



Tactical Buy Kennametal India Ltd.

Poised for an uptick

- Kennametal India (KNM) is a Bengaluru-based manufacturer of hard metal products and machine tools. It is a play on manufacturing industries capex across various sectors, especially in automobiles, infrastructure, semi conductors, mining, aerospace, and machinery manufacturers. KNM is a 75% subsidiary of Kennametal Inc. USA, which is a leading global company in developing and manufacturing sophisticated hard material cutting and wear protection solutions.
- We are positive on KNM considering (a) manufacturing activity in India poised to rise all time high, (b) impending revival in domestic automobile volumes and overall private Capex, (c) strong growth potential with a CAGR of 18/23% in sales/PAT over FY22–25E, and (d) RoCE expansion from 18% to 25% over the next two years.
- We assign a Tactical BUY rating considering the cyclical nature of the business. Our TP of INR 3,384/share, based on 35x FY24E PE multiple, implies an upside of 25%.

A play on manufacturing activities; rising proportion of GDP

Manufacturing sector’s share in the Indian economy has reached to pre-covid level of ~18% of GVA in FY22 and we believe it is poised for an uptick led by signs of capex cycle recovery, which includes the real estate cycle, government policy initiatives such as the PLI schemes, continued FDI inflows, China+1 strategy and an urgency to become self-sufficient in term of energy and manufacturing sector due to recent geopolitical events. KNM is a play on the manufacturing activity in India, rising capacity utilisation across industries mainly automobiles and improving industrial capex cycle. KNM has been a beneficiary to this momentum with an improved order book from these sectors for its all-business segments.

Beneficiary of revival in Automobile sector

KNM is one of the major beneficiaries of impending revival in Automobile sector as it is one of the biggest consumers of its hard metal products. Till FY13, KNM’s dependency on Transportation sector was highest at ~70% however over the years KNM diversified into Infrastructure space and improved Machining Solutions business. Auto sector is witnessing revival in volumes post two years of interruption led by Covid-19 pandemic, growing domestic economy and rising aspirations of 1.4 billion led relatively young country. We expect KNM to witness strong revenue growth led by this revival.

Falling RM prices to improve margins

The major raw material for production of hard metals being Tungsten Carbide and Cobalt; which is imported by KNM. Global market size of tungsten carbide is growing steady 4% CAGR over decades. Prices have fallen from RMB 275/kg to RMB 250 /kg since March 2022 and again started inching back. Cobalt prices (10-15% wt) have fallen significantly from recent highs of USD82k/t in March 2022 to USD50k/t in August which will improve margins.

Initiate with tactical BUY, potential upside of 25%

KNM offers strong growth visibility with strong balance sheet and parentage. KNM continues its endeavour to develop and indigenize products and processes with specific focus on materials, processes, coatings and machining technology in collaboration with its parent. We expect a CAGR of 18% and 23% in revenue and EPS, respectively, over FY22–25E. This will be accompanied by ROCE improvement from 18% to 25% by FY24E. We assign a TP of INR 3,384/share, valuing the company at 35x FY24E PE.

Year to March (INR Cr)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	811	991	1238	1486	1664
y-o-y (%)	26.5	22.1	25.0	20.0	12.0
EBITDA	119	180	248	312	325
EBITDA Margin (%)	14.7	18.2	20.0	21.0	19.5
Net Profit	66	115	162	211	213
RoACE (%)	10.4	17.7	22.5	25.0	22.3
RoAE (%)	11.7	19.0	23.8	26.9	23.9
PE (x)	40.6	36.0	36.5	28.0	27.7

Source: Company Data, Edelweiss Wealth Research

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Date: September 21, 2022

CMP: INR 2,685

Rating: Tactical BUY

Target Price: INR 3,384

Upside: 25%

Bloomberg:	KNM:IN
52-week range (INR):	1,322/ 2,890
Share in issue (crore):	11.26
M-cap (INR cr):	6,117
Promoter holding (%)	75.00

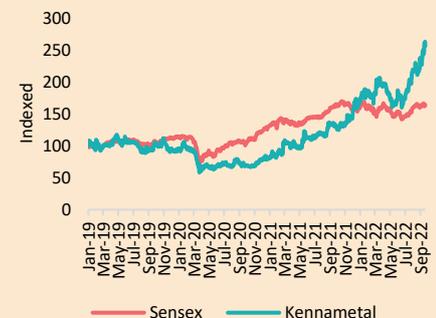


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Business Structure

Kennametal India Ltd.

KNM is in the business of manufacturing and trading of hard metal products and manufacturing of machine tools, while exports are rising from India to Europe, USA, China and RoW. The company primarily operates in two business segments: Hard metal products (HMP) and Machining solutions (MS).

Hard metal products (HMP) (~85% of sales; 88% EBIT in FY22)	Machining Solutions (MS) (~15% sales; 12% EBIT in FY22)
<ul style="list-style-type: none"> KNM is into hard metal products catering to requirements of automotive, railways, mining, ship building, semi-conductors, wind turbines, construction, and general engineering. Metal cutting tools is a core engineering manufacturing consumable which goes into any metal working Industry right from manufacturing any product. KNM also exports its products depending upon customer requirement, speed, capacity utilisation and costs. Exports account for ~16% of the sales. Over past four years, KNM spent 350 cr mainly in capacity addition and modernisation as a part of global drive under its parent company. 	<ul style="list-style-type: none"> KNM's machining solutions segment manufactures large special purpose capital intensive machines, tool and cutter grinding machines as well as fixture & tooling solutions through WIDMA brand. KNM is getting strong traction from Chinese market for machining solutions. Machining solutions revenue is growing at 10% CAGR over last 15 years.

We expect FY22–25E sales and EPS CAGR of 18% and 23%, respectively.

INR cr	FY23E	FY24E	FY25E
Revenue	1238	1486	1664
y-o-y	25%	20%	12%
EBITDA	248	312	325
PAT	162	211	213

We expect RoCE to improve from 18% currently to 25% by FY24E.

INR cr	FY23E	FY24E	FY25E
ROCE	22.5	25.0	22.3
CFO	213	209	226
Debt	0	0	0

Strong balance sheet, improving dividend pay-out ratio, steady capacity additions.

