

Retail Equity Research

L G Balakrishnan & Bros Ltd

Automobile Ancillaries

BSE CODE: 500250

NSE CODE: LGBBROSLTD

BLOOMBERG CODE: LGBB IN

SENSEX : 38,600

Accumulate

12M Investment Period

Rating as per Small Cap

CMP Rs360

TARGET Rs400

RETURN 11% ↑

(Closing: 06-05-19)

KEY CHANGES:

TARGET ↓

RATING ↑

EARNINGS ↓

Higher Input cost is cause of worry

L G Balakrishnan & Bros (LGB) is India's leading Manufactures in 2W-chain transmission (Drive chains) and sprockets with a domestic market share of 75% and around 50% in replacement market.

- Q4FY19 revenue grew by 11%YoY due to 12% growth from the chain transmission segment and 9% from the metal forming..
- EBITDA margin declined by 370bps due to Higher RM cost. RM/Sales for the quarter witnessed upside of 300bps. PAT de-grew by -39%YoY added by higher depreciation cost.
- LGB to benefit from the new capacity addition and its strong volume growth under weak outlook. We expect the revenue from Transmission and metal forming to grow by 12% and 13% CAGR over FY 19-21E respectively.
- However considering the near term headwinds owing to lower 2W demand and higher Input cost we expect the consolidated Revenue and PAT to grow by 12% CAGR over FY19-20E
- The stock is currently trading at 10.4x and 9x over FY20e and FY21e EPS, which is fair comparatively to its long term historical average. We value LGB at 10x FY21E EPS with a target price of Rs.400 and upgrade our rating to Accumulate from Hold

Revenue Inline. Margin disappointed

Q4FY19 revenue grew by 11%YoY due to 12% growth from the chain transmission segment and 9% from the metal forming. EBITDA margin declined by 370bps due to Higher RM cost. RM/Sales for the quarter witnessed upside of 300bps. PAT de-grew by 39%YoY added by higher depreciation cost. We expect the industry to remain muted for FY20 owing to lower demand and higher inventory. However Shift toward premium bikes in the urban sector owing to technological up gradation (like Bajaj, Enfield) has given higher value and revenue visibility. We expect the revenue from Transmission and Metal forming to grow by 12% and 13% CAGR over FY 19-21E respectively.

Capacity addition to mitigate volume constraints

LGB has invested 100cr for the Chennai plant and the plant is expected to commence by the end of Q4FY19. LGB has excellent relationship with OEM's like Bajaj Auto, HMSI, TVS Motors, Eicher Motors and Hero Motor to prop up its transmission & fine blanking businesses. LGB's Greenfield project with capex of ~Rs1.6bn in Jalna (Aurangabad) has already commissioned and done a turnover of about 200cr which is about 80% efficiency. LGB will take additional debt of Rs 50 crore for funding capex and the current debt stands at Rs 160 crore

Transmission sale to grow at double digit

We expect FY20 revenue growth to grow double digit due to higher sale in premium segment sale. LGB registered a revenue growth of 12% for FY19 despite policy doldrums, led by 18% segment growth from the Chain and sprockets (used to rotate transmission chains) business. 80% of total revenue is contributed from this segment, out of which 60% is OEM and 40% is aftermarket. Consolidated revenue to grow by 12% CAGR during FY19-21E by factoring 12% CAGR growth in transmission chains business & 15% growth in Metal forming business

Valuations

We expect the earnings to grow by 12% CAGR over FY19-21E on the back of pick up in domestic 2-Wheeler market and capacity additions. We lower our revenue and PAT estimate for FY20 by 3% & 9% for FY20 factoring lower sales and decline in margin owing to higher input cost. The stock is currently trading at 10.4x and 9x over FY20e and FY21e EPS, which is fair comparatively to its long term historical average. We value LGB at 10x FY21E EPS with a target price of Rs.400 and upgrade our rating to Accumulate from Hold

