

Rane Holdings Limited (RHL)

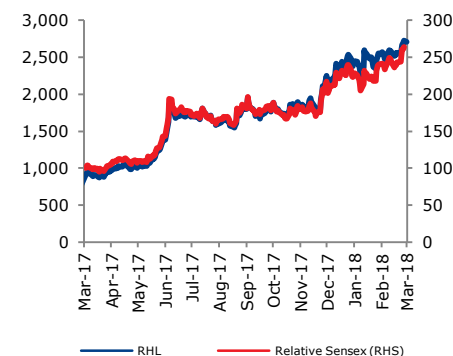
Sector: Auto ancillary/Small cap | Initiating Coverage

Background: Rane Holding is the Group Company of Rane Group. Founded in 1929; Headquartered in Chennai, India. It has strategic investments in four subsidiary companies, three joint venture companies and one associate company. The company serves a variety of industry segments: Passenger vehicles, Commercial vehicles, Farm tractors, and two wheelers, Three Wheelers, Railways and Stationary Engines. It manufactures Steering and Suspension system, Friction materials, Valve train components, Occupant safety system and Die-casting products. The company also has presence in the other critical and safety components, like Engine Valves, Friction material and Occupant Safety Systems.

Sensex	33,176
Nifty	10,195
Price	INR 2,650
Target Price	INR 3,183
Recommendation	BUY
52 Week High/Low	2,752/870
Bloomberg code	RHL IN
Reuters code	RANE.BO
Issued Equity (shares in mn)	14.3
Mkt. Cap in mn	INR 37,836
Mkt. Cap in mn USD	586
Avg. Daily Vol. ('000)	11.61
Avg. Daily Vol. (mn)	INR 30.76/\$0.47

Shareholding	Dec 16	Sep 17	Dec 17
Promoters(%)	46.39	46.39	46.38
FII (%)	0.09	0.18	0.16
DII (%)	13.93	16.79	16.9
Others (%)	39.59	36.64	36.56
Pledge (% of promoter holding)	0.00	0.00	0.00

Performance (%)	1M	3M	12M
RHL	6.0	30.2	196.6
Sensex	-1.4	2.0	15.2



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Building business beyond boundaries

Diversified product portfolio; strong presence in steering system

Rane Holding Limited has best diversified portfolio among Indian automobile companies. The company offers the entire spectrum of steering products – mechanical steering, hydraulic power steering (HPS), and electric power steering (EPS) – through its subsidiaries and JVs. RHL has presence across all vehicle segments viz. Commercial Vehicle, Passenger vehicle, Utility vehicle, Two-wheelers and Tractors. RHL's focus on quality has led to strong brand image and recognition among OEMs both domestically and globally. The company generates 59% of its revenue from steering system products. Unlike other steering companies, RHL is not concentrated in any particular segment and product. The company has diversified its product portfolio into other critical and safety component segments, like Engine Valves, Friction Material and Occupant Safety Systems.

Steering leaders – Poised for strong growth uptick

RHL's Steering and Suspension systems revenue has grown at a CAGR of 7% over past five years and has contributed 59% to total group turnover. We expect RHL's revenue from steering division to grow at CAGR of 18% over FY18-20E on the back of strong demand from domestic and international OEMs. The company is enhancing presence in the Hydraulic products to capture growing shift in technology. The Rane group is also enhancing its casting and machining capability with a new facility to meet orders awarded from some major customers.

Mandatory airbag to be growth catalyst

The Indian Government is all set to make airbags a mandatory fitment in all vehicles from April, 2019. RTSSL (JV) entered into the Airbag space by bringing in TRW's global expertise in the domestic market. With expectations of airbags becoming mandatory over the next one -two years for any type PVs in India, airbags could be a strong growth opportunity for RTSSL. We believe that RTSSL, due to its existing relation with OEMs and technology support from TRW, would be able to capture a major chunk of that opportunity going ahead. RHL drives 8% of total group turnover from Occupant Safety Systems and its revenue from the Occupant Safety Business has grown robustly by ~41% CAGR over past five years.

Die casting business to spur growth, led by recovery in its subsidiary in the U.S.