	FY23E	FY24E	FY25E
PE	36.5	28.0	27.7
EV/E	23.4	18.6	17.9

Upside 25%

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Industry Charts

Exhibit 1: Indian manufacturing % share in total of GVA at constant prices

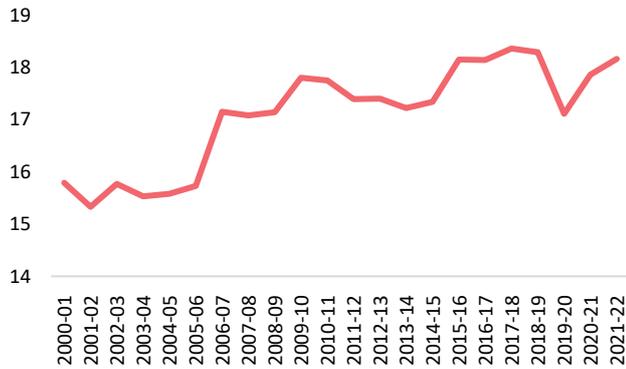


Exhibit 2: Rising affordability, innovation, higher flexibility driving PVs

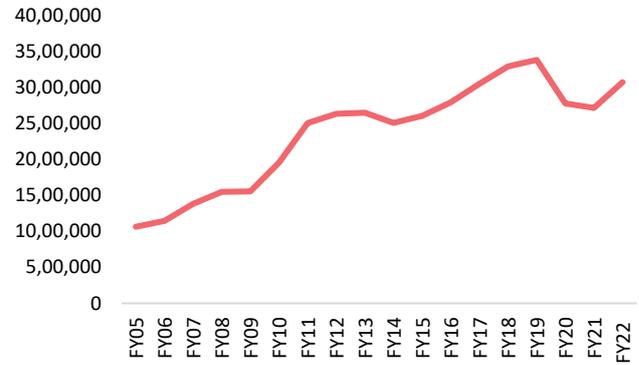


Exhibit 3: Improved fleet utilization, e-com boom, low base driving CVs

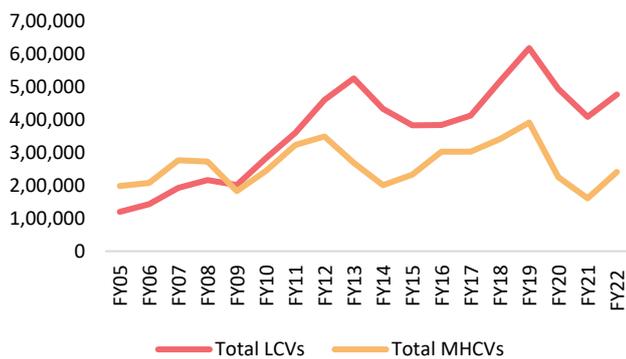


Exhibit 4: MHCV expected to reverse trend post sharp 56% fall

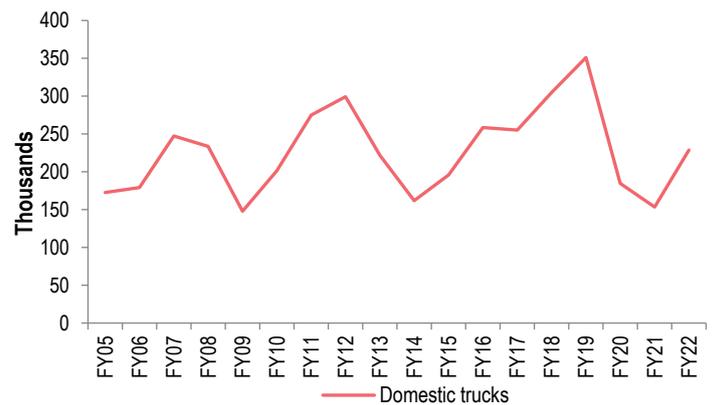


Exhibit 5: Steel capacity (mt) expansion to pick up post recent deleveraging cycle

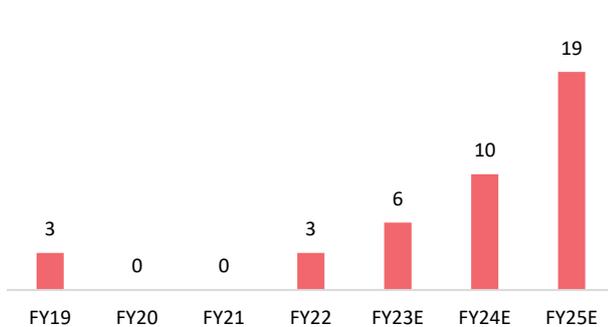


Exhibit 6: Higher activities in cement space post Adani group's entry (mt)



