture these pipes in its existing factories at Miraj, Rajkot, Kanhan, Patancheru, Yelhanka, Thanjavur, Kekri, Sikar, Karari and Kovvur to cater the local demand. During the year the company has received orders worth Rs 106.73 crores (\$15.9m) for BWSC pipes, orders worth Rs 34.85 crores (\$5.2m) for PSC pipes and orders worth Rs 162.25 crores (\$24.2m) for PCCP pipes along with other civil works.

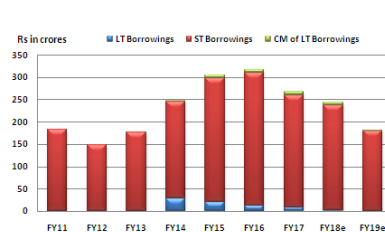


Source: IHP, CD Equisearch

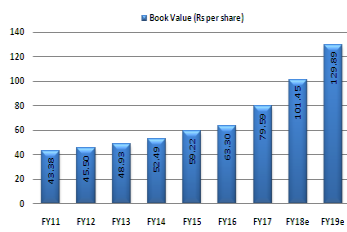


Source: IHP, CD Equisearch

Along with water supply turnkey projects, IHP also deals in railway sleepers and air rifles. IHP has manufactured 97,364 railway sleepers amounting to Rs 14.85 crores (\$2.2m) against the orders received from Ministry of Railways and Railway Board. Last year company has received work orders for 3,08,256 numbers of railway sleepers worth Rs 50.04 crores (\$7.5m). Under the brand of National Air Rifle at Vatva, Ahmadabad, since 1970, IHP manufactures air rifles and air pistols for sports and target shooting competitions.



Source: IHP, CD Equisearch



Source: IHP, CD Equisearch

The stock presently trades at 20.8x FY18e EPS of Rs 26.19 and 16.5x FY19e EPS of Rs 33.01. Despite economic slowdown, IHP managed to sustain a strong revenue growth last fiscal. In addition, IHP has order book of Rs 2267 crores (\$349.6m) as on FY17 which could offer a strong top line growth and also provides opportunity for further expansion in margins. IHP has established brand name and build a strong order book in the field of water supply projects. Considering growth prospects, we assign a 'buy' rating on the stock at a target price of Rs 693 based on 21x FY19e EPS over a period of 9-12 months.

Risks and Concerns

Raw material prices

Due to imposition of minimum import price policy on imported steel products by the Central Government, the prices of imported steel became costly compared to local products. Due to shortage in supply of coking coal, a major ingredient of steel, production capacities of manufacturers were hampered. This resulted in widening the gap between demand and supply. The prices of HR Coils, Steel Plates, DI & MS Pipes have gone up by more than 25% compared to previous fiscal, FY16. Telangana Water Grid Project started in January, 2016 and suddenly there was a heavy demand for DI Pipes, HDPE Pipes & Cement. The rise in prices of key raw materials will reduce margin and can affect company's business prospects.

Political Unrest

The Company is doing business with various Central & State Governments and with local bodies. Its depends upon the policy of government for approval of finance and allocation of funds, as well as their ability to raise funds to undertake such water supply projects amongst various infrastructure related projects being implemented by the government. Adverse changes and lack of funds delays the work resulting in higher cost and can also affect the business prospects of the industry and the company.

Rising Competition

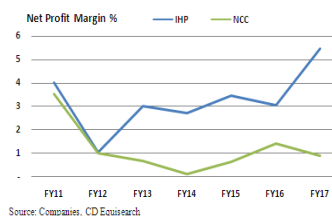
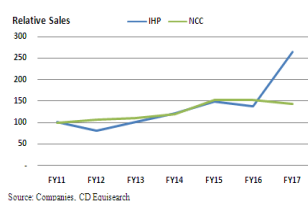
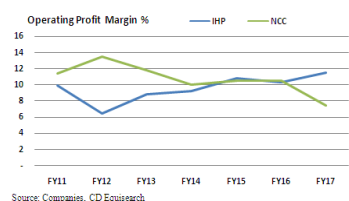
Severe competition from the manufacturers of alternative pipes like ductile iron, PVC pipes, HDPE and spirally welded steel pipes is an existing threat and can affect company's business prospects.