RHL's Die casting division witnessed robust growth albeit lower revenue share. The revenue from the Die casting division has grown ~56% CAGR over past five years. The company witnessed lower off-take from international customers for its die-casting division. However, the company expects a turnaround in its die-casting division in next 12 months through better capacity utilization and double digit EBITDA margin. Going forward, the company plans to achieve robust growth through targeting new business in passenger car segment and is also strengthening the die-casting portfolio in Europe.

Valuation: RHL's revenues are estimated to grow at 18% CAGR over the next two years. Upsurge in OEM volumes coupled with focus on the Aftermarket segment would drive the top-line. Also, the company's margins are expected to improve on account of operating leverage, enhanced local procurement and energy savings. Given the healthy top-line growth and margin improvement, RHL's earnings are likely to grow at a CAGR of ~22% over FY18-20E. Its return ratios are also estimated to expand due to margin improvement and reduction in leverage. At CMP, the stock is trading at 19/15.8X FY19/20 EPS. We initiate coverage on RHL with a **BUY** recommendation and target price of INR 3,183, valuing the stock at 19X FY20E EPS. **Risk:** Economic downturn or slowdown in the key markets can lead to decreased volumes and capacity utilization. The company can be affected by volatility of commodity prices affecting the input cost structure which can have direct bearing on margins.

Exhibit 1: Financial Summary

Y/E March (INR mn)	FY17	FY18E	FY19E	FY20E
Revenue	29,709	33,427	39,180	46,275
EBITDA	3,100	3,870	4,626	5,573
PAT	1,072	1,597	1,986	2,392
EPS	75.1	111.9	139.1	167.5
EPS growth (%)	67	49	24	20
PE	35.3	23.7	19.0	15.8
P/ BV	5.2	4.6	4.0	3.5
EV / EBITDA	13.7	11.0	9.2	7.6
EV / Sales	1.4	1.3	1.1	0.9
Dividend Yield (%)	0.1	0.2	0.3	0.3
ROCE (%)	24.9	25.2	26.5	26.6
ROE (%)	14.8	19.6	21.2	22.4
Net Debt / Equity	0.7	0.7	0.6	0.5

Investment summary:

- Rane Holding Limited (RHL) has best diversified portfolio in the Indian automobile companies, as the company offers the entire spectrum of steering products – mechanical steering, hydraulic power steering (HPS), and electric power steering (EPS) – through its subsidiaries and JVs.
- The company generates 59% of its revenue from steering system products. Unlike other steering companies, RHL has no concentrated portfolio to any particular segment and product.
- RHL has diversified its product portfolio into other critical and safety component segments, like Engine Valves, Friction Material and Occupant Safety Systems.
- RHL's Steering and suspension systems revenue has grown at a CAGR of 7% over past five years. We expect RHL's revenue from steering division to grow at CAGR of 18% over FY18-20E on the back of strong demand from domestic and international OEMs. It is also enhancing its presence in the Hydraulic products to capture growing shift in technology.
- The Company is witnessing strong demand from all Indian OE customers across vehicle segments for its steering and linkages division. Demand for Steering and Linkages division is also strong from International customers as well as Aftermarket segment. Domestic Aftermarket segment is seeing recovery post implementation of GST. Capacity utilization remains high for Steering and Linkages division. We believe that new investment, increased capacity & productivity to boost the growth in Steering business.
- RHL drives 8% of total group turnover from Occupant Safety Systems and revenue from the business has grown robustly by ~41% CAGR over past five years. RTSS also manufactures Seat belts, Airbags and Plastic reservoirs.
- RNSSL's revenue has grown at a CAGR of 15% over past five years and is expected to grow at a CAGR of 25% over next two years. RNSSL, which is already a dominant player in the EPS space, is planning to increase its margin performance by cost reduction through improved localization and Value Analysis and Value Engineering (VAVE) activities in the Manual Column Business.
- The Indian Government is all set to make airbags a mandatory fitment in all vehicles from April, 2019, which could be next revenue growth catalyst for RHL. Various safety standards are imposed on vehicles, based on an assessment, for occupant protection, pedestrian protection, and child protection systems. These factors are expected to propel the growth of the automotive airbag market. Due to its existing relation with OEMs and technology support from TRW, RHL would be able to capture a major chunk of that opportunity going ahead.
- RHL's Die casting division witnessed robust growth albeit lower revenue share. The revenue from the Die casting division has grown ~56% CAGR over past five years. RHL witnessed lower off-take from international customers for its die-casting division in FY17. However, the company expects a turnaround in its die-casting division in next 12 months through better capacity utilization and double digit EBITDA margin. Going forward, the company plans to achieve robust growth through targeting new business in passenger car segment. RHL is also strengthening the die-casting portfolio in Europe.
- RHL's Non Steering business is expected to grow at CAGR of 6% over next two years led by export and Aftermarket business. The company is further augmenting efforts with the launch of niche after-market products.

