

L G Balakrishnan & Bros Ltd.

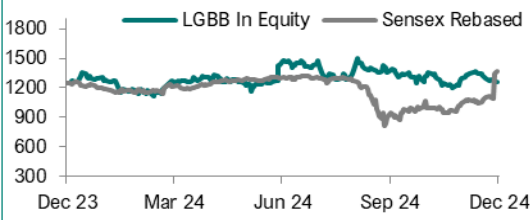
Accumulate

Sector: Auto Ancillaries

31st December 2024

Key Changes	Target ▼	Rating ●	Earnings ▼	Target	Rs. 1,424		
Stock Type	Bloomberg Code	Sensex	NSE Code	BSE Code	Time Frame	CMP	Rs. 1,259
Small Cap	LGBB:IN	78,139	LGBBROSLTD	500250	12 Months	Return	+13%

Data as of: 31-12-2024

Company Data			
Market Cap (Rs.cr)	4,014		
52 Week High - Low (Rs.)	1,575-1,104		
Enterprise Value (Rs.cr)	3,618		
Outstanding Shares (cr)	3.2		
Free Float (%)	65		
Dividend Yield	1.4%		
6m average volume (cr)	0.01		
Beta	0.8		
Face value Rs.	10		
Shareholding (%)	Q4FY24	Q1FY25	Q2FY25
Promoters	33.7	33.8	34.8
FII's	7.6	7.5	6.5
MFs/Insti	14.0	14.3	14.4
Public	44.7	44.5	44.3
Total	100.0	100.0	100.0
Promoter pledge	NIL	NIL	NIL
Price Performance	3 Month	6 Month	1 Year
Absolute Return	-9.9%	-14.1%	-0.3%
Absolute Sensex	-7.1%	-2.2%	8.3%
Relative Return*	-2.8%	-11.9%	-8.7%
*over or under performance to benchmark index			
			
Consolidated (cr)	FY24A	FY25E	FY26E
Sales	2,346	2,516	2,694
Growth (%)	6.5	7.2	7.1
EBITDA	395	427	466
EBITDA Margin (%)	16.8	17.0	17.3
Adj. PAT	265	292	324
Growth (%)	14.2	10.4	11.1
Adj. EPS	83.0	91.5	101.7
Growth (%)	14.2	10.4	11.1
P/E	14.5	13.1	11.8
P/B	2.4	2.0	1.8
EV/EBITDA	9.8	9.0	8.3
ROE (%)	18.3	17.0	16.0
D/E	0.1	0.1	0.0

Author: Saji John - Sr. Research Analyst

Robust revenue margin to improve

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

- During H1FY25, revenue grew by 8% YoY, driven by 7% YoY growth from the chain transmission segment, while metal forming grew by 9% YoY.
- EBITDA margin for H1 contracted by 60 bps owing to higher other expenses and an increase in employee cost. However, EBITDA grew by 4% YoY for the same period.
- LGB's foray into the industrial chain business is expected to start making a meaningful contribution to revenue from FY25E.
- We expect the demand for 2W in the domestic market is likely to continue for key customers. Additionally, the domestic 2W demand is expected to show stability in volume during H2FY25.
- Historically, the company has maintained a strong balance sheet, and any upside in economic activity and newer strategy for EV is expected to support LGB's valuation.
- The stock is currently trading lower than its historical average and peers, and the momentum is expected to continue. LGB will benefit from the new capacity addition and its strong client base.

Outlook & Valuation

Fundamentally, LGB has a strong balance sheet compared to its peers. The stock holds 12% of the EV business in the current turnover. We expect an increase in acceptance of transmission chain products in EV motorcycles, entry into the industrial chain business, and NCLT clearance for RSAL, which is likely to support valuation. On a 1-year fwd. basis, the stock is trading at 14x, which is lower than its peers. **The demand situation in the OEM export market is expected to pick up next year. We value LGB at 14x FY26E EPS and recommend an Accumulate rating with a target price of Rs. 1,424 at CMP.**

Quarterly Financials Consol.

