

Retail Equity Research  
**Banco product ltd**  
Automobile - Auto Ancillary

**Reduce**

BSE CODE : 500039      NSE CODE: BANCOINDIA  
BLOOMBERG CODE: BANCO :IN      SENSEX : 39,592

12M Investment Period      Rating as per small Cap  
**CMP Rs119 TARGET Rs115 RETURN -4%** ↓  
(Closing: 26-06-19)

**KEY CHANGES:**

**TARGET** ↓

**RATING** ↓

**EARNINGS** ↓

**Higher operating cost lowers margin**

Banco Products Ltd (BPIL) is a manufacturer of radiators and gaskets that have applications in automobiles, oil engines, compressors & locomotives. 80% of the revenue comes from the commercial vehicles (CV) Industry.

- Q4FY19 revenue grew by strong 27.6%, mainly due to higher contribution from the European subsidiary (Constitutes 60% of revenue) growing at 55%YoY respectively.
- Despite lower RM & Employee cost, EBITDA margin contracted by 740bps due to significant increase in other expenses.
- Considering the near term headwinds in the domestic CV segment and margin dilution due to lower PV share, we lower our earning estimate by 23% for FY20.
- We expect the pressure in the Gasket business catering to PV segment will lowers the consolidated margin.
- We roll-over our valuation to FY21E and value at a P/E of 8x (10x earlier) on subdued earnings outlook. We downgrade our rating to reduce with a target price of Rs115.

**Slowdown in the auto sector to continue..**

Q4FY19 revenue grew by strong 27.6%, mainly due to higher contribution from the European subsidiary (Constitutes 60% of revenue) growing at 55% YoY respectively. However domestic CV demand for the quarter registered a volume de-growth of -1.2%YoY due to lower government spending in road infrastructure, implementation of overloading ban and liquidity crunch. BPIL 40% revenue comes from standalone business which has grown by 32%YoY for the quarter. PAT de-grew by 12.3%YoY, supported by lower tax. We expect the domestic demand scenario to remain subdued for trucks and cars in FY20.

**Pick up in the European CV demand**

BPIL is present in international OEM market through its overseas subsidiary NRF (Fully owned). Revenue from overseas business which accounts for 60% of the consolidated revenue has delivered a revenue growth of 55% in Q4FY19. Slowdown in international radiator sales has been impacting the overseas business for the last 10 quarters. However existing orders and new client addition lowered the impact. We expect subdued demand has come to its bottom and will start witnessing recovery and we factor 11% CAGR in the overseas subsidiary revenue during FY19-21E.

**EBITDA margin remain under pressure**

EBITDA margin for FY19 was at 11.2%. During the quarter BPIL consolidated margin witnessed significant decline by 740bps at 10.8%. This was largely do increase in operating cost. We expect EBITDA margin to remain under pressure owing to higher operating expenses and lower contribution from the gasket business. We except rebound in the CV segment, superior product mix, concentration on more profitable segment and stabilizing raw material prices will provide some cushion to the margin and factor 10.9% for FY20E.

**Valuations**

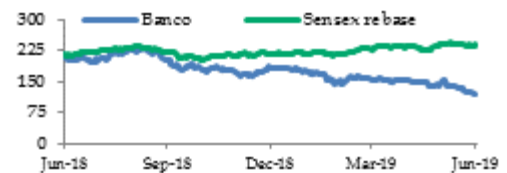
BPIL is currently trading at P/E of 9x and 8x on FY20E & FY21E EPS respectively. We expect the earnings to grow by 11% CAGR over FY19-21E on the back of revival in international market and domestic CV industry. However challenges in the radiator business globally due to faster adoption of electric vehicle and lower contribution from the Gasket business due to slow down in the car market we the lower our margin by 40bps and lowers the PAT by 26% FY20. We roll over our valuation to FY21E EPS and value BPIL at P/E of 8x in line with historical average with a revised target price of Rs115 and downgrade our rating to reduce from buy .