Cross Sectional Analysis

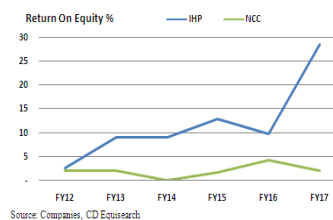
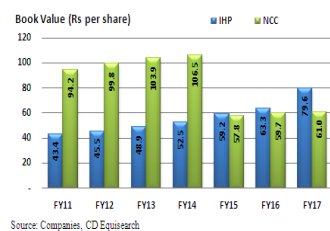
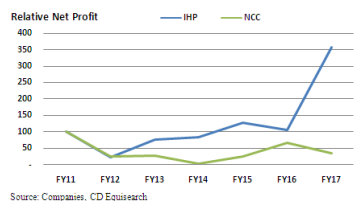
Company	Equity*	CMP	Mcap*	Sales*	Profit*	OPM (%)	NPM (%)	Int Cov	ROE (%)	Mcap/Sales	P/BV	P/E
Indian Hume Pipe	10	544	2634	1800	99	11.5	5.5	4.2	28.5	1.5	6.8	26.7
NCC Ltd	111	90	5023	9001	73	7.4	0.9	1.3	2.2	0.6	1.5	69.1

*figures in crores; calculations on ttm basis

Book value adjusted for goodwill & revaluation reserves wherever applicable



NCC Ltd is one of the largest construction players in India and undertakes civil construction in segments such as transportation, water & irrigation, buildings, power, transmission and distribution. Its pan India presence enables active participation in project bids backed by strong execution teams, currently executing around 200 projects at various locations. NCC reported a consolidate revenue of Rs 9001 crores (\$1341.6m) in FY17 as compared to Rs 9527 crores (\$1655.4m) in FY16, a fall of ~550bps. EBITDA in FY17 was at Rs 873.62 crores (\$130.2m), a fall of 22.6% compared to Rs 1128.98 crores (\$172.5m) in the corresponding quarter of the previous year. Debt to Equity ratio is at ~0.7 and interest coverage ratio stands at 1.3. The order book as at the end of FY17 was Rs 18089 crore (\$2789.9m) with strong order inflow of Rs 9226 crore (\$1375.2m). Out of NCC's total order book major projects comprises of 43% from buildings, 29% from water & irrigation, and ~10% each in the field of mining & electrical.



Financials

Quarterly Results - Standalone

Figures in Rs crs

	Q4FY17	Q4FY16	% chg	FY17	FY16	% chg
Income From Operations (Net)	493.77	297.94	65.7	1799.54	938.94	91.7
Other Income	1.35	0.77	74.0	2.96	2.96	0.2
Total Income	495.12	298.71	65.8	1802.51	941.90	91.4
Total Expenditure	430.27	269.99	59.4	1591.96	841.98	89.1
EBITDA (other income included)	64.85	28.72	125.8	210.54	99.92	110.7
Interest	10.24	11.50	-11.0	47.71	45.26	5.4
Depreciation	2.83	2.64	7.1	10.53	9.80	7.4
PBT	51.8	14.6	255.1	152.30	44.85	239.5
Tax	18.55	5.16	259.8	53.52	15.76	239.7
PAT	33.24	9.43	252.6	98.78	29.10	239.5
Extraordinary Item	-	-	-	0.17	0.09	81.5
Adjusted Net Profit	33.24	9.43	252.6	98.61	29.01	240.0
EPS (Rs)	6.86	1.95*	252.6	20.36	5.99*	240.0

Segment Results - Standalone

Figures in Rs crs

	Q4FY17	Q4FY16	% chg	FY17	FY16	% chg
Segment Revenue						
Construction projects	480.61	294.75	63.1	1779.53	920.63	93.3
Others	7.39	2.81	163.0	12.34	16.29	-24.2
Income From Operations**	488.01	297.57	64.0	1791.87	936.91	91.3
Segment EBIT						
Construction projects	71.72	30.41	135.9	235.59	111.58	111.1
Others	-0.31	0.03	-1059.1	-0.04	-0.02	94.1
Sub Total	71.41	30.44	134.6	235.55	111.56	111.1
Interest	10.24	11.50	-11.0	47.71	45.26	5.4
Other Unallocable Exp. (net of income)	9.39	4.36	115.1	35.53	21.45	65.7
PBT	51.78	14.58	255.1	152.30	44.85	239.5