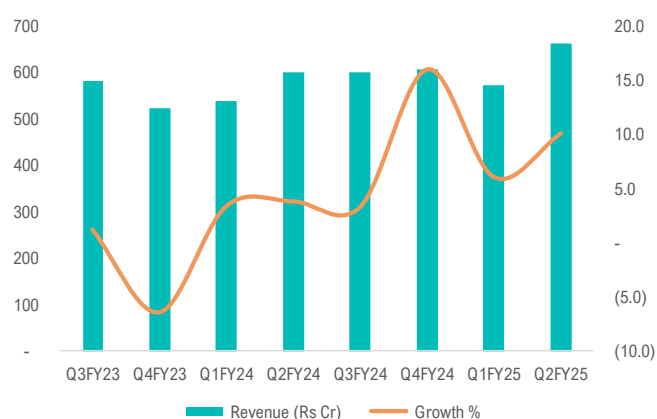
Rs.cr	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)
Sales	661	600	10.1	571	15.7	1,232	1,139	8.2
EBITDA	110	104	6.1	89	23.4	199	191	4.1
Margin (%)	16.6	17.3	-64bps	15.6	104bps	16.2	16.8	-64bps
EBIT	88	85	3.5	68	29.5	156	154	1.2
PBT	103	101	2.2	87	17.9	190	175	8.7
Rep. PAT	78	75	2.8	65	19.0	143	131	9.0
Adj PAT	74	70	6.2	58	0.0	132	128	3.1
EPS (Rs)	23.3	22.0	6.2	18.2	28.3	41.5	40.3	3.1



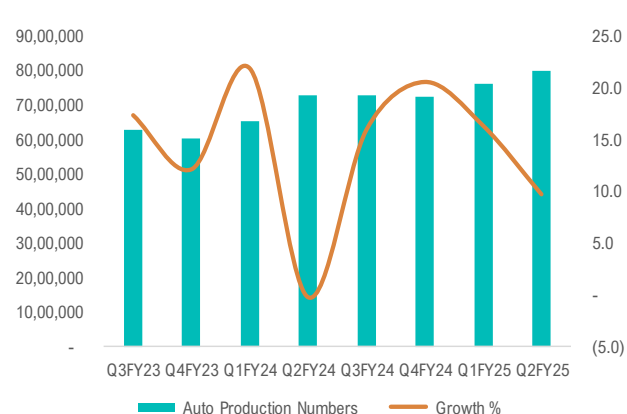
Key Concall Highlights

- In H1FY25, standalone revenue grew by 8% YoY with adj. PAT growth of 16% YoY.
- LGB has excellent relationships with OEMs like Bajaj Auto, HMSI, TVS Motors, Eicher Motors, and Hero Motor to prop up its transmission and fine blanking businesses.
- LGB's foray into the industrial chain business is expected to start making meaningful contributions in the medium to long-term outlook. LGB is setting up a new plant in Nagpur to manufacture industrial chains, conveyor chains, automotive components, and assemblies.
- We expect the replacement market to regain strength despite the lower demand from the OEM. We believe the urbanization of 2-wheelers will continue in the coming year.
- During H1, the company's domestic share stands at 88% and 12% for export.
- The company's fully owned subsidiary RSAL will exhibit a continuous improvement in the performance of cold-rolled steel strip sheet products.

