

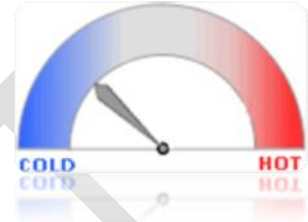
# BOC India Ltd

November 22, 2008

**Upbeat for better growth**

**HOLD**

Selling the BOC India Ltd stock at this moment would be inappropriate and in this downturn scenario when the management of the company looks upbeat to carry forward the past growth truly and strongly into a buoyant future, we, in the light of all the below mentioned reasoning recommend a **hold** on the BOC India Ltd stock.



## Company Overview

The company started operations in India in 1935 as the Indian Oxygen and Acetylene Company. It has since evolved into a subsidiary of the Linde Group, bringing forward the best international technology and safety standards, while catering to the needs of a wide variety of industries.

They supply more than 20,000 gases and mixtures - that make steel plants more efficient, help conserve the environment, preserve food, help hospitals to sustain lives and in general, make other sectors more productive.

More than 20 production facilities, including one of Asia's largest air separation units; 40 warehouses and depots; 100 dealers ; more than 100 dedicated tankers in the distribution fleet; - all this and more give BOC a geographic reach ....which puts us close to our customers in any part of India.

**BOC India has four focused business areas:**

**Industrial gases** A range of Industrial Gases include Atmospheric Gases and Process gases

**Medical gases** Wide product range including a brand new range of Home Care Products

Purity standards higher than the requirements of IP – 1996 standards

## Market snapshot

As on 21<sup>st</sup> Nov 2008

<b>Last traded Price</b>	Rs 129.20
<b>Change over last day</b>	-1.15%
<b>52-wk High</b>	Rs 233.00
<b>52-wk Low</b>	Rs 109.00
<b>Beta</b>	0.63
<b>Avg. Vol</b>	2,875
<b>Market Cap (Mil.)</b>	Rs 11,189.29
<b>Shares Outstanding (Mil.)</b>	85.28

## Movement of Share Prices

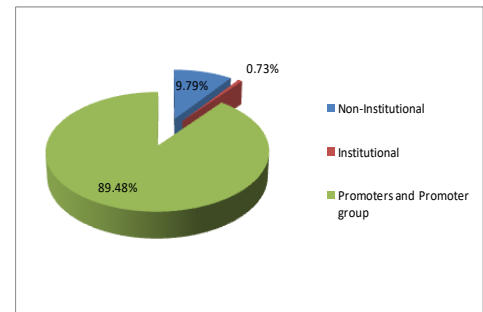


## Products

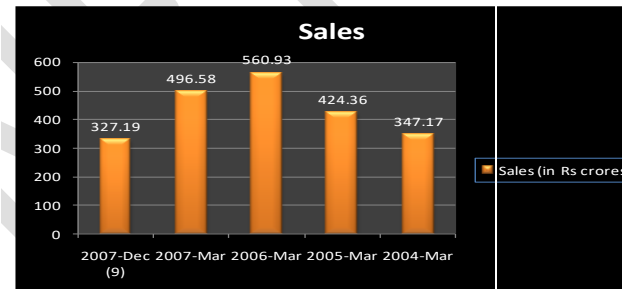
Product Name	Sales (Rs in Crs)
<b>Gases – Air separation Unit</b>	<b>231.62</b>
<b>Vessels, Plants &amp; Accessories</b>	<b>40.53</b>
<b>Others</b>	<b>33.82</b>
<b>Gases-Other Cylinder</b>	<b>21.22</b>

<b>Special gases</b>	BOC India sells over 20,000 special gases and mixtures catering to the needs of industries like Petrochemicals, Pharmaceuticals, Electronics, Semi-conductor, Paper, Cement, Power, Refineries, Hospitals and Universities. In all these industries, these gases are used for making the difference between Accuracy and Precision
<b>Projects</b>	The Projects Division of BOC India is the Core Engineering & Technology Centre where design, project engineering and execution come together to meet the highest global standards of Quality, Cost Competitiveness, and Customer Satisfaction

**Shareholding Pattern**



**Sales Performance**



**Financials**

Year end	2007-Dec(9)	2007-Mar	2006-Mar	2005-Mar	2004-Mar
EPS(Rs)	15.96	8.66	15.6	5.48	5.84
Book value(Rs)	75.79	67.05	60.8	48.2	45.5
CEPS(Rs)	16.89	15.67	20.65	10.43	10.42
NPM(%)	4.89	5.65	8.53	6.59	3.79
OPM(%)	15.15	16.99	18.89	18.47	15.12
ROCE(%)	6.71	12.07	22.66	17.75	9.89
ROE(%)	6.09	8.95	17.82	12.11	6.23
Debt/equity	0.44	0.32	0.35	0.35	0.47
Interest cover	10.18	7.23	13.44	8.26	2.9

**Key Highlights**

- The company has shown brilliant results in the past with an average fundamental historic growth of 6.82% spread over 4 years with the latest 5th year growth figures for 2007 Dec being 5.33% in comparison to 15.85% in 2006 and 10.20% in 2005.
- The recent slump in the prices and the growth rate attributes to the lessening demand in the steel sector, which has seen diminishing returns. The prices have dipped from Rs 174 on Sep 1 2008 to Rs

130.7 on Nov 20 2008 and the company sales have dipped from Rs 496.58 crores in 2007 March to Rs 327.19 crores in 2008 Jan.