Source: Company Data, Edelweiss Wealth Research

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Company Charts

Exhibit 7: Decent 10% CAGR in revenue over FY16-22

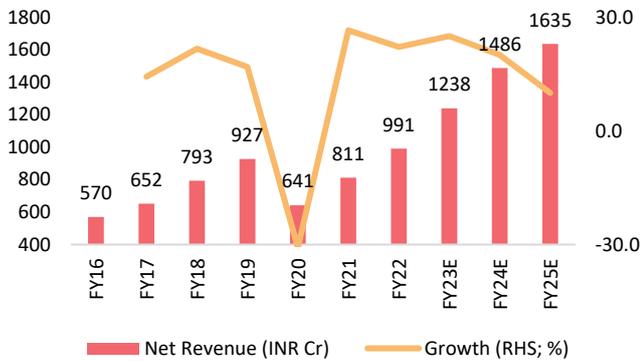


Exhibit 8: leading to strong 26% CAGR in EBITDA with improving margins

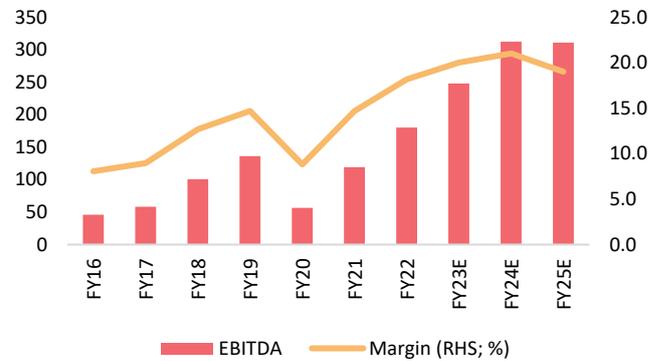


Exhibit 9: Segmental revenue as a % of total

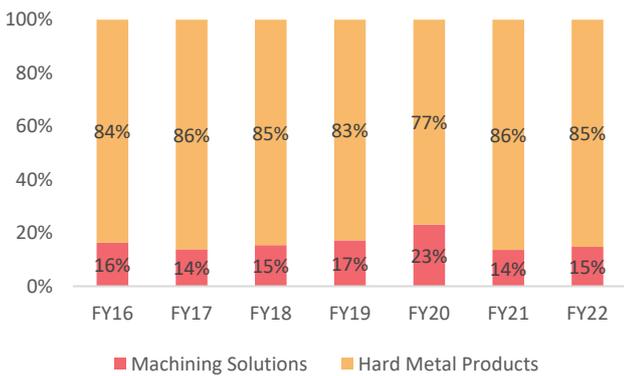


Exhibit 10: Segment wise EBIT margins

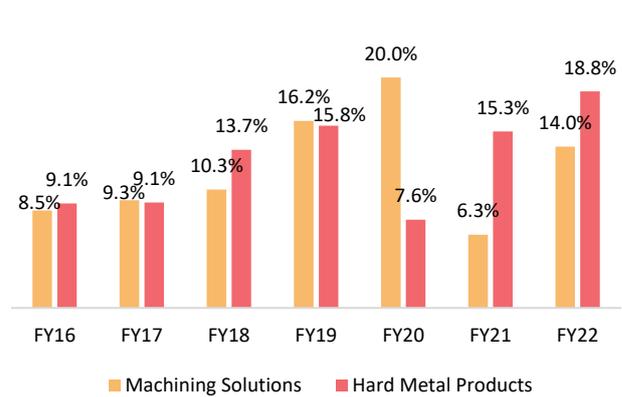


Exhibit 11: RoE/RoCE set to improve materially

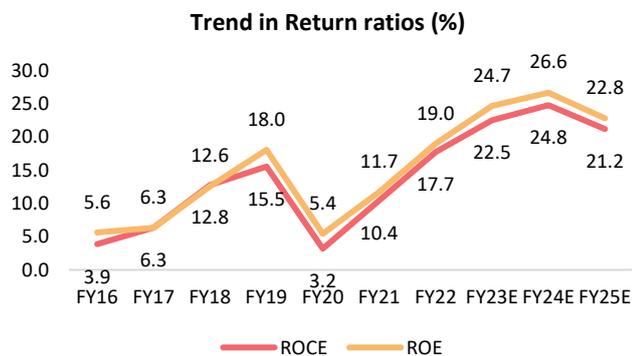


Exhibit 12: PAT to post 22% CAGR over FY22-25E



Source: Company, Edelweiss Wealth Research

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Investment Overview

I. A play on manufacturing activities; rising proportion of GDP

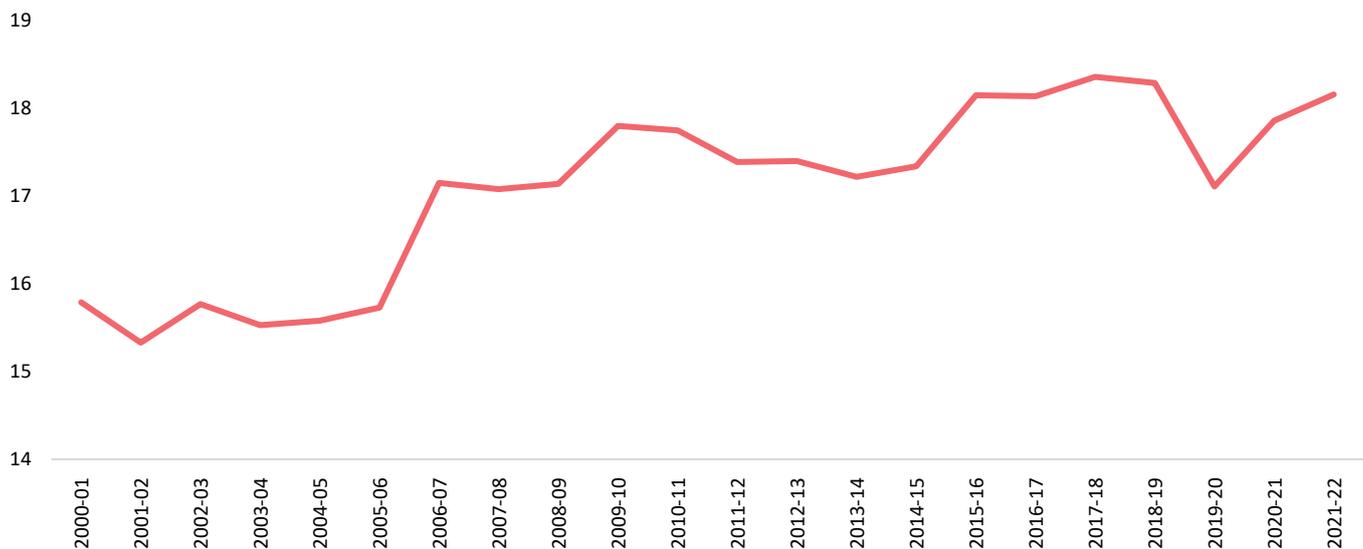
KNM is a technological leader which manufactures hard metal products and machine tools used in industries mainly automobile, aerospace, construction, mining and machinery manufacturers. Strong parent support aids KNM in development of quick-change tooling systems required in today’s world of versatility, speed and accuracy. It has been a play on the manufacturing activity in the domestic economy as well as it has increased its exports share to other countries from India.

Manufacturing sector’s share in the Indian economy has reached to pre-covid level of ~18% of GVA in FY22 and we believe it is poised for an uptick led by signs of capex cycle recovery, which includes the real estate cycle, government policy initiatives such as the PLI schemes, continued FDI inflows, China+1 strategy and an urgency to become self-sufficient in term of energy and manufacturing sector due to recent geopolitical events. KNM is a play on the manufacturing activity in India, rising capacity utilisation across industries and improving industrial capex cycle, in general. KNM has been a beneficiary to this momentum with an improved order book from these sectors for its all-business segments.

We believe the domestic capex cycle is showing early signs of recovery. Although a full-blown recovery would take some more time as utilisations improve in near term, the commentary by various industry participants has been encouraging. While large capital goods players switched focus to automation, the production of key industrial components is being shifted to low-cost destinations such as China and India.

There have been capacity expansion announcements across various other industries as well, such as steel, cement and green energy which would boost the manufacturing activities. KNM derives its growth through manufacturing sector in general, and a mix of end-use industries contribute to the demand for machine tools. We believe company is slated to improve its growth trajectory and poised for an uptick.

Exhibit 13: Manufacturing % share in total of GVA at Constant Price



Source: Edelweiss Wealth Research, MOSPI data

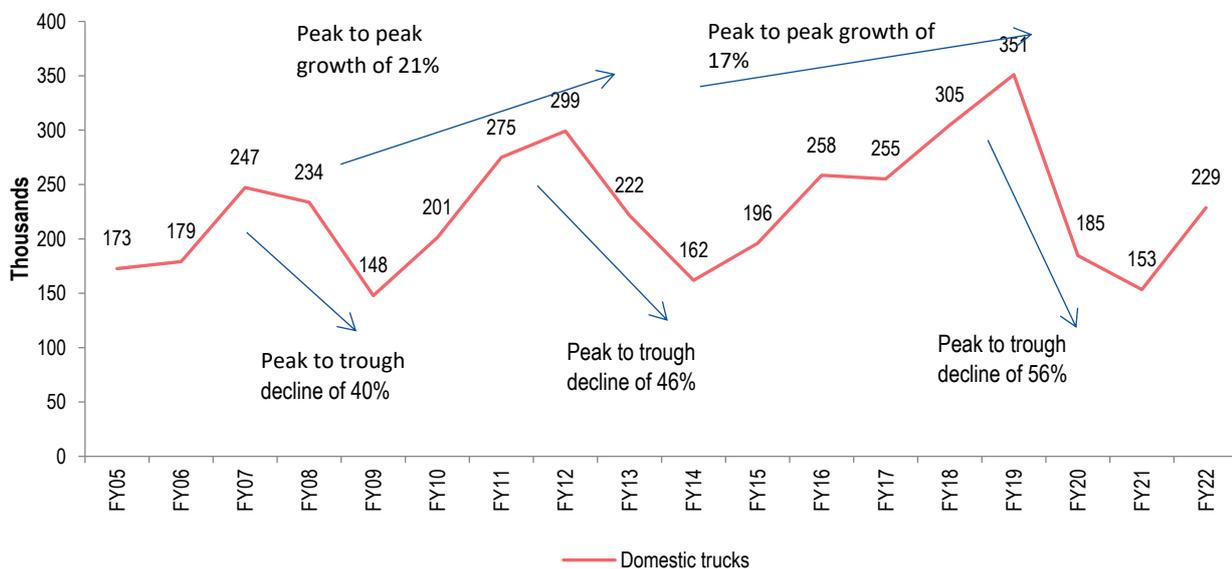
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II. Beneficiary of revival in domestic auto volumes

We expect KNM to benefit from impending revival in domestic automobile volumes led by opening-up of economy post pandemic, good monsoon, improved rural income via regular MSP hikes, lower base, latent demand and rising affordability in general. In passenger vehicles innovation, higher flexibility, rising trend of urbanisation and nuclear families is driving the volumes while in commercial vehicles improved fleet utilisations, e-commerce boom, rising MSMEs and overall lower base is driving demand in recent months. Although two and three-wheeler volume growth is still struggling due to various issues such as weak economic state of export destinations, rising ownership costs and fuel costs; MHCV and PV forms major portion of its Auto exposure. Till FY13, KNM’s dependency on Transportation sector was highest at ~70% however over the years KNM diversified into Infrastructure space and improved Machining Solutions business.

Exhibit 14: MHCV forms a large portion of Auto exposure for KNM



Source: Edelweiss Wealth Research, Company data

Government’s support for electric vehicles is one area of concern as this might impact conventional automotive segment and demand for KNM’s products however MHCV forms a large portion of auto exposure for KNM where EV transition risk is back ended and KNM along with its parent is already working along with OEMs for new suitable products and designs. The tools requirement is higher in Hybrid vehicles than Internal Combustion Engine (ICE) while in Electric it is lower than ICE vehicles.

As automotive manufacturers expand their hybrid and electric vehicle offerings, KNM is leveraging the design flexibility of additive manufacturing to meet growing customer demand for lighter weight tooling solutions for machining e-vehicle components. Its innovative 3D-printed stator bore tool combined with a carbon-fiber-body and proven RIQ inserts technology delivers unmatched productivity and reliability in the production of large diameter, deep bore electric motor housings.

Automobile OEMs require new tooling solutions to meet the unique challenges of machining e-vehicle components, such as the electric motor housings for which KNM has designed this novel tool. In addition to short machining times and process-reliable chip removal, easy handling is a typical requirement. In addition, the tools must be light in order to be suitable for tool changing systems. KNM’s stator bore tool weighs approximately half that of a conventionally manufactured version, enabling Auto OEMs to utilize it on their existing high-speed machining centres as they change over lines for electric vehicle manufacturing. KNM’s tool efficiently addresses the challenges of boring deep holes in conjunction with multiple large diameters when machining electric motor housings.