- RHL aim to drive international share of business from 21% of revenue in FY17 to 25% of revenue by FY20E. Groups' international revenue grew robustly by 60% YoY to INR 9,240mn in FY17, including both International OEMs and International Aftermarket.
- The management is exploring multiple avenues such as: strengthening overseas offices in USA with addition of more people, stepping up direct exports to OEMs, taking assistance of JV partners to boost overseas sales and fast establishing presence in the Global Replacement Markets.

VALUATION:

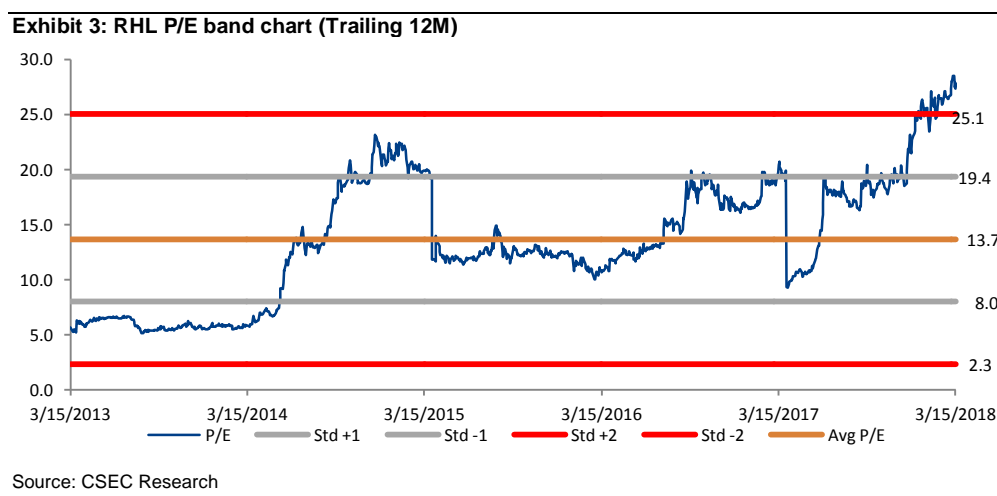
RHL's revenues are estimated to grow at 18% CAGR over the next two years. Upsurge in OEM volumes coupled with focus on the Aftermarket segment would drive the top-line. Also, the company's margins are expected to improve on account of operating leverage, enhanced local procurement and energy savings. Given the healthy top-line growth and margin improvement, RHL's earnings are likely to grow at a CAGR of ~22% over FY18-20E. Its return ratios are also estimated to expand due to margin improvement and reduction in leverage. At CMP, the stock is trading at 19/15.8X FY19/20 EPS. The stock is fairly discount to their peers, given RHL being a holding company. Expected margin improvement in its subsidiary companies provides cushion for re-rating from current level. We initiate coverage on RHL with a **BUY** recommendation and target price of INR 3,183, valuing the stock at 19X FY20E EPS (upside potential of 20%).

Exhibit 2: Peers Comparison

Relative valuation	Revenue Growth (%)	EBITDA Growth (%)	EBITDAM (%)	NPM (%)	P/E	P/BV	EV/EBITDA	EV/Sales	RoE	Div Yield (%)
	CAGR(FY18-20)	CAGR(FY18-20)	FY20E	FY20E	FY20E	FY20E	FY20E	FY20E	FY20E	FY20E
RHL	18.0	20.0	12.0	5.2	15.8	3.5	7.6	0.9	22.4	0.3
Minda Industries	25.0	25.4	12.0	5.22	27.1	5.5	11	1.3	20.3	0.8
Gabriel India	14.7	20.4	10.3	5.9	15.2	2.76	8.4	0.9	18.1	0.7
Motherson Sumi	16.8	26.4	9.4	4.5	19.4	5.0	9.0	1.0	28.2	1.4
Suprajeet Engineering*	14.0	17.4	16.0	10.1	21.5	4.5	13.7	2.3	23.2	0.6

*Source: Bloomberg

P/E band chart:



Industry overview:

Global Steering Industry

The steering market is projected to grow at a CAGR of 6.47% from 2016 to 2021, to reach USD 42.77bn by 2021 (Source: Market & Market). Asia region is estimated to lead in the market in terms of growth rate during the period. The increasing demand for automotive comfort and safety is a key driver of the steering market.

