

LINDE INDIA

Making our world
more productive



1) About:

- Linde India is a 75% subsidiary of The BOC Group Ltd, UK (wholly owned subsidiary of Linde AG and part of the Linde group), and is a **leading industrial gases company in India**.
- Linde owns and operates India's largest air separation plant and run more than 20 production facilities and filling stations across the country.
- Linde supplies more than 20,000 gases and mixtures as well as provide a range of related services including the construction and installation of plants, equipment, pipelines and associated engineering services catering to the needs of a wide variety of industries.

The Linde Group:

- **The Linde Group has a history of over 130 years** built on a heritage of innovation with a strong focus on technology.
- The company's founder, Carl von Linde, invented refrigeration technology and pioneered a process of air separation. **Today, Linde Group is a global market leader in gases and engineering solutions.**
- The Linde group is the world's leading supplier of industrial, process, and specialty gases, with operations across **100 countries**.

2) Major End user industries:

Steel, Glass, Chemical Industries, Refineries, Automotive & ancillary, Pharma & Healthcare business

- **The Indian Steel Industry, which is a major driver for the demand for gases** is undergoing consolidation with mid and large size companies being acquired by Steel majors.

- Automotive and ancillary sector showed subdued demand during Q4 of 2018, which continued into Q1 & Q2 of 2019 as well. The automotive sector is a major Argon consumer and is a significant driver of high value Argon sales of the Company.

3) Let us understand the Business segments of Linde India:

A) Gases and related products :

Topline contribution – 82%

Comprises of:

- Pipeline gas supplies (onsite) to very large industrial groups – Steel, Glass, Chemical, Pharma
- supply of liquefied gases through Cryogenic tankers (Bulk) to cater to mid-size demands across a wide range of industrial sectors
- Compressed gas supply in cylinders (Packaged Gas) for meeting smaller demand for gases mainly across fabrication, manufacturing and construction industry.
- **Healthcare business is an important part of Gases business:** provides high quality gases for pharma use such as medical oxygen, synthetic air and nitrous oxide in addition to providing state of the art medical gas distribution systems to major hospitals.

Key Points to note:

- The primary production of gases (oxygen, nitrogen and argon) is mostly achieved through cryogenic distillation of air in **Air Separation Units (ASU)**.
- Oxygen, Nitrogen and Argon may also be produced in the gaseous state and supplied through pipeline to the Onsite customers, or produced in liquid form and stored in insulated cryogenic tanks for supply to Bulk customers or further processed in the Packaged Gas plants to bottle compressed gas in cylinders

Challenges faced:

- **Large investments** are required in setting up of air separation units as well as new packaged gases sites.
- **The supply chain in the gases business also requires significant investments** in the form of distribution assets and storage networks to service bulk volumes as well as in the form of cylinders to service relatively smaller volumes in packaged gases business.

Strategy for future growth:

- The strategy of the bulk and packaged gas business continues to **focus on building density and sustaining market leadership through application led gas sales and enhanced service levels.**

- **Improving distribution function is the key strategy of the company.** During the year, the **Company implemented several measures to improve efficiency of the distribution function** such as phasing out of low capacity tankers, introduction of 7KL tankers with flow meter for medical supplies, with the aim of reducing cost of delivery and improving billing accuracy. Besides, actions have been taken to improve delivered volume by about 2% by optimizing the payload per vehicle.
- **Some of the other highlights are:** Increased distribution capability of liquid products to 1500 tpd, improvement in supply failures, higher capacity utilization of VITTs and cylinder vehicles over 2017, improvement in kilometers run, etc. are some of the highlights of Deliver.