**Company Data**

Market Cap (cr)	Rs.873
Enterprise Value (cr)	Rs.912
Outstanding Shares (cr)	7.2
Free Float	32.1
Dividend Yield	10.9
52 week high	Rs.239
52 week low	Rs.116
6m average volume (cr)	0.04
Beta	0.93
Face value	Rs2

Shareholding (%)	Q2FY19	Q3FY19	Q4FY19
Promoters	67.9	67.9	67.9
FII's	0.8	0.8	0.8
MFs/Insti	3.9	3.9	3.9
Public	27.3	27.4	27.4
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	-22.5%	-35.7%	-44.5%
Absolute Sensex	3.4%	10.6%	11.2%
Relative Return	-25.9%	-46.3%	-55.7%



Consolidated (cr)	FY19A	FY20E	FY21E
Sales	1,567	1,755	1,944
Growth (%)	17.4	12.0	10.8
EBITDA	175	192	214
EBITDA Margin(%)	11.2	10.9	11.0
PAT Adj.	83	91	103
Growth (%)	-26.9	9.3	13.0
Adj.EPS	11.6	12.7	14.4
Growth (%)	-26.9	9.3	13.0
P/E	10.3	9.4	8.3
P/B	1.1	1.0	1.0
EV/EBITDA	5.1	4.7	4.3
ROE (%)	10.4	11.1	11.9
D/E	0.0	0.1	0.1

Saji John  
Research Analyst

## Quarterly Financials (Consolidated)

### Profit & Loss

Rs cr)	Q4FY19	Q4FY18	YoY Growth %	H2FY19	H2FY18	YoY Growth %
<b>Sales</b>	<b>370</b>	<b>290</b>	<b>27.6</b>	<b>710</b>	<b>610</b>	<b>16.4</b>
<b>EBITDA</b>	<b>40</b>	<b>53</b>	<b>-24.3</b>	<b>55</b>	<b>81</b>	<b>-32.1</b>
EBITDA margins	<b>10.8</b>	18.2	-740bps	7.7	13.3	-560bps
Depreciation	<b>7.3</b>	6.7	8.9	15	15	-2.1
<b>EBIT</b>	<b>33</b>	<b>46</b>	<b>-28.3</b>	<b>40</b>	<b>66</b>	<b>-38.9</b>
Interest	1.8	0.5	-	3.0	10	-
Other Income	2.4	3.3	-	4.6	7.9	34.6
Exceptional Items	0	0	-	0	0	-
<b>PBT</b>	<b>33</b>	<b>49</b>	<b>-32.6</b>	<b>42</b>	<b>73</b>	<b>-42.5</b>
Tax	9.9	22.5	-	25	17	44.6
Share of profit from Associate	0	0	0	0	0	0
Minority Interest	0	0	0	0	0	0
<b>Reported PAT</b>	<b>23</b>	<b>26</b>	<b>-12.3</b>	<b>17.3</b>	<b>55.9</b>	<b>-69.0</b>
Adjustments	0	0	-	0	0	-
<b>Adj PAT</b>	<b>23</b>	<b>26</b>	<b>-12.3</b>	<b>17.3</b>	<b>55.9</b>	<b>-69.0</b>
No. of Shares	14.4	14.4	-	14.4	14.4	-
<b>EPS (Rs)</b>	<b>3.3</b>	<b>3.7</b>	<b>-12.3</b>	<b>2.4</b>	<b>7.8</b>	<b>-69.0</b>

### Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	1,839	-	1,755	1,944	(3.4)	-
EBITDA	254	-	191	216	(16.9)	-
Margins (%)	13.8	-	10.9	11.0	(290bps)	-
Adj. PAT	123	-	91	103	(26.0)	-
EPS	17.2	-	12.7	14.4	(26.0)	-

## Standalone Financials

### PROFIT & LOSS

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Sales</b>	<b>1239</b>	<b>1335</b>	<b>1567</b>	<b>1755</b>	<b>1944</b>
% change	2.9	7.7	17.4	12.0	10.8
<b>EBITDA</b>	<b>144</b>	<b>178</b>	<b>175</b>	<b>192</b>	<b>214</b>
% change	-1.8	23.9	-1.4	9.2	11.6
Depreciation	33	28	29	30	31
EBIT	110	150	146	161	183
Interest	2	2	4	5	6
Other Income	32	16	11	11	12
<b>PBT</b>	<b>141</b>	<b>164</b>	<b>153</b>	<b>167</b>	<b>189</b>
% change	13.6	19.1	20.1	21.1	21.1
Tax	44	50	69	76	86
Tax Rate (%)	27.0	27.0	28.0	29.0	29.0
<b>Reported PAT</b>	<b>97</b>	<b>114</b>	<b>83</b>	<b>91</b>	<b>103</b>
Adj.	0.0	0.0	1.0	2.0	2.0
<b>Adj. PAT</b>	<b>97</b>	<b>114</b>	<b>83</b>	<b>91</b>	<b>103</b>
% change	8.2	17.3	-26.9	9.3	13.0
No. of shares (cr)	7.2	7.2	7.2	7.2	7.2
<b>Adj EPS (Rs)</b>	<b>13.6</b>	<b>15.9</b>	<b>11.7</b>	<b>12.7</b>	<b>14.4</b>
% change	8.2	17.3	-26.9	9.3	13.0
DPS (Rs)	9.0	10.0	10.8	10.8	10.8