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III. Beneficiary of falling raw material prices and strong parentage

a. Recent commodity fall to aid margins

The major raw material for production of hard metals being Tungsten Carbide and Cobalt; which is imported by KNM. Tungsten carbide is an inorganic compound of carbon, used to impart hardness to cast iron, cutting edges of saws and drills. Global market size of tungsten carbide is growing steady 3-4% CAGR over decades and major user industries are Automotive, Oil & Gas, mining, construction, aerospace, defence and electronics. Prices have fallen from RMB 275/kg to RMB 250 /kg since March 2022 and again started inching back. Cobalt prices (10-15% wt) have fallen significantly from recent highs of USD82k/t in March 2022 to USD50k/t in August 2022 which is expected to improve margins.

Exhibit 15: Tungsten Carbide 99.8%min 2.5-7.0um exw China (RMB/kg)

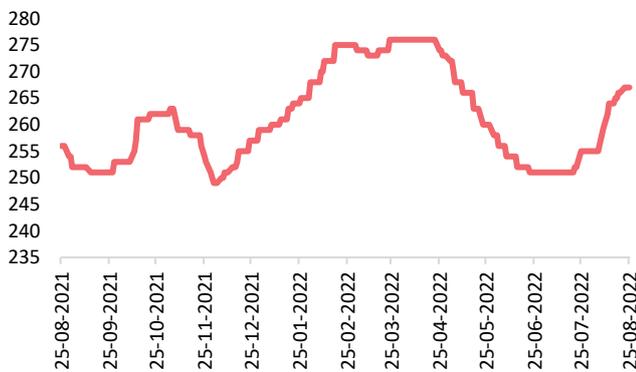
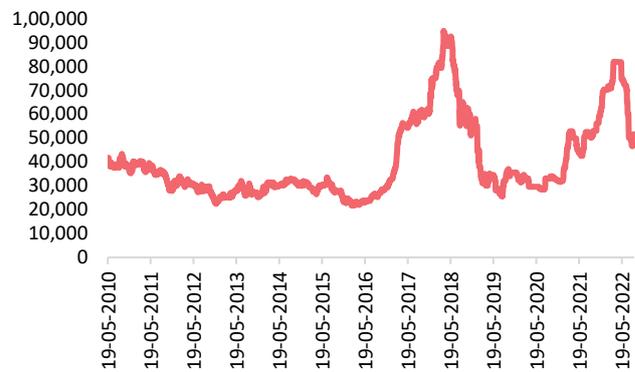


Exhibit 16: LME Cobalt in USD/t



Source: Edelweiss Wealth Research, Company data

b. Strong parentage to support growth

Kennametal Inc. (KMT) is world’s leading carbide tools manufacturer with more than 80 years of experience. Although industry remains highly fragmented and competitive, KMT derive its competitive advantage from its premium brand positions, global presence, application expertise, highly engineered components and state-of-the-art manufacturing facilities. Kennametal Inc.’s ISS Governance Quality Score as of July 31, 2022 is 1; which indicates lower governance risk. KNM continues its endeavour to develop and indigenize products and processes with specific focus on materials, processes, coatings and machining technology in collaboration with its parent. Opportunities in new sectors such as EV is being tapped with the help from parent.

KMT’s Indian operations is fourth largest in terms of revenues and fourth largest in terms of assets. Share of India in group’s total global revenues went up to 5.4% in FY22 from 3.7% in FY16. Kennametal group has identified India as one of the important region to meet domestic as well as export demand. As a result, KNM has been consistently adding capacity for last 5 years and has spent INR 506cr.

	As % of total sales		
	2020	2021	2022
USA	41.3%	37.6%	39.7%
Germany	13.2%	14.2%	13.1%
China	11.4%	13.2%	11.7%
India	4.3%	5.2%	5.4%
Canada	4.8%	4.3%	4.7%
Others	22.3%	22.3%	22.1%
Total	100.0%	100.0%	100.0%

	As % of total long lived assets		
	2020	2021	2022
USA	58.5%	58.0%	58.4%
Germany	20.3%	20.7%	19.5%
China	8.9%	9.2%	9.2%
India	4.3%	4.2%	4.5%
Canada	2.0%	1.8%	1.8%
Others	6.0%	6.1%	6.6%
Total	100.0%	100.0%	100.0%

Source: Kennametal Group, Edelweiss Wealth Research

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c. Rising share of exports from Indian subsidiary

KNM has always benefitted from parent’s presence across countries, exploring new export opportunities, efficient sourcing of raw materials and also on innovation front. Indian operations have become strategic from export point of view to unserved markets in AsiaPac. Kennametal group has identified India as one of the important region to meet domestic as well as export demand. As a result, KNM has been consistently adding capacity for last 5 years and has spent INR 506 Cr since FY16. Revenue share from exports in KNM has increased from 9% in FY14 to 23% in FY21. Also KNM developed few new key export markets such as Europe and China over last few years.

Exhibit 17: KNM revenue mix in FY14 (%)

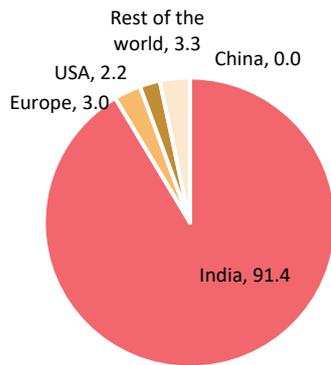
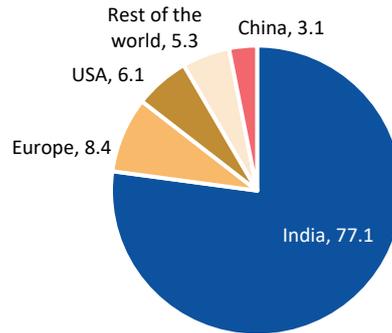


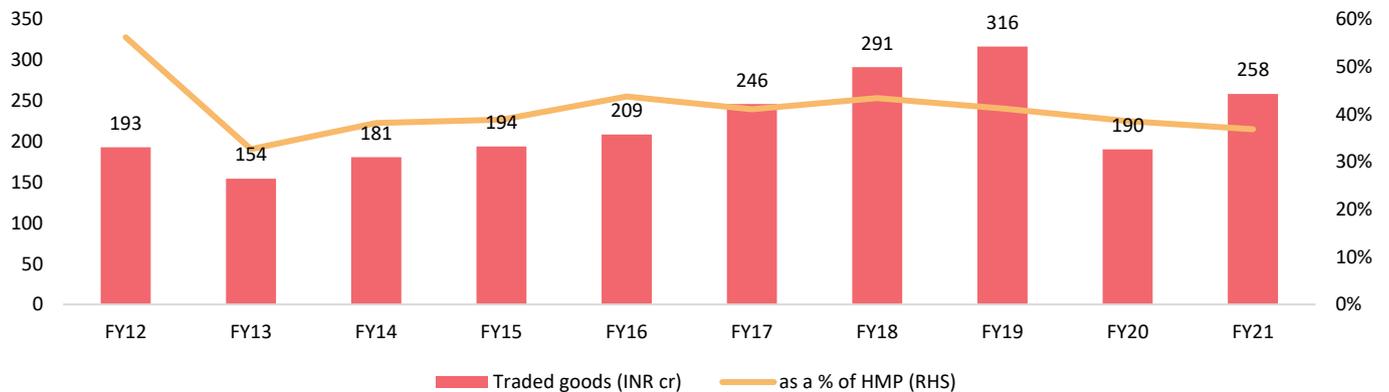
Exhibit 18: KNM revenue mix in FY21 (%)



Source: Kennametal Group, Edelweiss Wealth Research

d. Localisation of traded goods to continue

KNM’s dependence on imported raw materials was high and input costs used to go up due to rupee depreciation; however over the years company has continuously explored alternate supplies at lower prices and put in efforts to localise traded products which were being imported. Although traded goods proportion of hard metal products has declined from 56% in FY12 to 32% in FY21, still it is much higher and puts cap on margins due to transfer pricing mechanism and tend to pull down overall margins. As most of the global companies are trying to set up operations in India to cater to needs of APAC region, we expect KNM to gradually shift this traded goods to Indian subsidiary which would result in higher margins. Although it is parent’s decision of making Indian subsidiary as a global hub and it depends upon various factors such as KMT’s global available capacities, cost and delivery speed; considering India’s rising importance and strategic location for tapping untapped APAC markets, parent’s focus on KNM is expected to improve.