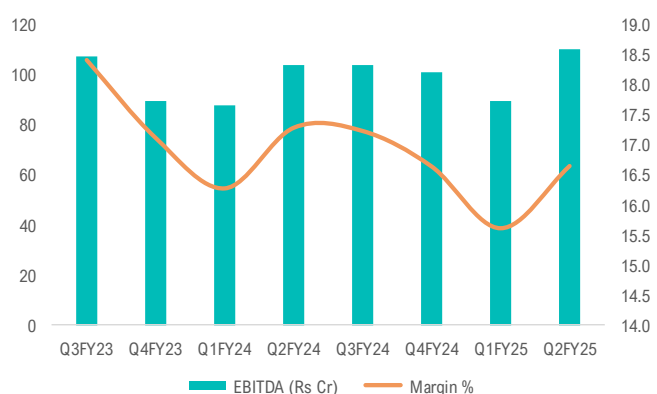
Revenue



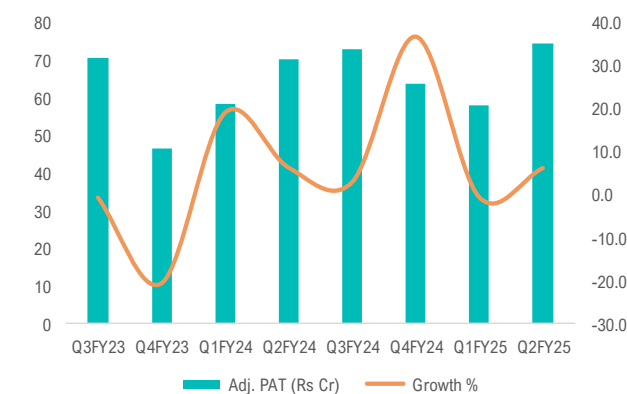
Auto Production Numbers



EBITDA



PAT



Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	2,484	2,660	2,516	2,694	1.3	1.3
EBITDA	429	470	427	466	-0.4	-0.8
Margins (%)	17.3	17.7	17.0	17.3	-32bps	-39bps
Adj. PAT	290	321	292	324	0.7	1.0
EPS	92.5	102.3	91.5	101.7	-1.0	-0.6



Consolidated Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Revenue	2,102	2,203	2,346	2,516	2,694
% change	31%	5%	6%	7%	7%
EBITDA	388	380	395	427	466
% change	54%	-2%	4%	8%	9%
Depreciation	83	79	77	82	87
EBIT	3,054	3,007	3,166	3,444	3,787
Interest	8	7	8	9	7
Other Income	12	26	49	60	65
PBT	332	340	365	407	436
% change	85%	3%	7%	11%	7%
Tax	86	88	93	104	112
Tax Rate (%)	26%	26%	26%	26%	26%
Reported PAT	246	252	271	302	324
Adj*	23	20	7	10.5	0
Adj PAT	223	232	265	292	324
% change	89%	4%	14%	10%	11%
No. of shares (cr)	3.2	3.2	3.2	3.2	3.2
AdjEPS (Rs.)	69.9	72.6	83.0	91.5	101.7
% change	89%	4%	14%	10%	11%
DPS (Rs.)	2.3	2.3	2.3	2.3	2.3
CEPS (Rs.)	95.9	97.5	107.4	117.5	129.1

CASH FLOW

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Net inc. + Depn.	415	420	443	489	523
Other Adjustments	-114	-89	-91	-101	-109
Changes in W.C	-188	0	-9	-20	-40
C.F. Operation	113	330	343	368	375
Capital exp.	-69	-61	-62	-62	-62
Change in inv.	-41	-46	-200	0	0
Other invest.CF	0	0	0	0	0
C.F – Investment	-111	-107	-262	-62	-62
Issue of equity	0	0	0	0	0
Issue/repay debt	17	30	-20	-15	-15
Dividends paid	-8	-8	-8	-8	-8
Other finance.CF	0	0	0	0	0
C.F–Finance	9	22	-28	-23	-23
Chg. in cash	11	245	53	284	290
Closing cash	36	281	334	617	908

BALANCE SHEET

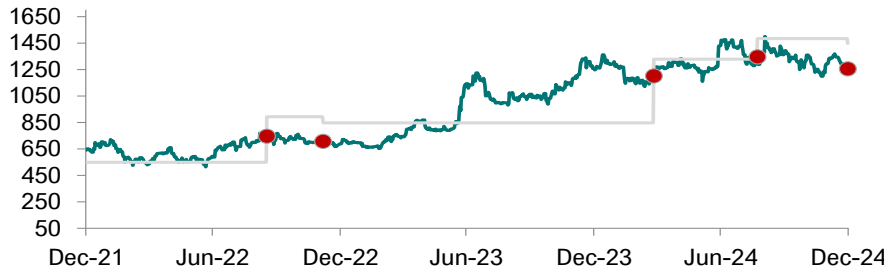
Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	36	281	334	617	908
Accounts Receivable	294	308	328	352	376
Inventories	436	436	439	452	489
Other Cur. Assets	215	133	143	153	164
Investments	104	150	350	350	350
Gross Fixed Assets	901	961	1,021	1,081	1,141
Net Fixed Assets	512	493	476	454	428
CWIP	15	15	15	15	15
Intangible Assets	1.49	2.70	3.31	4.05	4.74
Def. Tax (Net)	13	14	12	9	6
Other Assets	15	15	15	15	15
Total Assets	1,643	1,847	2,115	2,421	2,755
Current Liabilities	170	84	88	90	98
Provisions	28	30	32	34	37
Debt Funds	100	130	110	95	80
Other Liabilities	275	290	309	331	354
Equity Capital	32	32	32	32	32
Reserves & Surplus	1,035	1,279	1,542	1,836	2,151
Shareholder's Fund	1,067	1,311	1,574	1,868	2,183
Total Liabilities	1,643	1,847	2,115	2,421	2,755
BVPS (Rs.)	334	410	492	584	683