- The EPS has increased from Rs. 8.66 in 2007 March to 15.96 in 2007 Dec.
- There is an 8.97% growth in assets over 2007 March.
- The Net Earnings in 2007 Dec have grown 38.25% over the last reported figure in 2007 March
- The dividend per share has shown an increase from Rs 1.44 to Rs 2.00 moving March to Dec in 2007.
- The Net profit Margin is up by 18.85% y-o-y.

## Valuation

Year	2008-07	2007-06	2006-05	2005-04	Average
PBIT	87.43	74.97	127.91	54.08	
Tax Rate	27.40%	34.47%	35.48%	41.15%	34.63%
NOPAT	63.48	49.13	82.53	31.82	
Net Income	61.66	44.60	78.63	27.97	
CAPEX	53.80	33.97	34.87	26.21	
Depreciation	24.13	34.41	24.8	24.29	
Capex-Depreciation	29.67	-0.44	10.07	1.92	
Change in Non Cash Current Liability	19.70	-9.79	7.98	31.42	
Change in Non Cash Current Assets	-2.22	-25.83	59.61	0.65	
Change in Non Cash Working Capital	-21.92	-16.04	51.63	-30.77	-4.28
Debt Raised	127.27	-17.00	31.87	-7.98	33.54
<b>FCFE</b>	<b>181.18</b>	<b>44.08</b>	<b>48.80</b>	<b>48.84</b>	
<b>FCFF</b>	<b>55.73</b>	<b>65.61</b>	<b>20.83</b>	<b>60.67</b>	

Year	2009	2010	2011	2012	2013	2014
PBIT	93.38	99.72	106.51	113.75	121.48	129.74
Tax Rate	34.63%	34.63%	34.63%	34.63%	34.63%	34.63%
NOPAT	61.04	65.19	69.63	74.36	79.42	84.82
Net Income	65.85	70.33	75.11	80.22	85.68	89.96
Capex-Depreciation	31.69	33.84	36.14	38.60	41.23	44.03
Non Cash Working Capital	-4.28	-4.28	-4.28	-4.28	-4.28	-4.28
Debt Raised	33.54	33.54	33.54	33.54	33.54	33.54
Ke	13%	13%	13%	13%	13%	13%
<b>FCFE</b>	<b>71.98</b>	<b>74.30</b>	<b>76.78</b>	<b>79.43</b>	<b>82.26</b>	<b>83.75</b>
<b>FCFF</b>	<b>33.63</b>	<b>35.63</b>	<b>37.76</b>	<b>40.04</b>	<b>42.47</b>	<b>45.06</b>
<b>PV</b>	<b>63.55</b>	<b>57.92</b>	<b>52.85</b>	<b>48.27</b>	<b>44.14</b>	<b>480.31</b>
<b>Intrinsic Value</b>	<b>747.05</b>					

Intrinsic Value in Rs crores	747.0
No of Equity shares(in crores)	8.5
Share Price(in Rs)	87.6

*\*We used FCFE 2-stage model to value BOC India Ltd. The debt equity ratio has been stable for the company while the growth rate is at a high hence assuming that the company would reach the constant growth phase in 5 years.*

## Comparative Analysis

Comparative Analysis	BOC India Ltd	TATA Chemicals	Andhra Petro	Alufouride Ltd	United Phosphorous
P/E	12.73	7.2	4.86	6.6	68.31
P/BV	2.68	1.84	1.16	1.33	3.38
P/CEPS	12.03	6.19	3.65	4.93	38.07
EV/EBIDTA	10.89	6.43	2	2.89	23.71
Market cap/sales	3.05	1.56	0.54	0.62	3.62

BOC is stronger on all relative multiples particularly enjoying a higher Market Cap/ Sales and high P/E ratio except for United Phosphorous. However, United Phosphorous is not a real threat to the line of business into which BOC operates.

## Outlook

- The figures, though have taken a dip due to lessening of demand but the high level of economic activities in India is expected to impart buoyancy in the business and industrial scenario in the country.
- As a result of this buoyancy in the industrial activity, the gases industry is poised for sustained growth in the near future.
- The recent trend of captive users in steel, petrochemicals & refinery sectors increasingly opting for outsourcing their gases requirement is resulting in increasing number of tonnage opportunities in the gases business.
- The management of the company believes that the domestic demand in the country will provide sufficient boost and kick to the growth of the economy and the core industries sector.
- BOC India Ltd is bidding for certain large and prestigious tonnage opportunities and with the support of The Linde Group is well positioned to take advantage of the emerging opportunities in the industry.

## Key Risks

The global slowdown and a downturn market may as per our estimation lead the stock to a low value of Rs 87.6. Thus in the current scenario when the market is at the 5 year low and there doesn't seem to an end to current downturn, the volatility and speculation is at its maximum, it is highly advisable to hold on to the stock as the stock possesses great potential in the recent future.

### Analysts: Group 7A

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