Source: Kennametal Group, Edelweiss Wealth Research

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IV. Company overview: Kennametal Inc.

- With more than 80 years of materials expertise, Kennametal Inc. (KMT) is a global industrial technology leader, that helps customers across the aerospace, earthworks, energy, general engineering and transportation end markets build their products with precision and efficiency.
- KMT was founded based on a tungsten carbide technology breakthrough in 1938 and was incorporated in Pennsylvania in 1934 as a manufacturer of tungsten carbide metal cutting tooling.
- KMT's core expertise includes the development and application of tungsten carbides, ceramics, super-hard materials and solutions used in metal cutting and extreme wear applications to keep customers up and running longer against conditions such as corrosion and high temperatures.
- Its standard and custom product offering spans metal cutting and wear applications including turning, milling, hole making, tooling systems and services, as well as specialized wear components and metallurgical powders.

Exhibit 19: Revenue mix by geography

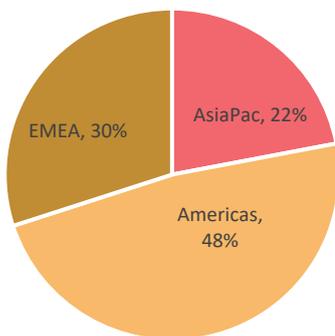
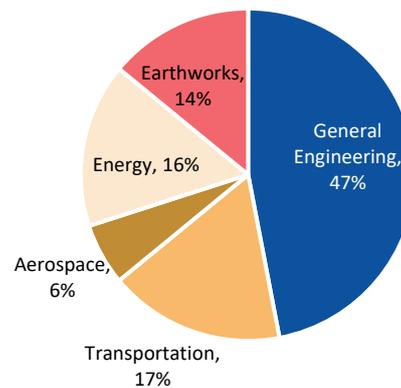


Exhibit 20: Revenue by end user industry



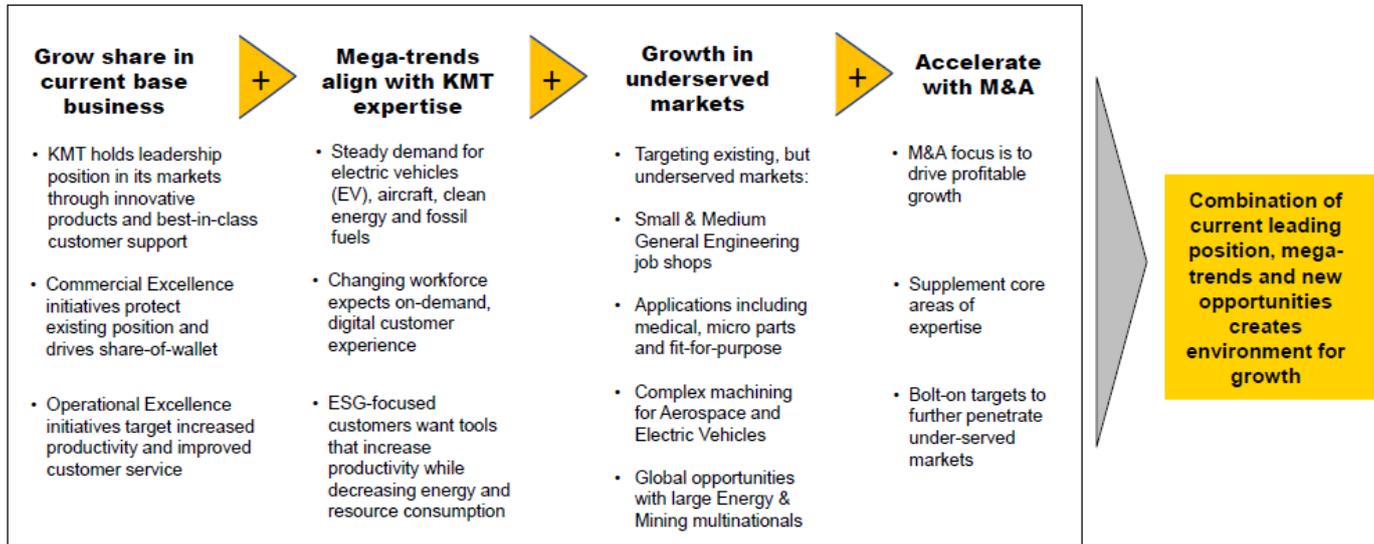
Source: Kennametal Group, Edelweiss Wealth Research

- End users of KMT's metal cutting products include manufacturers engaged in a diverse array of industries including: transportation vehicles and components, machine tools and light and heavy machinery; airframe and aerospace components; and energy-related components for the oil and gas industry, as well as power generation.
- KMT's wear and metallurgical powders are used by producers and suppliers in equipment-intensive operations such as road construction, mining, quarrying, and oil and gas exploration, refining, production and supply.
- Recently gained customers in EV space, semiconductors, laning gear, extrusion wear and additive manufacturing.

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Exhibit 21: Growth roadmap FY23 and beyond



Source: Edelweiss Wealth Research, Company data

Kennametal India

Established in 1964, KNM is a 75% subsidiary of KMT. It manufactures carbide tools and special purpose machines for automotive, transportation, defence, railways, infrastructure, energy and general engineering segments. It has a manufacturing unit in Bengaluru. The company operates under two divisions: Hard metal products (HMP) and Machining solutions (MS).

The company’s product portfolio includes a wide selection of standard and customized technologies for metalworking, such as sophisticated metal cutting tools, tooling systems and services, as well as advanced, high-performance materials, such as cemented tungsten carbide products, super alloys, coatings and investment castings to address customer demands, under its Hard metal products division. The company also provides end-to-end solutions in design and manufacturing of high precision special purpose machines to meet the needs of end users in automotive, defense, railways, infrastructure and general engineering segments under Machining Solutions division.

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V. Machine tools industry in India

- Machine tools industry in India has grown at a CAGR of 14% over FY12-FY19 on the back of huge investments in infrastructure, railways, and automation.
- Also, demand for high grade alloys machine tools/solutions from the automobile sector due to upgrading to BS VI norms has boosted growth in recent past. Post spread of Covid-19 consumption has fallen and it is expected to bounce back sharply again over next few years.
- The machine tools market in India is highly fragmented with the presence of numerous small, medium, and large suppliers, which includes international and regional players.
- Imports grew at a CAGR of 2%; accounting for 50% market share in India; which has come down from 55-60% earlier

Exhibit 22: Machine tools sector – Growing at healthy pace

INR Cr	Production	Imports	Exports	Consumption	% Growth YoY	Share of Imports in Consumption
FY12	3781	5034	157	8658		58%
FY13	3320	5635	113	8842	2.1%	64%
FY14	2973	3589	139	6423	-27.4%	56%
FY15	3768	4368	238	7898	23.0%	55%
FY16	4727	5945	296	10376	31.4%	57%
FY17	5803	6173	361	11616	12.0%	53%
FY18	7293	7752	355	14690	26.5%	53%
FY19	9612	12390	673	21329	45.2%	58%
FY20	6152	10288	768	15672	-26.5%	66%
FY21	6602	5965	531	12036	-23.2%	50%
CAGR	6%	2%	14%	4%		
CAGR till pre Covid	14%	14%	23%	14%		