Electronic power steering:

The majority of new cars sold today feature Electric Power Steering (EPS). The market for EPS systems is estimated to grow at a high CAGR, owing to the increasing production of passenger cars and sports utility vehicles (SUVs). The EPS market is primarily driven by the rising demand for fuel efficiency and the growth of the automotive industry in emerging economies. The demand for column-assist EPS, which is suitable for small or medium-sized vehicles, and rack-assist EPS, which is frequently used in large vehicles, is expected to increase, especially in North America. EPS systems have completely replaced manual and hydraulic steering systems in passenger cars in developed as well as developing countries.

Asia region comprises some of the fastest growing economies in the world, including China, India, and Indonesia. The region has the highest vehicle production in the world, due to its sizable population and increasing disposable income. The growing population, increase in per capita income, and improving standard of living have contributed to the growth of the automotive industry in Asia-Pacific. China the key automotive market in this region produces the highest number of passenger cars in the world. Given that the steering market is directly dependent on vehicle production, Asia has emerged as the fastest growing market for steering systems, in terms of value as well as volume. Indian steering system industry is worth ~INR 30bn (PV share ~2/3rd) with electric power system and Hydraulic power system accounting for ~75% of the total market. Key players in the segment are Rane TRW, Rane NSK Steering, ZF Steering and Mondo – Most of them are in JV with leading MNC players.

Occupant Safety System market:

The automotive occupant safety system market is projected to grow by 9% CAGR over FY17-FY22E (Source: MRFR). Passenger safety has become one of the major concerns for the automotive industry in the wake of increasing accidents and growing fatality rate in recent times which has led to stringent regulations in majority of the developed economies. Automotive occupant sensing is a system which senses the presence, positioning and classification of person or occupant sitting on the passenger seat of the vehicle. This system also senses the presence of rear facing child seat within the vehicle as well. In doing so, the system controls or indicates a related airbag activator control system to enable, disable or control the amount of inflation an airbag requires, during any sudden accident of the vehicle while driving. Globally, implementation of stringent safety regulations is expected to remain one of the key growth drivers for OSS.

OEM Segment Dominates the Automotive Occupant Sensing System Market

The OEM segment accounts for the lion's share of revenue in the automotive occupant sensing system market by sales channel segment in 2017 and is projected to gain share in the future. An absolute dollar opportunity of more than USD 540mn is waiting to be tapped in the OEM segment of the automotive occupant sensing system market.

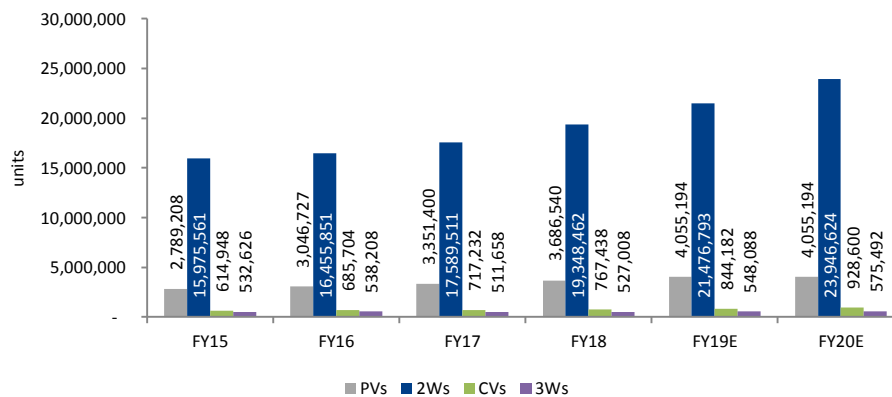
Aluminium Die cast Components:

Recovery of automotive manufacturing is driving the market for aluminium die casting in India. This is further aided by skilled, cheaper labor force and the government incentives for small and medium scale industries. As of today, India boasts of over 400 die casting companies, making it one of the major suppliers of die cast parts in the global market. Of these, over 25 units produce around 12,000 tons of die cast parts per year. Aided by the 1.3 million tons of aluminium production, the Indian industry consumes over 0.28 million tons of die-castings.