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab. & Return					
EBITDA margin (%)	18.5	17.3	16.8	17.0	17.3
EBIT margin (%)	14.5	13.6	13.5	13.7	14.1
Net profit mgn.(%)	10.6	10.5	11.3	11.6	12.0
ROE (%)	23.5	19.5	18.3	17.0	16.0
ROCE (%)	14.3	12.9	12.9	12.2	11.6
W.C & Liquidity					
Receivables (days)	46.9	49.8	49.4	49.3	49.3
Inventory (days)	64.0	72.2	68.0	64.6	63.8
Payables (days)	0.3	0.4	0.4	0.4	0.4
Current ratio (x)	4.9	10.1	10.4	12.6	14.4
Quick ratio (x)	1.9	7.0	7.5	10.7	13.1
Turnover & Leverage					
Gross asset T.O (x)	2.4	2.4	2.4	2.4	2.4
Total asset T.O (x)	1.4	1.3	1.2	1.1	1.0
Int. coverage ratio (x)	36.5	45.5	39.2	39.4	50.7
Adj. debt/equity (x)	0.1	0.1	0.1	0.1	0.0
Valuation					
EV/Sales (x)	1.8	1.8	1.7	1.5	1.4
EV/EBITDA (x)	10.0	10.3	9.8	9.0	8.3
P/E (x)	17.2	16.5	14.5	13.1	11.8
P/BV (x)	3.6	2.9	2.4	2.0	1.8



Recommendation Summary (Last 3 years)



Dates	Rating	Target
29.Jan.21	Buy	365
05.Jul.21	Buy	549
16.Sept.22	Accumulate	894
06.Dec.22	Buy	848
26.Mar.24	Accumulate	1,329
22.Aug.24	Accumulate	1,484
31.Dec.24	Accumulate	1,424

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

Not rated/Neutral

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

Symbols definition:



Upgrade



No Change



Downgrade

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

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Not rated/Neutral- The analyst has no investment opinion on the stock under review.

DISCLAIMER & DISCLOSURES

Certification: I, Saji John, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

For General disclosures and disclaimer: Please Visit : <https://www.geojit.com/research-disclosures#fundamental-research>

Group companies of Geojit Financial Services Limited are Geojit Technologies Private Limited (Software Solutions provider), Geojit Credits Private Limited (NBFC), Geojit Investment Limited (financial Services Company), Geojit Techloan Private Ltd(P2P lending) Geojit IFSC Ltd (a company incorporated under IFSC Regulations, Qurum Business Group Geojit Securities LLC (a joint venture in Oman engaged in Financial Services), Barjeel Geojit Financial Services LLC (a joint venture in UAE engaged in Financial Services), Aloula Geojit Capital Company (a joint venture in Saudi Arabia (Under Liquidation)) and BBK Geojit Business Consultancy and Information KSC (C) (a joint venture in Kuwait-engaged in Financial services). In the context of the SEBI Regulations on Research Analysts (2014), Geojit affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc. that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership:

Geojit confirms that:

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein, at the time of publication of the research report

It/its associates have no actual beneficial ownership of 1% or more in relation to the subject company (ies) covered herein. at the end of the month immediately preceding the date of publication of the research report.

Further, the Analyst confirms that:(i) He, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company, at the time of publication of the research report (ii) He, his associates and his relatives have no actual/beneficial ownership of 1% or more in the subject company covered, at the end of the month immediately preceding the date of publication of the research report

2. Disclosures regarding Compensation:

During the past 12 months, Geojit or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company. (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by Geojit regarding the compensation paid to its Research Analyst:

Geojit hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Saji John, Research Analyst (s) of Geojit have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither Geojit/its Analysts have engaged in market making activities for the subject company.

6. "Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors."

7. Standard Warning: "Investment in securities market are subject to market risks. Read all the related documents carefully before investing."

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

Geojit Financial Services Ltd. Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com. **Compliance officer:** Ms. Indu K. Address: Geojit Financial Services Limited, 34/659 P, Civil Lane Road, Padivattom, Kochi – 682024; Phone: +91 484-2901367; Email: compliance@geojit.com. **For grievances: Grievance Officer:** Mr Nitin K; Address: Geojit Financial Services Limited,34/659 P, Civil Lane Road, Padivattom, Kochi – 682024; Phone: +91 484-2901363; Email: grievances@geojit.com. Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226.

