



COMPANY NAME	: Banco Products (India) Ltd
BSE Code	: 500039
Time Duration	: 1 year
CMP	: ₹224 (as on 20 Apr., 2017)
Target Price	: ₹303

The Mid Bridge for the month of April 2017 is Banco Products (India) Ltd. (BPIL), a leading manufacturer and supplier of gaskets and radiators for commercial and passenger vehicles. The company's business line is mainly dependent on the automobile and industrial equipment industry. It is one of the largest exporter of radiators to Europe, Australia and Singapore. Currently, its presence is seen in countries like North and South America, Middle East Africa. Out of the total revenue, it earns 30% revenue from export. The company's ROE stands at 13%.

We expect the automotive industry to grow at CAGR of 13% leading to increase in demand for auto components in India as well as globally. As per market report, the Indian auto components industry is set to become the third largest in the world by 2025. With the expected growth in the industry and thereby increase in the revenue of the company, we see an upside of 33% in the scrip from the current level.

## Investment Rationale

**Revival of automotive industry globally :** BPIL earns 30% of its revenue through exports to Australia, North/South America and European countries. Thus, the changes in global economy have drastic effects on the business of the company. The global economy witnessed couple of difficult years in the past, but recently it has shown some signs of recovery. The global car sales have shown momentum this year, increasing 5% over the previous year. The average age of the US light vehicle fleet is at a record high of 11.4 years, which coupled with rising consumer confidence, should result in growth for both original equipment manufacturers (OEMs) and auto parts suppliers. Automakers and their suppliers continue to see shift in demand for fuel-efficient vehicles, as consumers remain sensitive to fuel prices. According to the Automotive Component Manufacturers Association of India (ACMA), the Indian auto components industry is expected to register a turnover of US\$ 100 billion by 2020, backed by strong exports ranging between US\$ 80-100 billion by 2026, from the current US\$ 11.2 billion. The revival in consumer spending, improvements in credit availability and ageing vehicle fleets will drive growth in the upcoming years.

### Global demand for radiators to grow by 6.5% CAGR by 2022:

The company manufactures auto components such as radiators

and charge air coolers under cooling system, sealing gaskets and seats and other rubber products. The highest revenue is generated from the manufacturing and supply of aluminium and copper radiators. Aluminium radiators contribute 78.8% and copper radiators contribute 20.8% of sales (standalone).

The global market for automotive radiators is projected to exceed 154 million units by 2022, driven by healthy automobile production trends. Automotive production is the primary growth driver. Asia-Pacific represents the largest market worldwide for OEM radiators supported by the fact that the region is the largest producer of automobiles in the world. China, India and South Korea are major production hubs in the region.

**Expected traction in demand for CVs in India :** Production in the domestic CV industry (contributes 80% to domestic revenue) is expected to grow at a CAGR of 11% over FY2012-21E to 23.5 lakh units. India is vigorously improving its infrastructure for better movement of goods and concurrently also meet the emission norms. We can expect fleet of M&HCV older than year 2005 to see replacement. This can be a key lever for growth in the company's business.

**Focus on Research & Development :** BPIL, with increased focus on R&D, has recently adopted new technologies and processes, improved customer service resulting in its improved productivity. It has modernized its manufacturing facilities to enable it to produce complex cooling modules of higher quality standards. Incremental investments have also been made by the company in equipments and software development for manufacturing advanced engine cooling products. It has kept its manufacturing facilities on constant upgradation and training for its employees which is recognized by all of its OEM customers during their stringent process audits. The company expended Rs 664.12 cr in FY16 towards R&D which was 1.37% of the total revenue.

**Strong OEM client base :** BPIL supplies to most of the OEMs within India and controls 85% in the OEM segment and has ongoing supplier relationships with both Indian OEMs as well as for Indian affiliates of Japanese/European MNCs for many of their future projects. In addition, it enjoys relationships with diverse clients, which includes non-automotive companies in infrastructure, railways and farm equipment segments. The major customers include companies like Tata Motors, Ashok Leyland, Mahindra & Mahindra, KOEL, BEML, TAFE, JCB and Indian Railways.

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## Financial Performance

The impact of demonetisation on the company's business was witnessed through its financials in Q3FY17. Its standalone revenue declined by 17.78% to Rs 111.29 cr from 135.37 cr on QoQ basis. The operating profit margin dipped to 16.41% from 19.27% in Q2FY17 and 20.25% in Q3FY16. PAT margins expanded to 19.3% in Q3FY17 from 13.94% in the corresponding quarter of last year.

We see that the company has been maintaining a healthy dividend payout ratio of 36.10%. With pre-buying in CVs and improvement in global CVs, we expect the revenue to grow at CAGR of 15% over FY16-18E and margins to return back to levels of ~18% over next year.

## Valuation

We note that the company has TTM ROE & ROCE of 13.69% and 17.13%, respectively. We expect the return ratios to improve on the basis of expected higher revenues. Currently, the scrip is trading at standalone TTM P/E of 14.23x with TTM EPS of Rs 15.28. Considering revival and growth thereafter in the automobile industry and expected revenue growth in the company, we recommend a BUY with a target price of Rs.303.

We urge investors to invest in three tranches and to buy the stock on dips.

### Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201612	201609	Q on Q Var%	201512	Y on Y Var%
Net Sales	107.34	130.87	-17.98	113.53	-5.45
Total Expenditure	93.03	109.29	-14.88	91.97	1.15
PBIDT (Excl OI)	18.26	26.08	-29.98	23.35	-21.80
PAT	21.49	32.30	-33.47	16.08	33.64
PBIDTM% (Excl OI)	15.05	17.66	-14.78	18.60	-19.09
PBIDTM%	26.16	30.69	-14.76	19.91	31.39
PATM%	17.71	21.87	-19.02	12.81	38.25
Adj. EPS(Rs)	3.01	4.52	-33.41	2.25	33.78

### Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201603	201503	201403	201303	201203
Net Sales	493.01	420.11	447.22	445.71	554.16
Total Income	524.58	432.07	480.89	455.31	584.32
Total Expenditure	400.30	356.45	367.26	382.53	468.41
PBIDT	124.28	75.63	113.63	72.79	115.91
PAT	82.13	41.68	66.41	34.85	72.43
Dividend %	230.00	150.00	100.00	90.00	125.00
Adj. EPS(Rs)	11.48	5.83	9.29	4.87	10.13