Future Outlook:

- Linde India continues to focus **on introducing new products and applications** into the market **to secure growth and improve margins.**
- Demand from the steel sector remains the main driver for the growth of the gases business in India - During the year, the original long-term gas supply contract with Tata Steel in respect of the 1290 tonnes per day air separation unit at the customer's steel works at Jamshedpur was renewed for a further period of 10 years
- **Healthcare is a strongly growing part of the gases business and Linde India continues to maintain its leadership in healthcare gases market.**

B) Product Engineering Division (PED)

Topline contribution - 18%

Comprises of:

- The business of design, engineering, supply, installation, testing and commissioning of Air Separation plants and related projects on **turnkey basis**

Key points to note:

- The project engineering business **reflects the appetite for new projects** in diverse core sectors of the economy.
- **Achieved highly improved performance during the last year primarily on the back of orders from steel and refinery sectors, besides turnkey projects executed overseas.**

Strategy for future growth:

- **The PED derives support from Linde Engineering, Munich** by way of transfer of technology for design and manufacture of plants in India, which is expected to continue.

- The Division is **working towards receiving the Integrated Management System (IMS) Certificate** for company's EPC business, which will help it to get **more business in the overseas markets.**

Future Outlook:

- Linde India has secured a number of orders by leveraging Linde applications technology.
- As on 31 December 2018, the **order book position** of the Project Engineering Division for third party projects stood in the range of **Rs. 6,000 million.**
- Consolidation in primary steel sector and refineries is expected to create opportunities for the Project Engineering business.

4) **Global merger of Linde AG and Praxair Inc.**

A) Merger details:

- The business combination (merger) between Linde AG, the ultimate holding company of Linde India with Praxair, Inc. on 31 October 2018 was the focal point of strategic development for Linde India during year 2018.
- Linde AG and Praxair Inc incorporated an entity called Linde Plc in Ireland for their global merger. Linde Plc is now the holding company of both the entities.
- Following the global merger, Indian entities, Linde India and Praxair India Pvt Ltd are also expected to be subsequently merged.
- The merger is expected to benefit the company in the long run
- **We believe that the merged entity will benefit from dominant market position of onsite business in India, business and geographic diversity, better positioning in merchant gas segment.**

B) Divestment: (Condition by CCI for the local leg of merger)

- In September last year, the Competition Commission of India had approved the local leg of the global merger but **on the condition that both companies sell some of their businesses in the country.**
- Hence, both Linde and Praxair have been selling some assets to get anti-trust approval.
- **The deal for Linde's South India business:**
Linde AG has agreed to sell its South India business to Japan's Air Water Inc. (AWI) AWI, through unit Air Water India Pvt. Ltd, has signed a binding term sheet to acquire the South India business of Linde India Ltd in cash. The business includes the manufacturing, storage, transport and sale of oxygen, nitrogen and argon.
The aggregate sale consideration is Rs 1,380 crore.

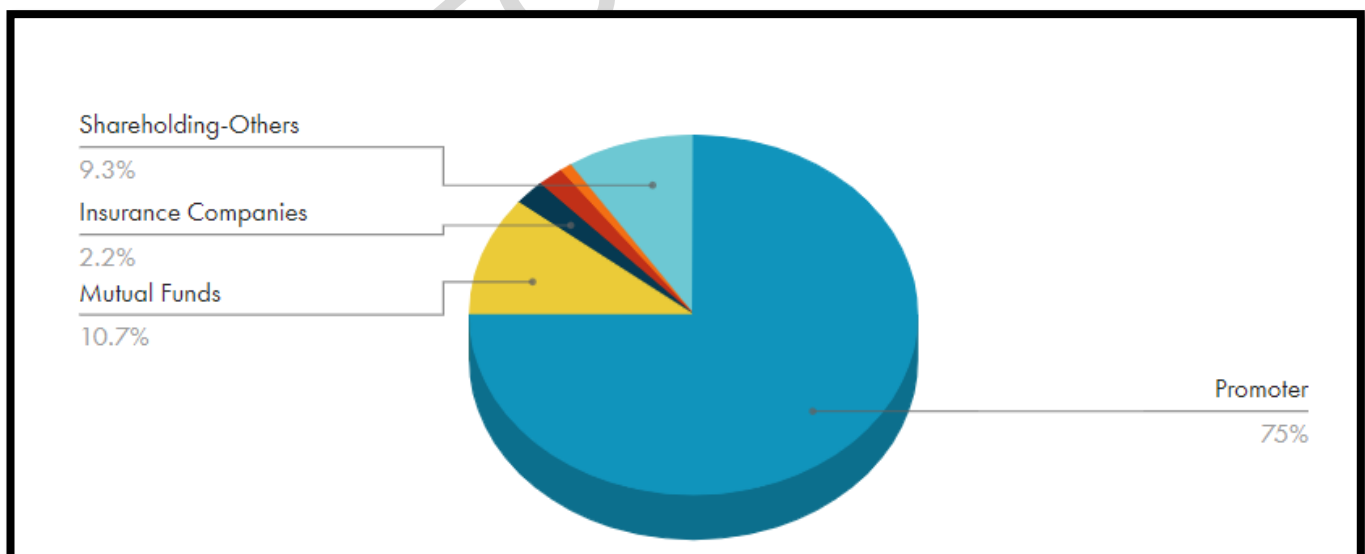
- The deal for Linde's south India business comes a month after AWI bought the industrial gas business in eastern India **from Praxair for Rs 1,525 crore**

