

Company Update

Menon Bearings Ltd

Bloomberg Code: MEN IN

India Research - Stock Broking

BUY

Expansion Plans to Complement Higher Demand

Top line growth to continue with new investments: YTD EPS grew by 18%, as the slight contraction (112 bps) in EBITDA margin was compensated by a top line growth of 17%. We expect the pressure on margin to fade and margins to stabilize around 27% by FY20E. Also, we expect investments made by the firm in new facilities to start paying off by FY20E. We retain "buy" rating with a target price of Rs.150, with an upside of 27%. On account of new client addition together with incremental revenue from its investments made in engine bearing plant & critical aluminum cast plant along with the shift in market dynamics in favor of BS IV, we expect the margins to stabilize by FY20E with EBITDAM, PATM reaching 27.3%, 14.7%, respectively. We also expect incremental revenue from the engine bearing & bushes plant from FY20E and the aluminum division from FY21E onwards.

Robust balance sheet to aid gain market share & profitability: Net debt to equity of 0.1x in FY17, near zero debt levels, net working capital to sales at less than 25%, cash per share of Rs. 3.0 and interest coverage multiple of 24.6x indicate its balance sheet strength to remain debt free in near future while maintaining operational superiority in gaining market share. The company is expected to meet its capex through internal accruals & debt. Historically, Menon Bearings has been consistently recording a healthy profitability & return ratios; we expect the trend to continue in future with RoE, RoCE reaching 24.0% & 29.8% respectively by FY20E.

Flattish Q3 numbers along with double digit YoY growth: Menon Bearings revenue, though de-grew by 1.2% sequentially owing to GST after effects, is expected to recuperate upon the macro situation reaching normalcy. Profitability margins have slightly contracted due to marginally higher material & employee costs coupled with slightly higher interest expense. Year to date performance has been impressive with a 16.6% turnover growth. While EBITDA margin has marginally contracted to 25.5%, EBIT margins improved to 22.5% & Net margins have improved to reach 14.8% respectively.

Valuation and Risks

While introducing FY20E, we have re-visited the FY18E & FY19E financials. At CMP of Rs. 118, Menon Bearings is trading at 22.7x to FY20E EPS. We ascribe a multiple of 29.0x to FY20E EPS and recommend a "BUY" rating for an upwardly revised target price of Rs. 150 representing an upside of 27% for 9-12 months. Threat of counterfeit products which mainly cater to aftermarket segment along with slowdown in industrial & automotive segments may pose risk to the call.

Exhibit 1: Valuation Summary

YE Mar (Rs. Mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	1109	1229	1494	1610	1969
EBITDA	286	327	373	423	537
EBITDA Margin (%)	25.7	26.6	24.9	26.3	27.3
Adj. Net Profit	149	192	208	238	290
EPS (Rs.)	3.2	3.4	3.7	4.3	5.2
RoE (%)	28.7	30.0	26.3	24.5	24.0
PE (x)	15.5	21.3	31.7	27.6	22.7

Source: Company, Karvy Research; *Represents multiples for FY16 & FY17 are based on historic market price

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Recommendation (Rs.)

CMP (as on Jan 29, 2018)	118
Target Price	150
Previous Target Price	91
Upside (%)	27

Stock Information

Mkt Cap (Rs.mn/US\$ mn)	6725 / 106
52-wk High/Low (Rs.)	124 / 66
3M Avg. daily volume (no.)	269023
Beta (x)	1.2
Sensex/Nifty	36283 / 11130
O/S Shares(mn)	56.0
Face Value (Rs.)	1.0

Shareholding Pattern (%)

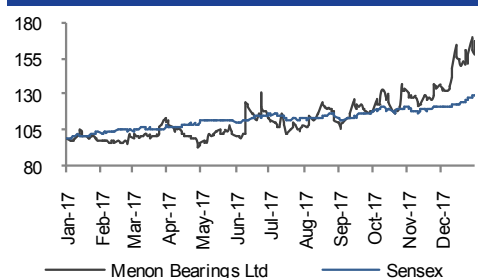
Promoters	74.7
FII's	0.0
DII's	1.1
Others	24.2

Stock Performance (%)