Source: Company, IMTMA, Edelweiss Wealth Research

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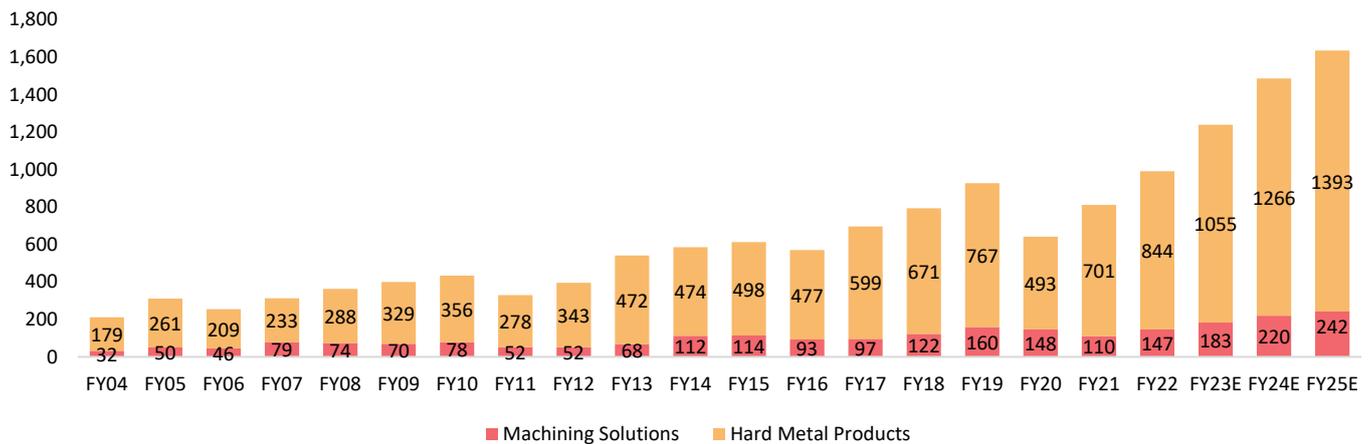
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VI. Financial Analysis

a. Revenue to grow at a CAGR of 22% over FY22–25E

We expect KNM’s consolidated revenue to increase at a CAGR of 22% over FY22–25E as both business segments getting good traction over last few quarters. Overall buoyancy in domestic manufacturing activities is expected to drive revenue growth. As automotive sector continues to contribute ~50% of revenue and as it is also gaining traction over last few months, we expect revenue to follow strong growth path over next few years.

Exhibit 23: Segment wise revenue over FY04–25E (INR Cr)

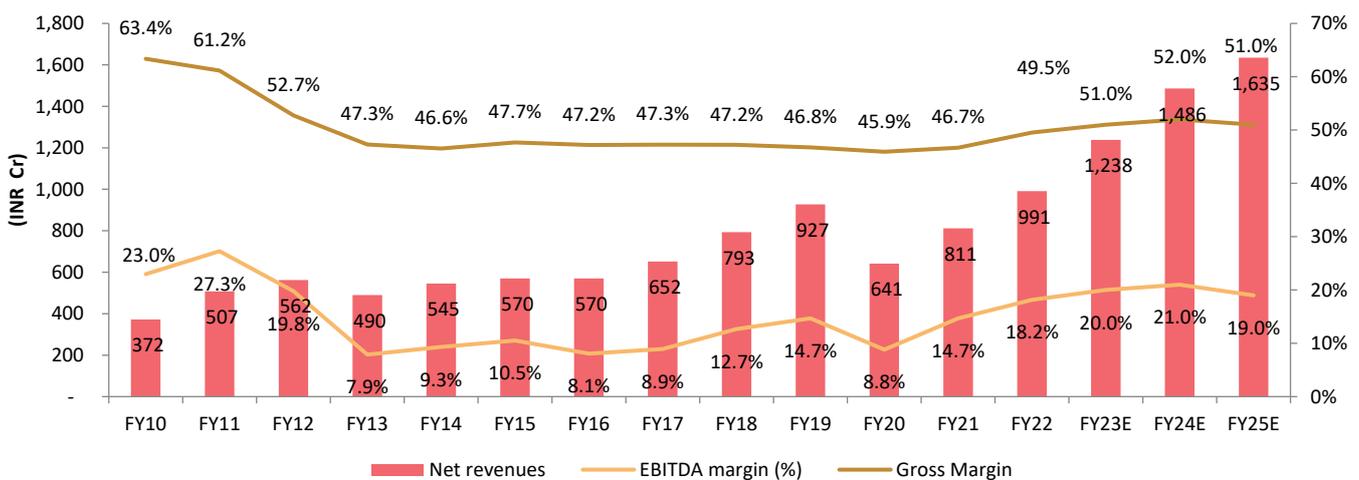


Source: Edelweiss Wealth Research, Company data

b. EBITDA margin to remain healthy

KNM clocked EBITDA margin of 18.2% in FY22 due to pricing led growth in revenue as there was significant inflation in its key raw materials. Over last few months there has been commodity cool off which would help KNM to maintain higher margins as volume growth would also pick up giving an operating leverage.

Exhibit 24: we expect KNM margins to improve gradually



Source: Edelweiss Wealth Research, Company data

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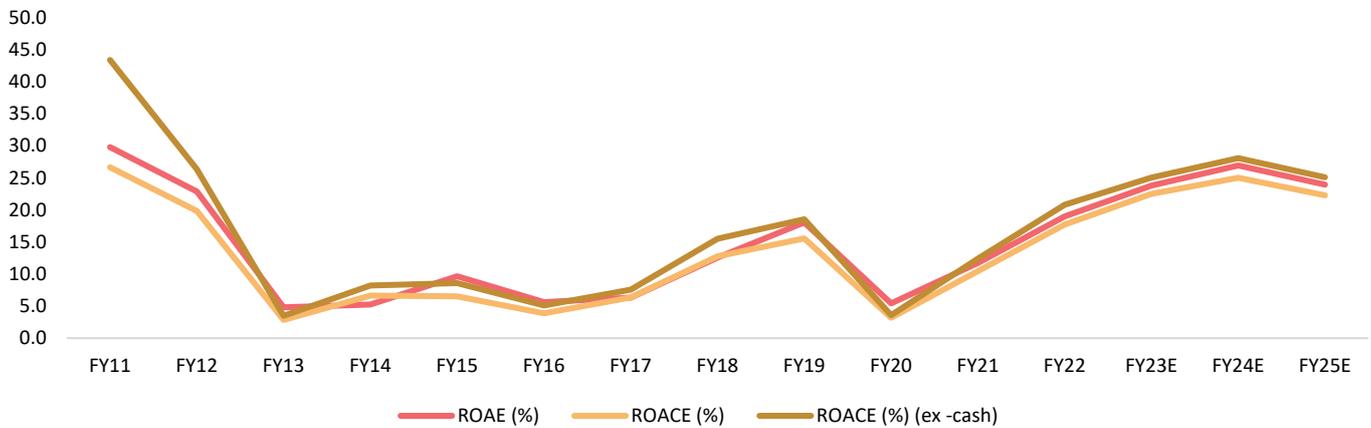
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c. Trend in ROCE expected to improve

	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Sales/assets	1.2	1.4	1.8	1.7	1.4	1.6	1.6	1.5	3.7	3.8	3.7	1.9	2.3	2.6	2.6	2.6	2.4
assets/equity	0.9	0.9	0.9	1.1	1.1	1.0	1.0	1.0	0.4	0.5	0.5	0.6	0.6	0.6	0.7	0.7	0.7
NPM	7.9	14.2	17.5	12.2	3.0	3.1	5.9	3.6	3.7	6.6	9.3	4.5	8.1	11.6	13.1	14.2	12.8
ROCE	8.6	17.7	29.8	22.7	4.7	5.1	9.3	5.5	6.2	11.9	16.7	5.3	11.5	18.1	22.3	25.1	22.6

Source: Company, Edelweiss Wealth Research

Exhibit 25: Margin improvement leading to an uptick in ROCE



Source: Edelweiss Wealth Research, Company data

KNM's asset turnover and net profits margin has been major factors of improving ROCE. KNM has always benefited from robust capex cycle in India which eventually led to an increase in asset turnover and net profit margins (can be seen in above graph). We believe KNM is at an inflection point wherein there is a high likelihood of RoCE expansion once capex cycle picks up pace led by higher revenue growth.