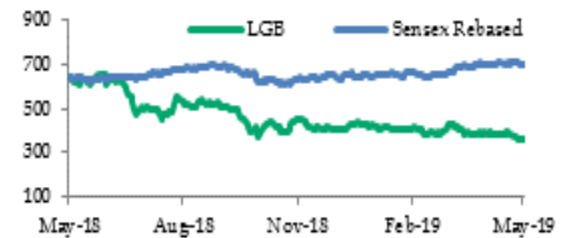
Company Data

Market Cap (cr)	Rs. 1,130
Enterprise Value (cr)	Rs. 1,231
Outstanding Shares (cr)	1.3
Free Float	52%
Dividend Yield	1.6%
52 week high	Rs. 666
52 week low	Rs. 349
6m average volume (cr)	0.01
Beta	1.3
Face value	Rs10

Shareholding (%)	Q2FY19	Q3FY19	Q4FY19
Promoters	47.9	47.9	47.9
FII's	16.5	16.5	16.8
MFs/Insti	0.7	0.7	0.6
Public	34.9	34.9	34.7
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	-13.1%	-21.5%	-44.4%
Absolute Sensex	5.8%	10.7%	9.9%
Relative Return	-18.9%	-32.2%	-54.4%

over or under performance to benchmark index



Standalone(cr)	FY19E	FY20E	FY21E
Sales	1,688	1,891	2,108
Growth (%)	19.0	12.0	11.5
EBITDA	207	235	270
EBITDA Margin(%)	12.3	12.4	12.8
PAT Adj.	996	1,085	1,254
Growth (%)	15.7	9.0	15.6
Adj.EPS	31.7	34.6	40.0
Growth (%)	15.7	9.0	15.6
P/E	11.3	10.4	9.0
P/B	1.7	1.5	1.5
EV/EBITDA	5.9	5.3	4.6
ROE (%)	16.2	15.3	15.3
D/E	0.2	0.1	0.1

Saji John
Research Analyst

Quarterly Financials (Standalone)

Profit & Loss

Rs cr)	Q4FY19	Q4FY18	YoY Growth %	H2FY19	H2FY18	YoY Growth %
Sales	382	343	<i>11.4</i>	791	680	<i>16.4</i>
EBITDA	41	49	<i>-16.8</i>	93	99	<i>-5.7</i>
EBITDA margins	10.7	14.4	<i>-370bps</i>	11.7	14.5	<i>-280bps</i>
Depreciation	17	14	<i>24.5</i>	34	28	<i>22.6</i>
EBIT	24	36	<i>-32.7</i>	59	71	<i>-16.7</i>
Interest	3	2	-	5.6	4.3	<i>29.4</i>
Other Income	0.7	1.9	-	1.1	3.2	<i>-65.5</i>
Exceptional Items	4.1	-	-	12.0	0	-
PBT	25	35	<i>-28.1</i>	67	70	<i>-4.7</i>
Tax	7.5	12.5	-	19	25	<i>-20.5</i>
Share of profit from Associate	0	0	-	-	-	-
Minority Interest	-	-	-	-	-	-
Reported PAT	18	23	<i>-21.6</i>	47	46	-
Adjustments	4.1	-	-	-8	0	-
Adj PAT	14	23	<i>-39.4</i>	71	57	<i>-22.6</i>
No. of Shares	3.14	3.14	-	3.14	3.14	-
EPS (Rs)	4.4	7.2	<i>-39.4</i>	11.1	14.4	<i>-22.6</i>

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	1,840	-	1,891	2,108	<i>(2.8)</i>	-
EBITDA	266	-	235	270	<i>(11.6)</i>	-
Margins (%)	14.7	-	12.3	12.8	<i>(240bps)</i>	-
Adj. PAT	118	-	108	125	<i>(8.5)</i>	-
EPS	37.5	-	34.6	40.0	<i>(8.5)</i>	-

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Sales	1,259	1,418	1,688	1,891	2,108
% change	4.4	12.7	19.0	12.0	11.5
EBITDA	161	194	207	235	270
% change	16.7	20.9	6.6	13.6	14.7
Depreciation	53	58	67	72	79
EBIT	108	136	139	162	190
Interest	14	11	11	11	12
Other Income	9	5	3	6	4
PBT	103	131	143	157	182
% change	32.9	26.9	8.7	10.1	15.9
Tax	29	43	46	51	59
Tax Rate (%)	28.2	32.5	32.2	32.2	32.2
Reported PAT	71	86	100	108	125
Adj.	1.3	0.0	0.0	0.0	0.0
Adj. PAT	70	86	100	108	125
% change	9.8	23.5	15.7	9.0	15.6
No. of shares (cr)	3.1	3.1	3.1	3.1	3.1
Adj EPS (Rs)	22.2	27.4	31.7	34.6	40.0
% change	9.8	23.5	15.7	9.0	15.6
DPS (Rs)	3.5	2.2	2.2	2.2	2.2