### BALANCE SHEET

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	84	56	2	14	5
Accounts Receivable	205	257	282	313	346
Inventories	322	439	479	521	578
Other Cur. Assets	3	44	27	24	21
Investments	78	24	64	59	55
Gross Fixed Assets	603	631	653	676	698
Net Fixed Assets	190	190	183	176	167
CWIP	4	13	13	13	13
Intangible Assets	1	1	1	1	1
Def. Tax (Net)	-12	-47	-49	-45	-41
Other Assets	0	0	0	0	0
<b>Total Assets</b>	<b>942</b>	<b>1133</b>	<b>1130</b>	<b>1219</b>	<b>1306</b>
Current Liabilities	68	120	84	99	109
Provisions	6	6	7	8	9
Debt Funds	38	34	39	45	51
Other Liabilities	96	182	193	226	250
Equity Capital	14	14	14	14	14
Reserves & Surplus	720	776	793	826	871
Shareholder's Fund	734	791	807	840	886
<b>Total Liabilities</b>	<b>942</b>	<b>1133</b>	<b>1130</b>	<b>1219</b>	<b>1306</b>
BVPS	<b>102</b>	<b>110</b>	<b>113</b>	<b>117</b>	<b>124</b>

### CASH FLOW

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	174	192	182	197	220
Non-cash adj.	-46	-15	-68	-80	-90
Changes in W.C	-23	-160	-45	-37	-68
<b>C.F. Operation</b>	<b>105</b>	<b>17</b>	<b>69</b>	<b>80</b>	<b>62</b>
Capital exp.	30	-37	-22	-22	-23
Change in inv.	3	62	-40	6	4
Other invest.CF	0	0	0	0	0
<b>C.F - Investment</b>	<b>33</b>	<b>25</b>	<b>-62</b>	<b>-17</b>	<b>-19</b>
Issue of equity	0	0	0	0	0
Issue/repay debt	2	-13	6	6	6
Dividends paid	-21	-57	-57	-57	-57
Other finance.CF	-141	0	0	0	0
<b>C.F - Finance</b>	<b>-161</b>	<b>-70</b>	<b>-52</b>	<b>-51</b>	<b>-51</b>
Chg. in cash	-24	-28	-54	12	-9
Closing cash	84	56	2	14	5

### RATIOS

Y.E March	FY17A	FY18A	FY19A	FYE20E	FY21E
<b>Profitab &amp; Return</b>					
EBITDA margin (%)	11.6	13.3	11.2	10.9	11.0
EBIT margin (%)	8.9	11.3	9.3	9.2	9.4
Net profit mgn.(%)	7.8	8.5	5.3	5.2	5.3
ROE (%)	13.7	14.9	10.4	11.1	11.9
ROCE (%)	8.1	10.0	5.8	6.0	6.1
<b>W.C &amp; Liquidity</b>					
Receivables (days)	62.6	63.1	62.7	61.8	61.8
Inventory (days)	95.6	104.1	107.0	104.0	103.2
Payables (days)	32.1	38.1	43.7	43.5	44.7
Current ratio (x)	9.3	7.5	10.1	9.5	9.4
Quick ratio (x)	4.3	2.6	3.4	3.3	3.2
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	2.0	2.2	2.4	2.6	2.8
Total asset T.O (x)	1.3	1.3	1.4	1.5	1.5
Int. covge. ratio (x)	56.3	85.3	34.3	32.2	31.9
Adj. debt/equity (x)	0.1	0.0	0.0	0.1	0.1
<b>Valuation</b>					
EV/Sales (x)	0.7	0.7	0.6	0.5	0.5
EV/EBITDA (x)	6.2	5.0	5.1	4.7	4.3
P/E (x)	8.8	7.5	10.3	9.4	8.3
P/BV (x)	1.2	1.1	1.1	1.0	1.0

## Recommendation summary (Last 3 Years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
1 <sup>st</sup> September 2014	Buy	171
14 <sup>th</sup> February 2015	Accumulate	146
28 <sup>th</sup> June 2016	Buy	171
16 <sup>th</sup> March 2017	Buy	233
8 <sup>th</sup> August 2018	Hold	229
26 <sup>th</sup> June 2019	Reduce	115

## 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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