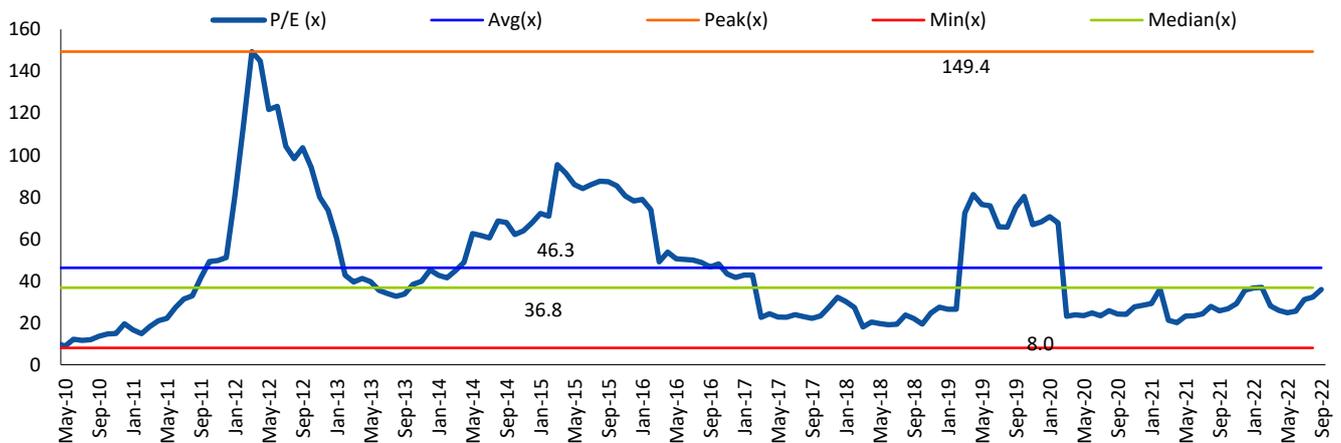
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VII. Valuation and Risks

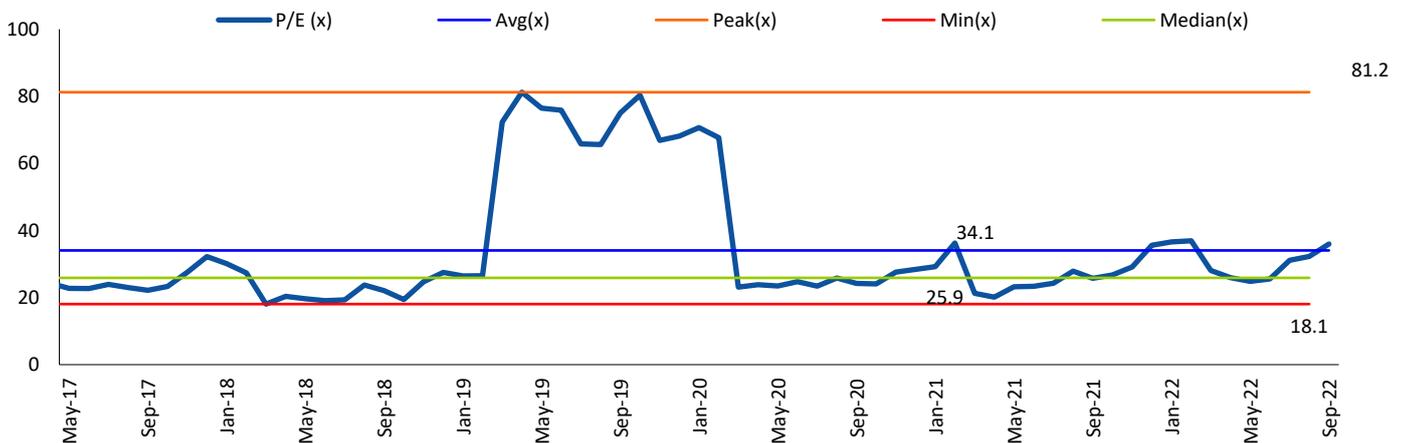
KNM offers strong earnings growth visibility as domestic manufacturing activity is showing early signs of strong upward movement. Its strong balance sheet and strong global parentage is expected to aid sustainable earnings growth. **We expect a CAGR of 18% and 23% in revenue and EPS, respectively, over FY22–25E, driven by improving demand from key manufacturing sectors, higher operating leverage, and lower commodity prices. This will be accompanied by ROCE improvement from 18% c. to 25% by FY24E. We assign a TP of INR 3,384/share, valuing the company at 35x FY24E PE, at an average one-year forward PE multiple considering shorter time frame of five years as we are at an early stage of capex cycle.**

Exhibit 26: KNM one-year fwd PE valuation range



Source: Company Data, Bloomberg, Edelweiss Wealth Research

Exhibit 27: One-year fwd PE on a shorter time frame



Source: Company Data, Bloomberg, Edelweiss Wealth Research

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Exhibit 28: Peer comparison matrix:

(in INR M)	Mcap	CMP	Net worth	EBITDA			Net Income			EV/EBITDA		PER	
				FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
A B B	6,64,470	3,136	40,452	8,665	11,560	13,673	6,677	8,983	10,601	55	47	78	64
Siemens	10,42,275	2,927	1,03,571	18,381	23,413	28,007	13,346	17,302	20,934	42	35	59	50
Engineers India	37,207	66	17,700	3,602	4,452	-	3,719	4,400	-	5	-	9	-
Larsen & Toubro	26,80,332	1,907	9,53,737	2,14,356	2,42,936	2,88,047	1,10,530	1,35,034	1,59,398	15	13	20	17
B H E L	2,05,790	59	2,65,066	11,613	17,753	15,350	5,921	10,637	8,883	10	12	19	23
Thermax	3,03,545	2,547	34,925	6,034	8,203	10,266	4,346	5,918	7,564	35	29	49	38
Cummins India	3,46,611	1,250	51,450	9,881	11,616	11,890	9,184	10,779	11,046	28	28	32	31
Kalpataru Power	64,530	433	44,175	14,574	16,988	18,565	5,480	6,907	7,826	5	5	10	8
K E C Intl.	1,10,869	431	36,199	11,507	16,573	20,111	4,750	8,237	10,561	8	7	13	10
Kennametal India	58,946	2,682	6,462	1,799	2,477	3,121	1,146	1,618	2,108	23	19	36	28
(in M currency)													
Kennametal Inc. (USD)	1,783	22	1,291	370	392	421	149	166	188	6	6	11	9
Sandvik AB (Swedish Krona)	1,93,803	155	77,332	25,817	27,748	29,720	15,858	16,847	18,202	8	7	12	11
Lincoln Electric Holdings Inc (USD)	7,870	136	864	712	744	756	480	498	503	12	11	16	15
DMG Mori Co Ltd (JPY)	2,19,789	1,745	2,17,279	69,755	78,787	81,358	28,740	33,552	35,534	5	3	7	7
Makino Milling Machine Co Ltd (JPY)	1,11,027	4,460	1,78,778	24,800	25,175	25,750	14,074	13,742	13,783	3	3	8	8

Source: Company Data, Bloomberg, Edelweiss Wealth Research

Risks:

Key downside risks to our price target include a) Stiff competition from global companies such as Sandvik, Walter, Iscar, Taegutec, Tungaloy, Makino, DMG Mori etc. as well as domestic companies; b) external factors affecting domestic economic growth; c) Capex cycle in India gets delayed, d) higher raw material prices, etc.