CASH FLOW

Y.E March (Rs Cr)	FY17A	FY18A	FY19E	FY20E	FY21E
Net inc. + Depn.	156	189	211	230	262
Non-cash adj.	-33	-46	-46	-51	-59
Changes in W.C	28	-33	-53	-27	-38
C.F. Operation	150	110	112	152	166
Capital exp.	-86	-81	-71	-76	-76
Change in inv.	-23	19	-59	-15	-25
Other invest.CF	-5	-2	0	0	0
C.F - Investment	-113	-64	-130	-91	-101
Issue of equity	0	0	0	0	0
Issue/repay debt	-30	-15	7	7	7
Dividends paid	-13	-8	-8	-8	-8
Other finance.CF	4	3	0	0	0
C.F - Finance	-37	-22	-1	-1	-1
Chg. in cash	1	24	-16	62	66
Closing cash	6	30	14	76	142

BALANCE SHEET

Y.E March (Rs Cr)	FY17A	FY18A	FY19E	FY20E	FY21E
Cash	6	30	14	76	142
Accounts Receivable	159	183	217	244	271
Inventories	215	247	295	330	365
Other Cur. Assets	60	69	90	103	112
Investments	41	41	100	115	140
Gross Fixed Assets	744	824	899	974	1049
Net Fixed Assets	391	413	421	424	420
CWIP	15	15	10	10	10
Intangible Assets	4	5	5	5	5
Def. Tax (Net)	-14	-12	12	13	14
Other Assets	14	14	14	14	14
Total Assets	890	1005	1155	1309	1467
Current Liabilities	89	97	116	130	130
Provisions	7	8	5	8	9
Debt Funds	109	94	101	108	115
Other Liabilities	190	214	250	280	312
Equity Capital	16	31	31	31	31
Reserves & Surplus	460	538	629	729	846
Shareholder's Fund	475	569	660	760	878
Total Liabilities	890	1005	1155	1309	1467
BVPS	30	18	21	24	28

RATIOS

Y.E March	FY17A	FY18A	FY19E	FYE20E	FY21E
Profitab & Return					
EBITDA margin (%)	12.8	13.7	12.3	12.4	12.8
EBIT margin (%)	8.6	9.6	8.2	8.6	9.0
Net profit mgn.(%)	5.5	6.1	5.9	5.7	6.0
ROE (%)	15.6	16.5	16.2	15.3	15.3
ROCE (%)	9.9	10.3	10.8	10.3	10.3
W.C & Liquidity					
Receivables (days)	45.1	43.9	43.2	44.5	44.6
Inventory (days)	64.2	59.5	58.7	60.4	60.2
Payables (days)	5.1	5.5	5.0	4.4	4.0
Current ratio (x)	4.6	5.0	5.1	5.5	6.4
Quick ratio (x)	1.8	2.2	2.0	2.5	3.2
Turnover & Leverage					
Gross asset T.O (x)	1.8	1.8	2.0	2.0	2.1
Total asset T.O (x)	1.5	1.5	1.6	1.5	1.5
Int. covge. ratio (x)	7.4	12.9	12.3	14.8	16.1
Adj. debt/equity (x)	0.2	0.2	0.2	0.1	0.1
Valuation					
EV/Sales (x)	1.0	0.9	0.7	0.7	0.6
EV/EBITDA (x)	7.7	6.3	5.9	5.3	4.6
P/E (x)	16.2	13.1	11.3	10.4	9.0
P/BV (x)	1.2	2.0	1.7	1.5	1.3

PRICE HISTORY



Dates	Rating	Target
2-Mar-16	Accumulate	237
25th October 2016	Buy	392
29th March 2017	Buy	352
13th March 2018	Hold	546
3rd May 18	Hold	668
7th May 19	Accumulate	400

Source: Bloomberg, Geojit Research.

Investment Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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