** It is important to note that divestments are likely to **have a temporary impact on the scale and profitability of Linde India.**

C) **Delisting Rally Angle:**

- As part of new strategy by Praxair, the management wanted to take Linde India private by delisting from stock exchanges.
- As a part of the process, BOC has attempted bidding earlier this year. However, the promoter had rejected the proposal because the price discovered during reverse bidding was ~4.7 times the floor price. (Floor price:428.5, Price discovered during reverse bidding: 2025)
- Hence, as of now Linde India remains listed on the Indian stock exchanges, however investors should keep this delisting angle in mind and be watchful of any future favourable developments.

Shareholding Pattern:



5) Investment Case:

- **Established market position and diverse product portfolio:**
Linde India is one of the largest players in the domestic industrial gas industry, with experience of more than 75 years. The company's strong portfolio is backed by brand equity and ability to provide end-to-end solutions to customers in the tonnage segment.

➤ **Revenue visibility and stability:**

Linde India usually enters into long-term (15-20 years) take or pay contracts with customers, which provide **stable cash flow and profitability and prevent significant decline in revenues during downturn.**

- Linde India continues to focus on introducing new products and applications into the market to secure growth and improve margins.
- Linde India has **the largest sales and distribution network in the country** giving the company a **wide geographic reach** and placing them close to customers in any part of India.
- **Customer first attitude:**
Linde India continues to invest heavily in developing its people and relentlessly improving its capabilities, and is uniquely poised to successfully capitalise on the many exciting growth opportunities in India.

6) Improving Financial Performance Since past quarters:

- There is a satisfactory growth in overall revenues in both its segments over the years.
- Increase in EBITDA is primarily because of growth of merchant business and pricing initiatives implemented in gases business.
- There was a significant increase in bottom line over the last year. This is because company has benefited from lower depreciation (* nil depreciation is charged on assets held for sale as per CCI)
- Also, there is a reduction in the interest cost arising mainly from repayment of the ECB borrowings.
- Last couple of quarters have shown expansion in margins which we expect to continue.

Narration	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Sales	506.95	518.13	527.64	549.60	551.62	562.79	441.09	498.21
Expenses	423.38	435.34	455.05	464.20	468.00	478.02	328.36	403.64
Operating Profit	83.57	82.79	72.59	85.40	83.62	84.77	112.73	94.57
Other Income	1.73	12.40	7.24	1.15	6.83	7.41	4.93	2.44
Depreciation	49.02	56.61	51.50	51.16	50.12	46.36	42.30	42.75
Interest	28.60	27.76	26.50	26.07	25.59	24.55	23.27	23.24
Profit before tax	7.68	10.82	1.83	9.32	14.74	21.27	52.09	31.02
Tax	-2.56	1.30	-0.54	4.07	4.30	5.86	16.52	10.86
Net profit	10.23	9.52	2.38	5.25	10.44	15.42	35.57	20.16
OPM	16%	16%	14%	16%	15%	15%	26%	19%