*Adjusted for bonus issue

**Excluding other operating income

Income Statement

Figures in Rs crs

	FY15	FY16	FY17	FY18e	FY19e
Income From Operations (Net)	1009.86	938.94	1799.54	2106.90	2510.75
Growth (%)	22.7	-7.0	91.7	17.1	19.2
Other Income	12.69	2.96	2.96	3.15	3.30
Total Income	1022.55	941.90	1802.51	2110.04	2514.04
Total Expenditure	900.15	841.98	1591.96	1863.67	2220.46
EBITDA (other income included)	122.39	99.92	210.54	246.37	293.59
Interest	48.30	45.26	47.71	39.20	34.02
Depreciation	12.13	9.80	10.53	11.51	12.77
PBT	61.97	44.85	152.30	195.66	246.80
Tax	20.40	15.76	53.52	68.78	86.87
PAT	41.57	29.10	98.78	126.89	159.93
Extraordinary Item	6.37	0.09	0.17	-	-
Adjusted Net Profit	35.20	29.01	98.61	126.89	159.93
EPS (Rs)	7.26*	5.99*	20.36	26.19	33.01

Segment Income Statement

Figures in Rs crs

	FY15	FY16	FY17	FY18e	FY19e
Segment Revenue					
Construction projects	996.86	920.63	1779.53	2088.37	2488.88
Others	6.97	16.29	12.34	14.72	17.54
Income From Operations**	1003.83	936.91	1791.87	2103.09	2506.43
Segment EBIT					
Construction projects	122.34	111.58	235.59	281.29	336.12
Others	0.89	-0.02	-0.04	0.28	0.34
Sub Total	123.23	111.56	235.55	281.57	336.46
Interest	48.30	45.26	47.71	39.20	34.02
Other Unallocable Exp. (net of income)	16.09	21.45	35.53	46.71	55.64
Exceptional Income	3.12	0.00	0.00	0.00	0.00
PBT	61.97	44.85	152.30	195.66	246.80

*Adjusted for bonus issue

**Excluding other operating income

Standalone Balance Sheet

Figures in Rs crs

	FY15	FY16	FY17	FY18e	FY19e
Sources of Funds					
Share Capital	4.84	4.84	9.69	9.69	9.69
Reserves	282.04	301.81	389.92	496.98	635.92
Total Shareholders' Funds	286.88	306.65	399.61	506.67	645.61
Long Term Debt	20.63	13.65	8.16	2.03	1.53
Total Liabilities	307.51	320.30	407.76	508.70	647.14
Application of Funds					
Gross Block	156.20	162.61	175.49	190.20	210.10
Less: Accumulated Depreciation	81.48	89.50	97.60	109.11	121.88
Net Block	74.72	73.11	77.89	81.09	88.21
Capital Work in Progress	0.35	2.59	0.96	1.25	1.35
Investments	0.96	0.29	0.29	0.29	0.29
Current Assets, Loans & Advances					
Inventory	375.55	436.27	597.31	686.91	789.94
Trade receivables	335.21	335.45	402.73	443.00	487.30
Cash and Bank	21.07	10.06	43.48	31.49	59.69
Short term loans (inc. other current assets)	216.80	237.56	273.20	296.40	324.06
Total CA	948.62	1019.34	1316.72	1457.79	1660.99
Current Liabilities	658.77	715.44	898.33	926.55	976.80
Provisions-Short term	62.63	65.97	112.69	134.65	160.95
Total Current Liabilities	721.40	781.41	1011.03	1061.20	1137.75
Net Current Assets	227.22	237.93	305.69	396.59	523.24
Net Deferred Tax	-0.89	0.55	0.99	1.12	1.26
Net long term assets (net of liabilities)	5.15	5.84	21.94	28.37	32.78
Total Assets	307.51	320.30	407.76	508.70	647.14

