



Farsight

MORNING FARSIGHT

Monday, September 10, 2018

MENON BEARINGS

CMP:RS 88

TRGT:RS 105

TIME HORIZON: 1 YEAR

Menon Bearings, a 40 year old company, having rare combination of high EBITDA margin (25% + and high RoE (27% +), coupled with robust PAT growth in FY17, FY18 and Q1FY19, while current PE of 17x is seen attractive, given umpteen number of growth levers and margin expansion triggers. Company is manufacturing Engine Bearing, Bushes, Thrust Washers, and Aluminum Die-Castings, is giving a buying opportunity, with company having industry leading EBITDA margin of over 24%, high RoE of over 38%, commanding more than 55% revenue from CV sector, ongoing capex plans and top gear in earnings growth from Q1FY19 onwards. Company claims that the bearings business has certain entry barriers; hence its customer base is sticky in nature. With the revival in the CVs and tractors, company is expecting a strong traction in its revenue and is in the process of increasing its bearings capacity by 30-35% by December 2018. For this, 2 full-fledged lines to manufacture bearings and bushes are 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 the current levels to 28-29% over next three years. In the bearings business, company has customers like 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. For FY17 and FY18, Menon Bearings had reported PAT growth of 35% and 11% respectively. Q1FY19 earnings were way ahead of expectations with PAT rising by 58% YoY and 41%QoQ to Rs. 7.2 cr, leading to an EPS of Rs. 1.3 for O1FY19, which was at Rs. 3.8 in FY18. This was due to revenue growth of 45% YoY / 18%QoQ to Rs. 46 cr and EBITDA growth of 39% YoY / 18% QoQ to Rs. 11.1 cr, with EBITDA margin of 24.2%. On an estimated EBITDA of Rs. 48 cr for FY19 and EPS of Rs. 5, stock is trading at EV/EBITDA of 10.6x and PE of 17.6x, as Bearings Industry rules at PE of over 22x on 1 year forward earnings. Share ruling at Rs. 88 can move to Rs. 105 in 1 year.

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