	1M	3M	6M	12M
Absolute	25	40	44	62
Relative to Sensex	18	28	29	25

Source: Bloomberg

Relative Performance*



Source: Bloomberg; *Index 100

Earnings Revision (%)

YE Mar	FY18E	FY19E
Sales (%)	↓ (4.2)	↓ (3.5)
EBITDA (%)	↓ (4.8)	↑ 0.2
PAT (%)	↓ (5.4)	↓ (0.5)

Source: Karvy Research;

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Exhibit 2: Q3FY18

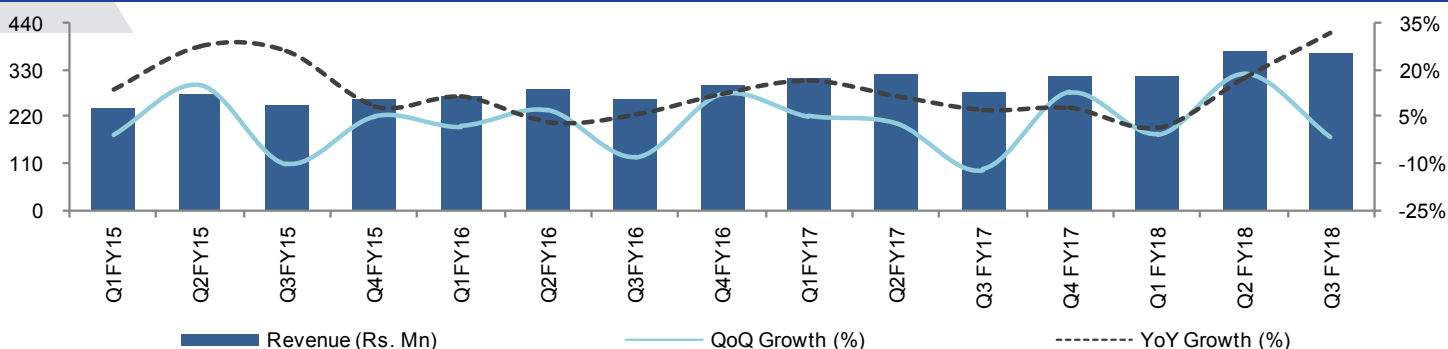
YE Mar (Rs. Mn)	Q3FY18	Q2FY18	QoQ %	Q3FY17	YoY %	YTD FY18	YTD FY17	YoY %
Turnover	371	375	(1.2)	281	31.8	1062	911	16.6
Expenditure	278	275	0.9	211	31.4	791	668	18.4
EBITDA	93	100	(6.8)	70	33.2	270	242	11.7
Depreciation	10	10	(0.0)	14	(30.5)	31	42	(26.3)
Interest	5	4	19.2	3	83.1	12	9	31.2
Other Income	4	3	46.3	8	(51.6)	10	13	(29.4)
PBT	82	89	(7.2)	61	34.9	237	204	16.0
Tax	27	29	(5.5)	21	28.2	79	71	11.4
PAT	55	60	(8.1)	40	38.6	158	133	18.5
EBITDA Margin (%)	25.1	26.6	(153) bps	24.9	25 bps	25.5	26.6	(112) bps
EBIT Margin (%)	22.5	24.0	(156) bps	19.8	263 bps	22.5	21.9	59 bps
Net Profit Margin (%)	14.8	15.9	(111) bps	14.1	72 bps	14.8	14.6	23 bps