Cash Flow Statement

Figures in Rs crs

	FY15	FY16	FY17	FY18e	FY19e
Net Income (a)	41.57	29.10	98.78	126.89	159.93
Non Cash Expenses (b)	4.17	8.51	11.50	9.16	10.36
Depreciation	12.13	9.80	10.53	11.51	12.77
(Profit)/Loss on sale of assets	-6.37	-0.14	-0.26	0.00	0.00
(Profit)/Loss on sale of investment	0.00	0.00	0.00	-	-
Provision for doubtful debt/advances (net)	1.24	0.86	2.56	-	-
Interest income	-1.37	-0.66	-0.83	-2.17	-2.23
Dividend income	-0.08	-0.03	-0.04	-0.04	-0.04
Deferred Tax	-1.38	-1.32	-0.45	-0.13	-0.14
Adjustments in NWC and others (c)	-96.42	-34.13	-11.39	-91.91	-40.52
Inventory	-20.47	-60.72	-161.04	-89.60	-103.04
Trade Receivables	-106.89	-0.25	-67.27	-40.27	-44.30
Trade Payables	48.34	25.06	60.49	47.66	54.80
Other Assets (Net of Liabilities)	-17.39	1.77	156.44	-9.70	52.01
Cash Flow from Operating Activities (a+b+c)	-50.68	3.48	98.90	44.14	129.76
Proceed from sale of assets	11.16	0.28	0.41	-	-
Purchase of fixed assets	-7.53	-10.57	-13.83	-15.00	-20.00
Net Purchase/Sale of Investments	0.67	0.67	0.00	-	-
Interest received	1.31	-0.12	0.85	2.17	2.23
Dividend received	0.08	0.03	0.04	0.04	0.04
Cash Flow from Investing Activities (d)	5.69	-9.72	-12.52	-12.78	-17.73
Net Borrowings	57.97	12.33	-49.44	-23.53	-62.85
Dividend Paid (including CDT)	-6.80	-18.08	-5.83	-19.83	-20.99
Cash Flow from Financing Activities (e)	51.17	-5.75	-55.27	-43.36	-83.84
Net change (a+b+c+d+e)	6.17	-11.99	31.11	-12.00	28.20

Key Financial Ratios

	FY15	FY16	FY17	FY18e	FY19e
Growth Ratios (%)					
Revenue	22.7	-7.0	91.7	17.1	19.2
EBITDA	44.8	-11.6	110.8	17.2	19.2
Net Profit	56.8	-17.6	240.0	28.7	26.0
EPS	56.8	-17.6	240.0	28.7	26.0
Margins (%)					
Operating Profit Margin	10.9	10.3	11.5	11.5	11.6
Gross profit Margin	6.4	5.8	9.0	9.8	10.3
Net Profit Margin	3.5	3.1	5.5	6.0	6.4
Return (%)					
ROCE	12.4	9.6	20.3	21.9	23.5
ROE	13.0	9.8	28.5	28.9	28.5
Valuations					
Market Cap/ Sales	0.6	0.8	1.1	1.3	1.0
EV/EBITDA	8.2	10.8	10.2	11.6	9.7
P/E	18.1	26.4	19.4	20.8	16.5
P/BV	2.2	2.5	5.0	5.4	4.2
Other Ratios					
Interest Coverage	2.1	2.0	4.2	6.0	8.3
Debt Equity	1.1	1.0	0.7	0.5	0.3
Net Debt-Equity Ratio	1.0	1.0	0.6	0.4	0.2
Current Ratio	1.3	1.3	1.3	1.4	1.4
Turnover Ratios					
Fixed Asset Turnover	12.7	12.7	23.8	26.5	29.7
Total Asset Turnover	3.4	3.0	5.0	4.7	4.5
Inventory Turnover	2.5	2.1	3.1	2.9	3.0
Debtors Turnover	3.6	2.8	4.9	5.0	5.4
Creditor Turnover	4.3	3.4	5.5	5.5	5.7
WC Ratios					
Inventory Days	148.1	176.0	118.5	125.8	121.4
Debtor Days	101.8	130.4	74.9	73.3	67.6
Creditor Days	84.3	106.1	65.9	66.9	64.6
Cash Conversion Cycle	165.6	200.2	127.4	132.1	124.4

