



Farsight

MORNING FARSIGHT

Friday, November 30, 2018

MENON BEARINGS

CMP:RS 75

TRGT:RS 95

TIME HORIZON: 1 YEAR

Menon Bearings, is looking a good, with better Q2FY19 earnings reported by the company, wherein Income has increased by over 25% YoY to Rs 47.2 cr, while PAT is risen by near 23% to Rs 7.3 cr, with EPS of Rs 1.31. For H1FY19, company has posted Revenue of Rs 94 cr (+35%), EBITDA of Rs 23 cr (+28%) and PAT of Rs 14.5 cr (+38%), with EPS of Rs 2.59, EBITDA margin of 24.5% and PAT margin of 15.4% are seen robust. Menon Bearings is a 40 year old company and manufactures engine bearings, Bushes, thrust washers, and aluminum die-castings and commands highest EBITDA margin of over 24% in Bearing sector, coupled with high RoE of over 28%. It generates more than 55% revenue from CV sector and the recovery in the CV sales is going to be extremely positive. Management has categorically stated that in view of the strong order book position, company is expanding its capacity in Q3FY19 and Q4FY19, by 30-35%. For this, 2 full fledged lines to manufacture bearings and bushes are being installed with latest machines, productivity of which is almost 25% more. Moreover, company is targeting increase in its wallet share with most of its customers. Further, company is also de-risking its business and has invested Rs 40 cr towards enhancement of aluminum division and the facility is expected to be ready by April 2019, to cater to increased customer demand. The die casting business has strong clientele like Honeywell, whereas in exports its clients are Cummins, John Deere, etc. The aluminum die casting business is expected to grow at a faster rate (2x over next two years) due to the new contracts, particularly Honeywell. The growing exports are expected to boost the margins from current 27% to —28-29% over next three years. In the bearings business company has customers like Ashok Leyland, Tata Motors, Cummins, John Deere, Greaves Cotton, M&M, Federal Mogul, while in the Die casting business its customers are Honeywell, Gabriel, Royal Enfield, Mahindra and Mahindra, Tata Motors, etc. The strong balance sheet seen RoE having consistently improved from 17% in FY14 to 27% in FY18, while Return on Invested Capital has improved from 22% in FY14 to 42% in FY18. Further, company had reported industry leading EBITDA margins of 26.4% in FY17 and 25.1% in FY18. For FY17 and FY18, Menon Bearings had reported PAT growth of 35% and 11% respectively. On an estimated EBITDA of Rs 52 cr for FY19 and EPS of Rs 5.5, stock is trading at valuations with EV/EBITDA of 8.3x and PE of 14x. Share ruling at Rs 75 can move to Rs 95 in 1 year. Buy as an investor only.

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Disclosure of interest statement – • Analyst interest of the stock / Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.