



Farsight

MORNING FARSIGHT

Friday, October 19, 2018

MUNJAL SHOWA

CMP:RS 188

TRGT:RS 215

TIME HORIZON: 1 YEAR

Munjal Showa, established by the erstwhile Hero group in 1985 in technical and financial collaboration with Showa Corporation, Japan, is looking a good buy with single digit PE, debt free balance-sheet with consistently rising huge cash pile on balance-sheet, strong parent pedigree (Hero Group and MNC Showa Corporation of Japan) and positive outlook for 2W sector for the coming months. In past 1 year, company has seen big rise in cash pile on its balance-sheet, which has risen from Rs 160 cr in Q4FY17 to Rs 207 cr in Q2FY18 to Rs 265 cr in Q4FY18, while current M Cap of Rs 750 cr. Company had ended FY18 with an income of Rs 1,636 cr (EV/Sales 0.3x), EBITDA of Rs 112 cr (EV/EBITDA 4.4x) and EPS of Rs 19.38 (PE 9.4x, without deducting cash). Promoters are holding 65.02% stake, of which, 26% is held by Showa Corp (Japan), while balance is held by Munjal family. Company generates 85% revenue from 2W and recall that Hero Moto had sold 3 lakh 2Ws on the day of Dhanteras itself last year. Hero Moto, post Q2FY19 earnings, has maintained its capex plans and growth guidance of over 7%. For the period April-September 2018, Hero Moto Corp reported its highest-ever half-yearly sales of 42,40,680 units and with the peak festive season approaching, the Company is gearing up to set another global benchmark in retail sales during this period, which augurs well for Munjal Showa, as Hero Moto (accounted for around 75% of revenues in FY18) is one of the key customer. Company is manufacturing rear shock absorber and front shock absorber for 2Ws (85% of revenue) and struts and gas springs for 4Ws (15% of revenue) in technical and financial collaboration with Showa Corporation (Japan), which has presence in 29 locations in 11 countries. Share ruling at Rs 188 can move to Rs 215 in 1 year. Buy as an investor only.

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