Cumulative Financial Data

	FY05-07	FY08-10	FY11-13	FY14-16	FY17-19e
Income from operations	722	1477	1913	2772	6417
Operating profit	57	166	164	283	741
EBIT	67	161	150	261	715
PBT	49	106	80	133	595
PAT	37	68	54	87	385
Dividends	10.8	14.5	17.5	24.9	63
OPM (%)	7.8	11.2	8.5	10.2	11.5
NPM (%)	5.1	4.6	2.8	3.1	6.0
Interest coverage	3.7	2.9	2.2	2.0	5.9
Debt-equity*	0.6	1.1	0.7	1.0	0.3
ROE (%)	10.9	14.2	8.5	10.6	27.5
ROCE (%)	9.6	11.5	8.4	10.9	21.5
Fixed asset turnover	9.3	9.7	8.9	12.1	26.5
Debtors turnover	17.9	31.2	6.0	3.5	5.2
Creditors turnover	4.2	3.2	3.4	4.1	5.6
Inventory turnover	1.9	1.5	1.6	2.3	3.1
Debtor days	20.4	11.7	60.5	104.5	70.2
Inventory days	189.7	245.0	227.0	161.4	118.3
Creditor days	85.9	112.5	107.0	89.2	65.3
Cash Conversion	124.2	144.3	180.4	176.7	123.1
Dividend payout ratio (%)	20.9	21.0	26.2	26.3	16.3

FY05-07 implies three years ending FY07.

*as on terminal year

IHP's cumulative revenue has increased 3.8x fold period of FY14-16 as compared to FY05-07. In recent years (FY14-16), margin seems to have improved on account of economies of scale. Cash conversion cycle has gone up due to increased debtor days coupled with lower creditor days, which has led to increase in company's need for working capital. This need in working capital has been sourced through short term borrowings, thereby increasing interest cost and impacting interest coverage ratio (down from 3.7 in FY05-07 to 2 in FY14-16 period).

IHP has shown strong growth during period FY17 as revenue increased by 91.7% y-o-y. OPM also rose by 120bps to 11.5% resulting in more than doubling of operating profit; net profit margin tripled. Going forward IHP is expected to post 2.3x increase in income from operations during FY17-19e period, resulting in 4.4x increase in PAT(see table). Given the expected decrease in debtors and inventory days, cash conversion cycle is expected to improve which would lower short term debt.

Financial Summary – US dollar denominated

million \$	FY15	FY16	FY17	FY18e	FY19e
Equity Share capital	0.8	0.7	1.5	1.5	1.5
Shareholders' funds	45.8	46.2	59.5	76.7	98.2
Total debt	48.8	47.9	41.4	38.2	28.4
Net fixed assets (incl. CWIP)	12.0	11.4	12.2	12.9	14.0
Investments	0.2	0.0	0.0	0.0	0.0
Net Current assets	36.3	35.9	45.0	59.5	79.1
Total Assets	49.1	48.3	60.7	77.0	98.5
Revenues	165.2	143.4	268.2	328.8	391.9
EBITDA	18.5	15.2	31.3	38.5	45.8
EBDT	10.6	8.3	24.2	32.3	40.5
PBT	8.6	6.8	22.7	30.5	38.5
PAT	5.8	4.4	14.7	19.8	25.0
EPS(\$)	0.12	0.09	0.30	0.41	0.52
Book value (\$)	0.95	0.95	1.23	1.58	2.03

Income statement figures translated at average rates; balance sheet and cash flow at year end rates; projections at current rates(Rs 64.07/\$). All dollar denominated figures are adjusted for extraordinary items.

Recommendation

Water is a prime natural resource and a basic human need for survival and existence. Indeed water is fundamental to our life. In view of the vital importance of water for human, animal & plant life, for maintaining ecological balance and for economic and developmental activities of all kinds and considering its increasing scarcity, the planning and management of this resource and its optimal economical and equitable use has become a matter of national importance. Currently the expected population of the country is 1.33 billion which is estimated to reach a level of around 1.5 billion and 1.7 billion by the year 2030 and 2050 respectively, at a CAGR of 1.2% (Source: Media Source); which will further aggravate the scarcity of water to the people of India. A scarce natural resource, water is fundamental to life, livelihood, food security and sustainable development. India has more than 18% of the world's population, but has only 4% of world's renewable water resources and 2.4% of world's land area (Source: Ministry of Water Resources). Thus there is a vast scope for improvement in infrastructural developmental activities in water supply, drainage and sewerage schemes in sanitation Swachh Bharat segments leading to good scope for IHP's EPC activities in this field.

