

Significant value (High Investment per share and Net Cash & Cash Eq. per share) available at steep discount to CMP..

Quality investment portfolio

A gem in the smallcap space...  
Undiscovered by investor community..

High margin of safety when benchmark indices and broader markets are making new high on daily basis..

A true Investor's delight

**CMP: Rs. 1,067 | Target price: 1,800 | Upside: 68.8% | FV: Rs. 10 | Market Capitalisation: Rs. 186 crores | 52 week High/Low: Rs. 1,126/Rs. 694 | 2 Week Average Qty on BSE: 1,184 | Turnover (Lakh): 4.69**

- 1) Industrial And Prudential Investment Company Limited was initially incorporated under the name "Industrial & Prudential Assurance Co. Ltd as a limited liability Company under Act no. VI of 1882 of the Legislative Council of India. Subsequently the name of the Company was changed from "Industrial & Prudential Assurance Co. Ltd" to "Industrial and Prudential Investment Company Limited" on 22nd June, 1959 under Indian Companies Act, 1.956. The Company is an NBFC registered with Reserve Bank of India and engaged in investment and trading of securities and mutual fund units, headquartered in Kolkata. The Company is managed by Swarup Family as promoter, who along with other promoter and promoter group companies hold 65.89% of equity share capital of the Company. The Company is operating out of the leased premises owned by the promoter group company and has required infrastructure including information technology hardware and software to run its Investment Business. The day to day operations are being looked after by the core team comprising of the CFO and other members.
- 2) The Company's business is comprised of investment in equity shares and other money market instruments which are directly related to the performance in the capital market. The Portfolio is managed conservatively without large scale churning. The portfolio consists of major holding in KSB Pumps and in companies like Infosys, Titan, Nestle and others.
- 3) The Company's topline is the Dividend income which it receives from its equity investments (Rs. 7.56 Crore in FY20). The Company is a zero debt company and along with its 100% subsidiary, New Holding & Trading Co. has an excellent equity investment portfolio.
- 4) The Indian equity markets have witnessed a correlation to world equity markets, experiencing all-time highs in January 2020, followed by a COVID-19 influenced steep correction in March 2020, followed by an almost as sharp quick recovery once world governments started to announce fiscal support and stimulus packages for the economy.
- 5) The Company's financial performance is correlated with the market performance of KSB India Limited, which remains a significant portion of the Company's investment portfolio. The long term outlook for KSB Pumps remain positive. The pump industry, especially the sectors in which KSB operates, may likely benefit from the gradual opening up of the Indian economy, increased agricultural activity, an expected favourable monsoon and fiscal support from the government. However, uncertainties associated with COVID-19 along with disruptive climate patterns, trade war escalations, oil price fluctuations, and depreciating INR all could adversely impact the Company's investment portfolio in the short run.
- 6) KSP Limited (Associate Company) has witnessed a rally of 70 percent from Rs. 386 to Rs. 654.8 recently. However, Industrial Prudential and Investment Company has not seen a run-up in the same proportion as KSB Pumps which is not reflected in the share price as well. We believe there is immense value in this Company as Investment per share (equity investments) + Net Cash & cash equivalents along with Mutual Fund investments is Rs. 2.083 per share. The Company is continuously reviewing its portfolio to reduce or limit its risk to the extent possible.
- 7) The Company has announced a Buyback of 69,500 equity shares at Rs. 1,200 per share (Record date: Jan. 01, 2021). The Buyback by the Company is to service the equity more efficiently. Additionally, the Company's management strives to increase equity shareholders value and the Buyback would result in amongst other things: a) The Buyback is being done to return surplus funds, after taking into account the strategic and operational cash needs of the Company in the short to medium term, b) The Buyback may help in improving earnings per share, return on equity, by reduction in the equity base, thereby leading to long term increase in shareholders' value; c) The Buyback gives an option to the equity shareholders, who can either (i) choose to participate and get cash in lieu of Equity Shares to be accepted under the Buyback; or (ii) choose to not participate and enjoy a resultant increase in their percentage shareholding, post the Buyback, without additional investment;
- 8) The shareholding of the Promoter and Persons in Control as on the date of the publication of Public Announcement for Buyback offer i.e. December 23, 2020 is given below:

Name of the Shareholder	No. of equity shares	% shareholding
Vikram Swarup (In the capacity of Trustee of Swarup Family Trust)	27,348	1.57
Kevic Anant Setalvad	13,452	0.78
Bindu Vikram Swarup	9,000	0.52
Gaurav Swarup	3,600	0.21
Parul Swarup	3,414	0.20
Paharpur Cooling Towers Limited	7,46,901	42.79
Paharpur Corporation Limited	1,91,550	10.97
Melvin Powell Vanaspati & Engg. Industries Ltd.	1,54,800	8.87
<b>Total</b>	<b>11,50,065</b>	<b>65.89</b>

