

Rane (Madras)

BSE Code: 532661 | CMP : ₹869 | Face Value : ₹10 | Target price: ₹1260 | HP* : Two years

About The Company

Our Pearl Pick for the month of February is Rane (Madras) Limited (RML). The company is engaged in the auto ancillary sector operating through two divisions namely, steering and linkages division and die casting division. The company's steering and linkages division manufactures manual steering gears, hydrostatic steering systems, and steering and suspension linkage products. The company's die casting division manufactures machined steering housings and machined engine components. The company offers its services to a range of automobile segments, such as passenger vehicles, light commercial vehicles, medium and heavy commercial vehicles, and farm tractors.

Why to Invest-

Robust demand from Steering and Linkage Division:

- With over 72% market share in steering and linkage division, the company caters to all major Indian OEMs. In the farm and tractor sector, it has a miniscule share of 3%, but the company expects to benefit from the growth in the segment due to its aggressive strategies.
- RML added capacity for Rack and Pinion (R&P) steering gears which has enhanced its customer base further for Volkswagen, Maruti Suzuki. We expect CV segment, which was flattish for over two years, to outperform going forward.
- RML has a market share of around 30% in electric power steering. Being effective on all fronts when compared with conventional steering, we believe this segment will have robust growth going forward. From hydraulics too, new versions are seeing shift towards electric steering.
- Its upgraded R&D facilities has boosted the capability to cater to new customers, including Daimler and Volvo, for supply of linkages. RML is now pursuing new customers for steering gears and it is achieving breakthrough in ball joints in the export segment.

Turnaround in Die-Casting Segment:

- RML acquired the US-based Precision Die Casting in 2016. Its subsidiary's performance remained flat in FY17 with negative EBITDA figures. As the company significantly improved in its quality, delivery performance, combined with its strong switch on its operational efficiency, it has posted a turnaround performance in Q2FY18. Though the figures will be consolidated for the last quarter, we believe the US entity will start adding to parent entity's EPS from H2FY18.
- RML's own die casting business has seen a comeback with better capacity utilisation (currently ~65%). Also, its second plant at Hyderabad has ramped up the production, which is expected to lead to volume growth. The company is expected to diversify its geographical portfolio with its search for clients to cater in the European

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* HP : Holding Period

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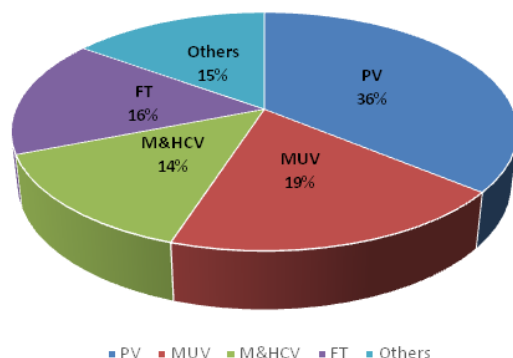
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Vehicle Segmental Break up (Q3FY18)



markets.

Investing in the stock

The company has a share capital of Rs 11.61 crore with promoters' holdings at 61.78%. Therefore, the available free float comes to 44.37 lakh shares. The two-week average traded quantity comes to around 6,064 shares. Investors can enter the stock at its current price of Rs 869 and allocate 5-7% of their total portfolio. Any price correction between 3-7% would be advantageous to accumulate and averaging the price.

Financial Performance

The company has reported topline growth of 35.8% in FY17. Considering 9MFY18 period, the company reported growth of 14% YoY in its topline, aggregating to Rs 862.4 crore. The PAT for the aforesaid period came in at Rs 25.3 crore, registering a massive growth of 85% YoY. The company's massive growth in profits has led to a decline in its debt (D/E at 1.05x vs 1.46x). For 6MFY18 period, its solvency ratio remained optimal for the period (current ratio at 1x).

Valuation & Outlook

The company is trading at TTM P/E of 31.11x with TTM EPS of Rs.27.83. Going ahead, the company's management plans to achieve robust business growth by targeting new business in passenger car segment and off-market segment. The company's innovation to introduce new products is expected to aid its volume growth. Maintaining its operating margins at 11%, if the company clocks a growth of 8% on a conservative basis or 12%-18% on aggressive side, the PAT will turn out be Rs 41.7 crore, Rs 43.2 crore and Rs 45.5 crore, respectively, for FY19. We see an upside of 40-45% with a target price of Rs 1,260 over the next two years.

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

Description	201703	201603	201503	201403	201303
Net Sales	1003.31	860.91	778.88	726.60	639.87
Total Income	1005.29	862.49	779.97	727.51	641.36
Total Expenditure	907.92	782.79	710.30	658.35	583.52
PBIDT	97.37	79.70	69.67	69.16	57.84
PAT	18.96	14.09	12.44	16.78	23.42
Dividend %	60.00	45.00	45.00	55.00	70.00
Adj. EPS(Rs)	17.51	12.87	11.30	15.43	23.05

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