Domestic and Industrial water needs have been largely concentrated in or around major cities, however the demand in rural areas is expected to increase sharply as the development programs of State Governments to improve the economic conditions of the rural mass. Demand for water for hydro and thermal power generation and for other industrial uses is also increasing substantially. As a result water which is already scarce will become even scarcer in future. This underscores the need for the utmost efficiency in water utilization and its distribution. Hence there is a good scope for many water supply projects coming up in near future and this auger well for companies engaged in water supply projects.

The company's activities and prospects largely depend on the implementation of various water supplies related projects undertaken by various States & Central Government and with local bodies. Any variation in policies, regulation or change in norms by these bodies will directly impact company's performance. Also, due to rising prices of crude oil in international market, raw material procurement PVC & HDPE Pipes may become costlier.

IHP has got clients from various State Government & local bodies like Indian Railways, Indian Railway Construction Company (IRCON), Rail India Technical And Engineering Services (RITES), Bharat Heavy Electricals Limited (BHEL), National Hydro Power Corporation (NHPC), National Thermal Power Corporation (NTPC), Delhi Jal Board, Karnataka Water Supply & Drainage Board, Karnataka Power Corporation Ltd., Bhopal Municipal Corporation, Indore Municipal Corporation, Kerala Water Authority, Himachal Pradesh State Electricity Board, Chhattisgarh Public Health Engineering Department etc.

Despite macroeconomic headwinds, company managed to report stellar performance and significantly expanded order book in past several years. Currently the order book of IHP stands at Rs 2656 crores (\$409.6m) which provide revenue visibility. Considering the higher margin in EPC business, company derives ~99% of its revenue from this business. Valuations look attractive and stock is currently trading at 20.8x FY18e EPS of Rs 26.19 and 16.5x FY19e EPS of Rs 33.01. Considering growth prospects, we recommend buying the stock with a target price of Rs 693 based on 21x FY19e EPS (peg ratio: 0.8) over a period of 9-12 months.

Disclosure & Disclaimer

CD Equisearch Private Limited (hereinafter referred to as 'CD Equi') is a Member registered with National Stock Exchange of India Limited, Bombay Stock Exchange Limited and Metropolitan Stock Exchange of India Limited (Formerly known as MCX Stock Exchange Limited). CD Equi is also registered as Depository Participant with CDSL and AMFI registered Mutual Fund Advisor. The associates of CD Equi are engaged in activities relating to NBFC-ND - Financing and Investment, Commodity Broking, Real Estate, etc.

CD Equi is registered under SEBI (Research Analysts) Regulations, 2014 with SEBI Registration no INH300002274. Further, CD Equi hereby declares that –

- No disciplinary action has been taken against CD Equi by any of the regulatory authorities.
- CD Equi/its associates/research analysts do not have any financial interest/beneficial interest of more than one percent/material conflict of interest in the subject company(s) (*kindly disclose if otherwise*).
- CD Equi/its associates/research analysts have not received any compensation from the subject company(s) during the past twelve months.
- CD Equi/its research analysts has not served as an officer, director or employee of company covered by analysts and has not been engaged in market making activity of the company covered by analysts.

This document is solely for the personal information of the recipient and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved) and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. CD Equi or any of its affiliates/group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. CD Equi has not independently verified all the information contained within this document. Accordingly, we cannot testify nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document.

While, CD Equi endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory compliance or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly. Neither, CD Equi nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

CD Equisearch Private Limited (CIN: U67120WB1995PTC071521)

Registered Office: 37, Shakespeare Sarani, 3rd Floor, Kolkata – 700 017; Phone: +91(33) 4488 0000; Fax: +91(33) 2289 2557 Corporate Office: 10, Vasawani Mansion, 5th Floor, Dinshaw Wachha Road, Churchgate, Mumbai – 400 020. Phone: +91(22) 2283 0652/0653; Fax: +91(22) 2283, 2276 Website: www.cdequi.com; Email: research@cdequi.com

buy: >20% accumulate: >10% to ≤20% hold: ≥-10% to ≤10% reduce: ≥-20% to <-10% sell: <-20%

Exchange Rate Used- Indicative

Rs/\$	FY15	FY16	FY17
Average	61.15	65.46	67.09
Year end	62.59	66.33	64.84

All \$ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.