



Farsight

MORNING FARSIGHT

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RANE BRAKE LININGS

CMP:RS 602

TRGT:RS700

TIME HORIZON: 1 YEAR

Rane Brake Linings, an 89 year old Rs 4,700 crore Rane Group company, manufactures safety-critical friction material like brake linings, disc pads, clutch facings, clutch buttons, brake shoes for every segment of automobile industry (passenger cars, UV, CVs, two wheelers) and railway brake blocks for Indian Railways, is looking a value buy, with market cap of just Rs 480 cr, with debt free balance-sheet, RoE of over 20%, RoCE of over 31%, annual income of over Rs 500 cr, annual EBITDA of over Rs 76 cr (FY18), strong parent pedigree of Rane Group and Technical & Financial collaboration with Japan's Nisshinbo Brake Inc., (world's number 1 supplier of automobile brakes, also holds 20.2% stake in the company, under promoter category). Company generates around 40% revenue from CVs, 30% revenues from PVs, 6% revenues from 2Ws, 16% revenue from MUVs/k/IPVs and 5% revenue from Railways and 2% from TractoRs It is a market leader with 50% share in friction material industry and serves clients like Ashok Leyland, Maruti Suzuki, M&M, SML Isuzu, Tata, Honda, Toyota, Bajaj, Royal Enfield, Yamaha. For Q1FY19, company reported revenue growth of 22% YoY at Rs 122 cr, however, EBITDA was largely flat at Rs 15 cr, due to high base, as in Q1 of last year, there was provision write-back and reversal of bad debts to the tune of Rs 3.2 cr. Still, Q1FY19 PAT was placed at Rs 6.6 cr against Rs 7.3 cr YoY, leading to an EPS of Rs 8.31. On an estimated FY19 EBITDA of Rs 70 cr and EPS of Rs 40, stock is trading at an EV/EBITDA of about 6.5x and PE of 15x, which is at discount to peers like Sundram Brake, which is half the size of Rane Brake, but double the valuation multiples (EV/EBITDA of 13x and PE of 39x). Further, Rane Brake deserves to command better valuations than its present ones due to (i) leadership position in the industry, (ii) foreign technology collaboration (iii) high entry barriers due to stringent quality requirements inherent to friction materials industry (iv) strong industry tailwinds. Going ahead, company has capex plans of Rs 130 cr for three year period FY19-21 for R&D initiatives, capacity enhancement and upgradation/maintenance. Share ruling at Rs 602 can move to Rs 700 in 1 year Buy as an investor only.

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POTENTIAL CONFLICT OF INTEREST DISCLOSURE (as on date of report)

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