Narration	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18
Sales	1,491.35	1,566.63	1,825.31	2,033.06	2,191.65
Expenses	1,214.35	1,346.48	1,538.59	1,705.38	1,865.28
Operating Profit	277.00	220.15	286.72	327.68	326.37
Other Income	10.81	31.81	34.47	11.20	22.63
Depreciation	181.35	161.53	195.40	206.26	199.14
Interest	102.87	89.88	115.57	116.47	102.70
Profit before tax	3.57	0.55	10.21	16.15	47.17
Tax	-1.82	-22.90	-3.20	-2.78	13.69
Net profit	5.40	23.46	13.41	18.94	33.49
EPS	0.63	2.75	1.57	2.22	3.93
Price to earning	693.65	107.18	226.75	244.65	171.03
Price	439.19	294.82	356.53	543.30	671.59
RATIOS:					
Dividend Payout	236.85%	27.28%	47.73%	45.04%	38.19%
OPM	18.57%	14.05%	15.71%	16.12%	14.89%

➤ **Healthy liquidity profile:**

Liquidity Analysis	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Total 5 Yrs	CAGR
Cash from Operating Activity	271.44	242.38	292.61	252.09	380.34		
Cash from Investing Activity	-264.26	-57.61	-127.79	-59.29	-73.53		
Cash from Financing Activity	-8.35	-221.53	-79.68	-261.05	-219.69		
Net Cash Flow	-1.17	-36.75	85.14	-68.25	87.13		
Cash & Eq at end of Year	57.17	21.03	106.14	38.64	125.4		22%

** It is important to note that Linde India's internal accruals would be temporarily impacted following a merger. However, it has some unutilized bank lines and the financial support is expected to be continued from Linde group.

➤ **Financing:**

High debt is primarily for capex. Also, company has been able to maintain a comfortable gearing ratio over the years.

Financing	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Total 5 Yrs	CAGR
Total Debt(D)	1564.43	1388.26	1445.35	1281.86	1189.69		-7%
Total Equity(E)	1389.22	1392.58	1395.34	1407.71	1426.8		1%
D/E	1.1261211	0.9968978	1.0358407	0.9105995	0.8338169		-7%

** It is important to note that **of the total outstanding debt as on December 31, 2018 about 73% is from Linde AG and Linde Engineering India Private Limited.**

7) Key Risks:

➤ **Capital intensive and competitive industry**

The domestic industrial gas industry is intensely competitive because of commoditised nature of products. Also, the company operates in businesses involving large capex, long gestation and lengthy payback

	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Total 5 Yrs	CAGR
Capital Intensity (EBITDA / EBIT)	1.6546931	1.733727	1.6815011	1.6294556	1.6101664		-1%
Net Fixed Assets Turns (Higher is better)	0.6776461	0.7261018	0.7094782	0.8140217	1.0139252		11%

➤ Aggressive addition of new merchant capacities by competitors in an already competitive market place may have adverse impact on price in certain geographies

➤ **Segment concentration in revenues:**

Steel and other metallurgical industries account for around two-third of total revenue from the gases segment, which exposes the company to inherent cyclicity and sluggish growth during economic downturns.

8) View:

We think Linde India is a compelling story with an established market position. It will continue to grow stronger with support from its parent Linde AG in financial and operational capabilities. Also, it would benefit the company immensely if it can diversify the end user segments. The merger would also help company in scaling of businesses in the long run.

Linde can be considered a quality compounder and a safe addition to the portfolio. In the range of **Rs. 470-500**, we find there is nothing much to lose and the potential delisting may turn out be an icing on the cake for shareholders.

This is NOT an investment advice. Please make your own decision, as blindly acting on anyone else's research and opinions can be injurious to your wealth. I am not a registered Research Analyst.
