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MORNING FARSIGHT

Monday, June 25, 2018

RANE MADRAS

CMP:RS 693

TRGT:RS 800

TIME HORIZON: 1 YEAR

Rane Madras, having corrected from Rs. 1,050 seen on 30th Apr, is now trading at an EV/Sales of 0.79x (EV Rs. 1,125 cr and FY18 sales Rs. 1,423 cr) and EV/EBITDA of 9x (EBITDA Rs. 126 cr) on historic basis, is looking a good buy. FY18 being turnaround to be a very strong year for the company, with Sales EBITDA I PAT growth of 10%/ 42%/ 460% respectively, and going ahead, management plans to achieve robust business growth through (a) targeting new business in passenger car segment and hydraulics products in India (b) Identifying new Indian customers for its Die casting business (c) Continue to introduce new products and expand the product range in domestic after market (d) Pursue new customers for steering gears and achieve breakthrough in ball joints, expand the die-casting portfolio to Europe and achieve operational breakeven in RPDC business in USA. We find current valuations quite attractive, as Rane Madras, operating through 2 divisions viz., a) Steering Gear and Steering+ Suspension linkage products (tie-rods, drag links, inner, ball joints, outer ball joints etc) b) Die-casting product, is having 6 manufacturing facilities. Under steering division, company manufactures manual Steering, Hydrostatic Steering system and steering and suspension linkage products and commands 39% market share in Steering Gear segment and 72% market share in Steering 1- Suspension linkage products. Under Die casting division, company manufactures low proosity, high quality aluminum die-casting such as steering housing, engine case covers etc. The company's revenue base is well diversified across various segments of the automobile industry, namely Farm Tractors, Utility Vehicles, M&HCV, PC and the Rane Auto Parts (RAP) business. We find current valuations at discount to peers like JTEKT, ZF Steering and Bosch to name few. Further, recall that company acquired Rane Precision Die Casting in Jan/Feb 2016 to expand its global presence and gain access to a larger customer base. RPDC was clocking EBITDA losses when it was acquired and the step-down subsidiary has now turned OPBDITA positive during FY18 and is likely to achieve net break even in FY19. Share ruling at Rs. 693 can move to Rs. 800 in a 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.