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Financials

Income statement

(INR crs)

Year to March	FY21	FY22	FY23E	FY24E	FY25E
Income from operations	811	991	1238	1486	1664
Direct costs	433	500	607	713	807
Employee costs	122	145	180	215	250
Other expenses	138	166	204	245	283
Total operating expenses	692	811	991	1174	1340
EBITDA	119	180	248	312	325
Depreciation and amortisation	38	36	41	48	57
EBIT	81	144	207	264	268
Other income	8	9	10	17	17
Profit before tax	89	153	216	282	285
Provision for tax	23	39	55	71	72
Core profit	67	115	162	211	213
Extraordinary items	-1	0	0	0	0
Profit after tax	66	115	162	211	213
Adjusted net profit	66	115	162	211	213
Equity shares outstanding (mn)	2.2	2.2	2.2	2.2	2.2
EPS (INR) basic	30.0	52.1	73.6	95.9	97.1
Diluted shares (Cr)	2.2	2.2	2.2	2.2	2.2
EPS (INR) fully diluted	30.0	52.1	73.6	95.9	97.1
Dividend per share	9.1	10.9	14.5	20.0	22.7
Dividend payout (%)	66.1	46.1	43.5	45.9	51.6

Common size metrics- as % of net revenues

Year to March	FY21	FY22	FY23E	FY24E	FY25E
Operating expenses	85.3	81.8	80.0	79.0	80.5
Depreciation	4.7	3.6	3.3	3.2	3.4
Interest expenditure	1.0	0.9	0.8	1.2	1.1
EBITDA margins	14.7	18.2	20.0	21.0	19.5
Net profit margins	8.1	11.6	13.1	14.2	12.8

Growth metrics (%)

Year to March	FY21	FY22	FY23E	FY24E	FY25E
Revenues	26.5	22.1	25.0	20.0	12.0
EBITDA	110.6	51.2	37.7	26.0	4.0
PBT	120.7	71.3	41.3	30.2	1.2
Net profit	127.4	74.0	41.2	30.2	1.2
EPS	127.4	74.0	41.2	30.2	1.2

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Balance sheet

(INR crs)

As on 31st March	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	22.0	22.0	22.0	22.0	22.0
Reserves & surplus	551	612	704	818	921
Shareholders funds	573	634	726	840	943
Long term provisions	4	8	8	8	8
Sources of funds	577	642	733	847	951
Gross block	356	381	481	581	681
Depreciation	131	167	208	255	312
Net block	225	214	273	326	369
Capital work in progress	52	78	100	100	100
Total fixed assets	277	292	374	426	469
Other non current assets	2	7	7	7	7
Investments	0	0	0	0	0
Inventories	205	267	303	362	417
Sundry debtors	113	137	168	205	237
Cash and equivalents	115	51	70	82	98
Loans and advances	7	11	24	30	35
Other current assets	46	55	55	55	55
Total current assets	486	520	620	734	842
Sundry creditors	168	155	167	199	229
Other current liabilities	0	0	76	90	104
Provisions	19	21	25	30	33
Total CL & provisions	188	176	267	319	367
Net current assets	298	344	353	415	475
Net Deferred tax					
Uses of funds	577	642	733	847	951
Book value per share (INR)	261	288	330	382	429

Cash flow statement

(INR crs)

Year to March	FY21	FY22	FY23E	FY24E	FY25E
Net profit	66	115	162	211	213
Add: Depreciation	38	36	41	48	57
Gross cash flow	104	150	203	259	270
Less: Changes in W. C.	-63	109	-10	49	44
Operating cash flow	167	41	213	209	226
Less: Capex	53	61	100	100	100
Free cash flow	114	-20	113	109	126

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Ratios

Year to March	FY21	FY22	FY23E	FY24E	FY25E
ROAE (%)	11.7	19.0	23.8	26.9	23.9
ROACE (%)	10.4	17.7	22.5	25.0	22.3
ROACE (%) (ex -cash)	12.4	20.8	25.0	28.1	25.1
Debtors (days)(adj for cust advance)	37	35	35	35	35
Current ratio	2.6	3.0	2.3	2.3	2.3
Debt/Equity	0.0	0.0	0.0	0.0	0.0
Inventory (days)	192	209	200	200	200
Payable (days)	158	121	110	110	110
Cash conversion cycle (days)	71	123	125	125	125
Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Adjusted debt/Equity	0.0	0.0	0.0	0.0	0.0

Valuation parameters

Year to March	FY21	FY22	FY23E	FY24E	FY25E
Diluted EPS (INR)	30.3	52.1	73.6	95.8	97.0
Y-o-Y growth (%)	104.3	72.1	41.2	30.2	1.2
CEPS (INR)	47	68	92	118	123
Diluted P/E (x)	40.6	36.0	36.5	28.0	27.7
Price/BV(x)	10.3	9.3	8.1	7.0	6.2
EV/Sales (x)	7.2	5.9	4.7	3.9	3.5
EV/EBITDA (x)	48.8	32.3	23.4	18.6	17.9
Diluted shares O/S	2.2	2.2	2.2	2.2	2.2
Basic EPS	30.3	52.1	73.6	95.8	97.0
Basic PE (x)	40.6	36.0	36.5	28.0	27.7
Dividend yield (%)	66.1	46.1	43.5	45.9	51.6

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The Team

Analysts	Sector
Vinay Khattar	Head of Research
Sandeep Raina	Head - Fundamental
Sagar Doshi	Head - Trading
Arun Jain	Practice Head - Trading
Kavita Chacko	Chief Economist
Amit Agarwal	Infra, Real Estate, Hotels
Praveen Sahay	Consumer Durables, Building materials, Healthcare services, Hospitality
Kapil Jagasia	Consumption, Textile, QSR, Retail
Raj Jha	BFSI, NBFC
Jigar Jani	BFSI, NBFC
Ranvir Singh	Pharma, Chemicals
Himanshu Yadav	Cement, Logistics, Mid-caps
Sushil Sharma	IT, Capital Goods, Defence
Tushar Chaudhari	Metals, Mid- Caps
Parag Shah	Technical Analyst
Ankit Narshana	Option Trader

Sales Team	Location
Sharad Tripathi	Mumbai
Ketan Malkan	Mumbai
Vikas Sharma	Bengaluru
Abhishek Agarwal	Kolkata
Vivek Khanna	Delhi

Coverage Universe

Sr. No	Coverage
1	Aditya Birla Fashion & Retail Ltd
2	Aegis Logistics Ltd
3	Amber Enterprises India Ltd
4	Astral Ltd
5	Balaji Amines Ltd
6	Bata India Ltd
7	Birla Corporation Limited
8	Can Fin Homes Ltd
9	Century Plyboards India Ltd
10	Cholamandalam Inv and Finance Ltd
11	City Union Bank Ltd
12	CreditAccess Grameen Ltd
13	Crompton Greaves Consumer Electricals Ltd
14	CSB Bank Ltd
15	Deepak Nitrite Ltd
16	Easy Trip Planner Ltd
17	Escorts Ltd
18	Finolex Industries Ltd
19	Home First Finance Company India Ltd
20	Indo Count Industries Ltd
21	K P R Mill Ltd
22	KNR Constructions Ltd
23	Krishna Institute of Medical Sciences Ltd
24	Lumax Industries. Ltd
25	Metropolis Healthcare Ltd
26	Minda Industries Ltd
27	Motherson Sumi Ltd
28	Navin Fluorine International Ltd
29	Neogen Chemicals Ltd
30	Newgen Software Technologies Ltd
31	Orient Electric Ltd
32	PSP Projects Ltd
33	Rossari Biotech Ltd
34	Shriram Transport Finance Company Ltd
35	SRF Ltd
36	Vinati Organics Ltd
37	Voltas Ltd
38	Westlife Development Ltd
39	Zydus Wellness Ltd
40	Tarsons Products Ltd
41	MTAR Technologies Ltd.

Sr. No	Tactical Buy
1	ACC Ltd
2	Ajanta Pharma Ltd
3	Ambuja Cements Ltd
4	Ashok Leyland Ltd
5	Axis Bank Ltd
6	Bharat Electronics Ltd
7	Brigade Enterprises Ltd
8	DLF Ltd
9	eClerx Services Ltd
10	Globus Spittits Ltd
11	GNA Axles Ltd
12	HDFC Life Insurance Co. Ltd
13	ICICI Bank Ltd
14	Indusind Bank Ltd
15	Jamna Auto Industries Ltd
16	JK Cement Ltd
17	Larsen & Toubro Ltd
18	Mahindra and Mahindra Ltd
19	Max Financial Services Ltd
20	Max Healthcare Institute Ltd
21	PNC Infratech Ltd
22	RBL Bank Ltd
23	Sun Pharma Ltd
24	TechMahindra Ltd
25	Ultratech Cement Ltd
26	Elecon Engineering Company Ltd

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