Source: Company, Karvy Researcht

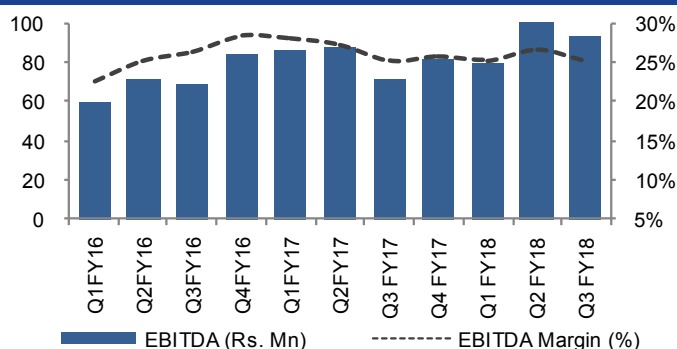
Exhibit 3: Margin Analysis

YE Mar (Rs. Mn)	Q3FY18	Q2FY18	QoQ %	Q3FY17	YoY %	YTD FY18	YTD FY17	YoY %
Material Expenses as % of Net Sales	37.5	36.8	70 bps	34.9	254 bps	37.5	34.3	321 bps
Employee Expenses as % of Net Sales	8.4	8.1	28 bps	9.2	(78) bps	8.7	8.4	28 bps
Other Expenses as % of Net Sales	5.5	5.5	(6) bps	6.2	(72) bps	5.6	6.0	(35) bps
EBITDA Margin (%)	25.1	26.6	(153) bps	24.9	25 bps	25.5	26.6	(112) bps
Tax Rate (%)	33.3	32.7	62 bps	35.0	(175) bps	33.5	34.9	(139) bps
Net Profit Margin (%)	14.8	15.9	(111) bps	14.1	72 bps	14.8	14.6	23 bps

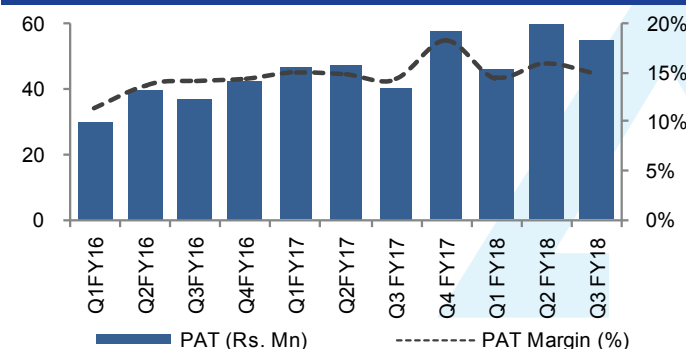
Source: Company, Karvy Research

Exhibit 4: Consistent Revenue Growth


Source: Company, Karvy Research

Exhibit 5: Improving EBITDA Margins


Source: Company, Karvy Research

Exhibit 6: Healthy PAT Margins


Source: Company, Karvy Research

Key Takeaways:

- The board has approved fresh investment of Rs.220 Mn in engine bearing & bushes plant and is expected to be completed by FY19E including land & building.
- The facility is expected to augment the capacity by 40% to cater to the increased order book from bimetal parts.
- Capex of Rs. 400 Mn is invested in aluminum division and the facility is expected to be ready by FY20E to enhance capacity in higher tonnage to cater to increased customers interest and demand.
- Management is positive about the investment in technology complying with BS IV / EURO IV and is expecting the realization of the same in coming quarters.
- Investments in engine bearing plant & critical aluminum cast components plant is near to completion and the company expects positive effects of the same in next FY19E.
- Capex expenditure is mainly through internal accruals & debt.
- Management is positive about continuing the same growth trend for FY18E & FY19E.
- Company continues to maintain its near debt free status and has made a few investments in the past from the internal cash accruals of which the benefits are expected to aid in maintaining superior margins & return ratios in near future.

Exhibit 7: Change in Earnings Estimates

YE Mar - Standalone (Rs. Mn)	FY18E			FY19E			FY20E
	Old	New	% Change	Old	New	% Change	Introducing
Net Sales	1559	1494	(4.2)	1668	1610	(3.5)	1969
EBITDA	391	373	(4.8)	423	423	0.2	537
EBITDA Margin (%)	25.1	24.9	(16) bps	25.3	26.3	(96) bps	27.3
Adj. PAT	220	208	(5.4)	240	238	(0.5)	290
EPS (Rs.)	3.9	3.7	(5.4)	4.3	4.3	(0.5)	5.2

Source: Karvy Research

Key Risks

- Slowdown in industrial activity & automotive segments may affect revenue.
- Threat of counterfeit products due to weak IPR implementation in India.
- Regulations pertaining to automotive aftermarket to bring in minimum quality and qualification criteria for repair, service and spare parts.
- Regulatory framework for setting up of independent garages and repair establishments.
- Regulatory & Infrastructure bottleneck.
- Low R&D spending and dependence on global suppliers for technology knowhow.
- Rising imports from China.

