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Tuesday, July 03, 2018

LG BALAKRISHNAN BROS

CMP:RS 492

TRGT:RS 600

TIME HORIZON: 1 YEAR

LG Balakrishnan Bros is looking a good buy, after correction of 30% (adjusted for bonus issue of 1:1 in June 2018) in last couple of months. LG Balakrishnan Bros is the largest manufacturer of automotive chains in India, which it supplies to all major domestic OEMs in two-wheeler industry. Marketing its chains and sprockets under the proprietary brand "Rolon", the company caters to 70% of the Indian two-wheeler OEM market and 50% of the replacement market. The company has 22 manufacturing facilities in India and one facility in the USA. The consolidated operations of LGB includes, two subsidiaries (M/s. BCW V Tech India Private Limited and LGB USA Inc.) and one Associate company (M/s. Renold Chain India Private Limited). For FY18, company has reported robust performance with EBITDA growth of 18%, at Rs. 200 cr against Rs. 170cr YoY, with healthy EBITDA margin of 13.7% (up 160 bps in FY18) on an income of Rs. 1,459 cr. with PAT of Rs. 89.5 cr, leading to an EPS of Rs. 27.42. Going ahead, the company is undertaking a capex of Rs. 175 cr in FY19 towards modernization and augmenting facilities across divisions. Of this, Rs. 80 cr is towards setting up a manufacturing facility in SIPCOT, Chennai to cater to customers like Royal Enfield. - LGB enjoys a healthy market share with reputed OEMs like Bajaj Auto, TVS Motor, India Yamaha, which lends stability to its revenues. Further, in the replacement market, the company sells chains and sprockets under the brand name of "Rolon" and commands healthy market share, with stock now trading at PE of 17.5x, EV/EBITDA of 7.9x and EV/Sales of just 1x, all on historic basis, which are attractive, given LGB's long-standing presence, diversified client profile and dominant market position in the domestic automotive chain industry, both in Original Equipment Manufacturers (OEMs) and the replacement markets. Valuing the stock at 10x of EV/EBITDA, in-line with Industry peers, we arrive at fair value of Rs. 600 in the next 12-18months, implying potential upside of 22%, while share now ruling at Rs. 492 can be bought.

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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.