## Equity Investment portfolio

Company	Holding - No. of equity shares	FV (Rs.)	CMP (Rs.) as Jan 01, 2021	Market Value of Investment (Rs. in crores)
KSB Pumps (Associate Company)	7400000	10	639.75	473.42
Infosys	902400.00	5.00	1260.00	113.70
TCS	28000.00	1.00	2928.25	8.20
The Karur Vysya Bank	244200.00	2.00	45.95	1.12
ACC	7000.00	10.00	1626.00	1.14
Amara Raja Batteries	105000.00	1.00	925.05	9.71
BASF India	10800.00	10.00	1628.40	1.76
Bayer Cropscience	1066.00	10.00	5438.70	0.58
Bharat Electronics	99000.00	1.00	126.40	1.25
Bharat Forge Limited	32000.00	2.00	538.10	1.72
Bosch Limited	2000.00	10.00	12986.05	2.60
BSE Limited	5371.00	2.00	633.75	0.34
Century Textiles & Industries Limited	4500.00	10.00	408.55	0.18
Dr. Reddys Laboratories	4000.00	5.00	5241.35	2.10
GAIL (India) Limited	101332.00	10.00	123.65	1.25
GE T&D India Limited	50000.00	2.00	119.35	0.60
HDFC Bank Limited	4000.00	2.00	1425.05	0.57
Hindustan Unilever Limited	73000.00	1.00	2387.55	17.43
ITC Limited	27000.00	1.00	213.85	0.58
Nestle India	14000.00	10.00	18450.70	25.83
Orient Refractories Limited	90000.00	10.00	249.00	2.24
Piramal Enterprises Limited	23216.00	2.00	1480.35	3.44
Siemens Limited	25000.00	2.00	1601.55	4.00
State Bank of India	71000.00	1.00	279.40	1.98
Sun Pharmaceutical Industries	8000.00	1.00	596.25	0.48
Tata Motors Limited	21100.00	2.00	186.50	0.39
Tata Motors Limited - DVR	41500.00	2.00	76.45	0.32
Tata Steel Limited	20587.00	10.00	643.10	1.32
Tech Mahindra Limited	12000.00	5.00	977.95	1.17
The Great Eastern Shipping Company Limited	30400.00	10.00	270.65	0.82
The Tata Power Company Limited	270000.00	1.00	77.35	2.09
Timken India Limited	7000.00	10.00	1335.65	0.93
Titan Company Limited	310500.00	1.00	1558.60	48.39
Ultratech Cement Limited	562.00	10.00	5290.80	0.30
Zee Entertainment Enterprises Limited	20808.00	1.00	224.95	0.47
			<b>Total</b>	<b>732</b>

**Cash and Cash equivalents as on H1FY20 - Rs. 46.43 crores (including MF Investments of Rs. 46.32 crores as on March 2020)**

**Less:** Cash to be used for Buyback of 69, 500 shares at Rs. 1,200: Rs. 8.34 crores + 20 percent tax on Buyback = Rs. 10 crores

Note: Buyback record date: January 01, 2021

**Net Cash and cash equivalents including MF investment after buyback - Rs. 37.47 crores (Rs. 223 per share on post buyback equity)**

**No. of equity shares:**

**a) Pre - Buyback - 17,45,000, b) Post - Buyback - 16,75,600**

(Note: Cash and cash equivalents includes all highly liquid financial instruments, which are readily convertible into determinable amounts of cash and which are subject to an insignificant risk of change in value and are having original maturities of three months or less from the date of purchase, are considered as cash equivalents. Cash and cash equivalents includes balances with banks which are unrestricted for withdrawal and usage.) We have also included MF investments in Cash equivalents)

### Standalone - Financial summary (Rs. in crores)

Particulars	H1FY20	FY20	FY18	FY17
Revenue	9.87	7.56	9.77	9.19
PAT	7.84	8.68	8.63	8.24
EPS (Rs.)	44.94	49.72	49.42	47.20
Book value (Rs.)	343.19	299.63	265.44	220.45
ROE (%)	13.09	16.59	18.62	21.41

### Valuation and recommendation

- 1) We assign 85 percent discount to investment in KSB Pumps Limited as it is an Associate Company. The current market valuation of investment in KSB Pumps Limited - **Rs. 473 crores. After assigning discount of 85 percent, we arrive at a valuation Rs. 70.95 crores which translates into Rs. 423 per share on post Buyback equity**
- 2) We assign 25 percent discount to investment in equity shares of other Companies for market fluctuation. **The valuation of investment in equity shares of other Companies is Rs. 259 crores. After assigning discount of 25 percent, we arrive at a valuation Rs. 194.25 crores which translates into Rs. 1,160 per share on post Buyback equity**
- 3) Cash and Cash equivalents including Investment in **Mutual Funds - Rs. 36.42 crores which translates into Rs.217 per share on post Buyback equity.**

### Valuation matrix - Sum of the Parts (SOTP) valuation

We have valued the Company on Sum of the Parts basis as it is an investment Company.

Particulars	Valuation (Rs. crores)	Discount	Discounted valuation (Rs. crores)	Per share value (Rs.)
Investment in KSB Pumps	473	85%	70.95	423
Other equity shares	259	25%	194.25	1,160
Net cash and cash equivalents (including Mutual Funds)	36.42	-	36.42	217
<b>Total</b>	<b>769.47</b>		<b>301.6</b>	<b>1,800</b>
		<b>Market Cap. (Rs.)</b>	<b>186</b>	

We recommend a "BUY" with a target price of Rs. 1,800 (SOTP value), an upside of 68.8% for investors with a horizon of 9-12 months.

## Price performance

a) 1 Week: -2.92%, b) 1 Month: 5.79%, c) 3 Months: 26.10%, d) YTD: -0.11%, e) 1 Year: 8.52% f) 3 Years: -23.71%

## Price performance chart - Last one year



Source: TradingView

## Disclosure under SEBI Research Analyst Regulations 2014:

- a) Analyst holding: No
- b) Company holding: No
- c) Directors holding: Yes
- d) Group/Associates Position: No
- e) Relationship with management: No
- f) Any Compensation Received by our Company/Associate during the last 12 months: No
- g) Our Company/Associate have managed the public offering of securities for the subject Company in the past 12 months: No

## Recommendation parameters for fundamental reports:

**Buy** – Absolute return of 20% and above

**Accumulate** – Absolute return between 15% and above

**Book profits:** On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended

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