Financials

Exhibit 8: Income Statement

YE Mar (Rs. Mn)	FY16	FY17	FY18E	FY19E	FY20E
Revenue	1109	1229	1494	1610	1969
Growth (%)	7.5	10.8	21.5	7.8	22.3
Operating Expenses	824	902	1121	1187	1432
EBITDA	286	327	373	423	537
Growth (%)	26.7	14.4	14.0	13.6	26.9
Depreciation & Amortization	46	51	54	67	104
EBIT	240	276	319	356	434
Other Income	10	13	11	12	12
Interest Expenses	16	12	24	28	31
PBT	233	277	306	341	414
Tax	84	84	98	102	124
Adjusted PAT	149	192	208	238	290
Growth (%)	29.0	29.2	8.1	14.6	21.5

Source: Company, Karvy Research

Exhibit 9: Balance Sheet

YE Mar (Rs. Mn)	FY16	FY17	FY18E	FY19E	FY20E
Cash & Equivalents	54	169	200	244	120
Sundry Debtors	250	292	358	370	453
Inventory	114	124	145	159	194
Loans & Advances	24	33	33	33	33
Investments	0	0	0	0	0
Gross Block	782	857	927	1147	1547
Net Block	349	370	386	539	835
CWIP	6	35	35	35	35
Miscellaneous	2	2	2	2	2
Total Assets	799	1025	1159	1382	1672
Current Liabilities & Provisions	116	134	143	154	181
Debt	123	214	188	220	250
Other Liabilities	40	35	35	35	35
Total Liabilities	280	384	367	409	466
Shareholders Equity	47	56	56	56	56
Reserves & Surplus	473	586	736	917	1149
Total Network	519	642	792	973	1206
Total Network & Liabilities	799	1025	1159	1382	1672

Source: Company, Karvy Research

Exhibit 10: Cash Flow Statement

YE Mar (Rs. Mn)	FY16	FY17	FY18E	FY19E	FY20E
PBT	233	277	306	341	414
Depreciation	46	51	54	67	104
Interest	(16)	(12)	(24)	(28)	(31)
Tax Paid	(84)	(84)	(98)	(102)	(124)
Inc/dec in Net WC	(116)	(2)	(106)	10	(65)
Other Income	(10)	(13)	(11)	(12)	(12)
Cash flow from operating activities	53	217	121	276	285
Inc/dec in capital expenditure	(41)	(76)	(70)	(220)	(400)
Inc/dec in investments	1	0	0	0	0
Others	10	13	11	12	12
Cash flow from investing activities	(30)	(63)	(59)	(208)	(388)
Inc/dec in borrowings	(17)	17	1	7	5
Inc/dec in equity	0	(9)	0	0	0
Dividend paid	(57)	(57)	(57)	(57)	(57)
Interest paid	16	12	24	28	31
Cash flow from financing activities	(59)	(38)	(32)	(23)	(21)
Net change in cash	(36)	116	30	45	(125)

Source: Company, Karvy Research

Exhibit 11: Key Ratios

YE Mar	FY16	FY17	FY18E	FY19E	FY20E
EBITDA Margin (%)	25.7	26.6	24.9	26.3	27.3
EBIT Margin (%)	21.6	22.4	21.3	22.1	22.0
Net Profit Margin (%)	13.4	15.7	13.9	14.8	14.7
Dividend Payout Ratio (%)	38.6	29.9	27.6	24.1	19.8
Net Debt/Equity (x)	0.1	0.1	0.0	0.0	0.1
RoE (%)	28.7	30.0	26.3	24.5	24.0
RoCE (%)	37.3	32.2	32.5	29.8	29.8

Source: Company, Karvy Research


Exhibit 12: Valuation Parameters

YE Mar	FY16	FY17	FY18E	FY19E	FY20E
EPS (Rs.)	3.2	3.4	3.7	4.3	5.2
DPS (Rs.)	1.2	1.0	1.0	1.0	1.0
BVPS (Rs.)	11.1	11.4	14.1	17.4	21.5
PE (x)	15.5	21.3	31.7	27.6	22.7
P/BV (x)	4.4	6.4	8.3	6.8	5.5
EV/EBITDA (x)	8.3	12.7	17.7	15.5	12.5
EV/Sales (x)	2.1	3.4	4.4	4.1	3.4

Source: Company, Karvy Research; *Represents multiples for FY16 & FY17 are based on historic market price

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: < 5%

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