Rockman Industries, Endurance Group, Super Auto India, Devilog Group, Spira Engineers are some of the local players who have successfully entered the global market with their product portfolio. Cummins Ford, General Motors; John Deere, Mercedes Benz, Bosch, Toyota and Volkswagen are some the global giants that are sourcing the aluminium die casting parts from India. The market is segmented based on the production process type, and by application type. In a nutshell, automobile makers are now focusing on collaborating with the part die casting manufacturers in order to produce fuel-efficient and lightweight automobiles.

The growth of auto ancillary sector is closely linked to those of the auto sector. Demand swing in any of segment (Cars, 2Ws, CVs) has an impact on auto ancillary demand. Automotive sales growth are expected to be remain strong.

Exhibit 4: Automotive sales growth are expected to be remain strong



Source: SIAM, CSEC Research

Exhibit 5: Porters Five Model:

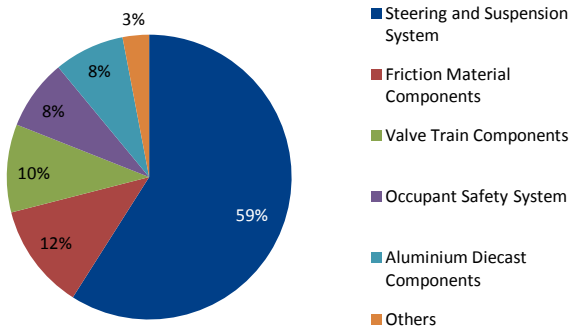


Company Overview:

Rane Holdings Limited (RHL) is the holding company whose main activity is investing in Rane group Companies that are engaged primarily in the manufacture and marketing of auto components. The Rane Group's investment profile includes subsidiaries, joint ventures and associate. Headquartered in Chennai, India, Rane Group is engaged primarily in manufacturing auto components for well over five decades. Rane Group is preferred supplier to major OEMs in India and abroad. The group has pan-India manufacturing presence and globally benchmarked technological capabilities through technical tie-ups which include TRW of USA, NSK and Nisshinbo Brake Inc. of Japan. Through its group companies, it manufactures Steering and Suspension systems, Friction materials, Valve Train components, Occupant Safety system and Die Casting products. Its products serve a variety of industry segments including passenger vehicles, Commercial vehicles, Farm Tractors, Two-wheelers, Three-wheelers and Railways and Stationary Engines.

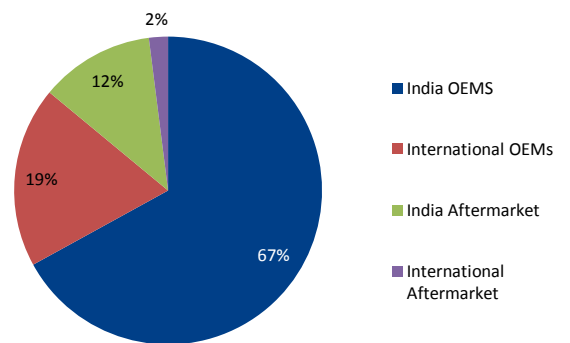
Revenue share break-up:

Exhibit 6: Revenue mix by product category



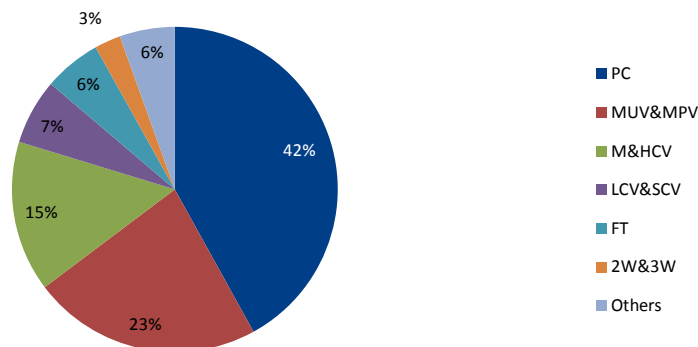
Source: Company, CSEC Research

Exhibit 7: Revenue mix by market



Source: Company, CSEC Research

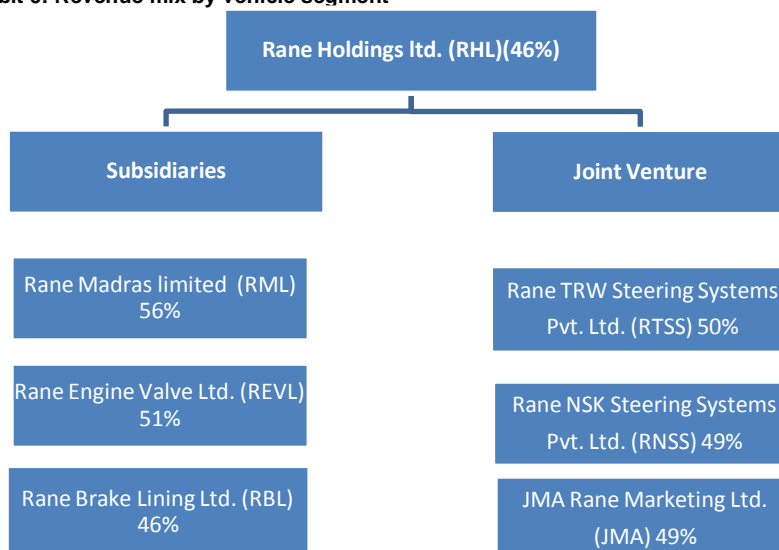
Exhibit 8: Revenue mix by vehicle segment



Source: Company, CSEC Research

Rane Group Holding Structure:

Exhibit 9: Revenue mix by vehicle segment



Source: Company, CSEC Research

Exhibit 10: Rane Group Milestones

1929	Founded as a distributor of automobiles and spare parts
1936	Incorporated as a public Ltd company
1959-1986	Started manufacturing IC engine valves, Tie Rod Ends, Friction materials products and manual Steering gears Expanded to Aerospace and defence sector with strategic stake in SasMos HET technologies
2000-2014	Started manufacturing high pressure aluminium die casting products, electric power steering and airbags
2015	Established Rane Auto parts Expanded footprint in USA with acquisition of Precision Die casting Inc

Source: Company, CSEC Research

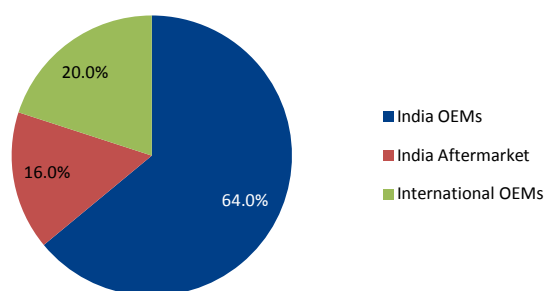
Rane Madras Limited (RML) – 27% of group turnover

RML operates in two business segments: (1) steering products and (2) aluminium die-casting.

Steering division: RML is one of the largest suppliers of manual steering gears and columns (64% of its revenue) to the domestic auto industry with equal contribution from PVs, CVs and tractors. Domestic after-market sales account for 16% of the revenue. RML also supplies to global OEMs as a Tier 2 supplier (20% of revenue).

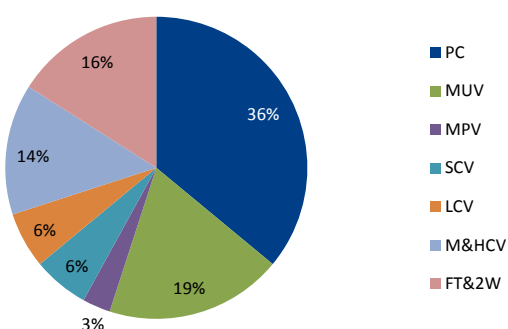
Aluminium die-casting division: RML acquired the US-based Precision Die Casting Inc. in 2016. The Company now supplies complex, thin-walled, low porosity, cast and machined aluminium die castings to automotive industry from its manufacturing facility at Russellville, Kentucky, US.

Exhibit 11: RML's revenue mix by market



Source: Company, CSEC Research

Exhibit 12: RML's revenue by vehicle segment

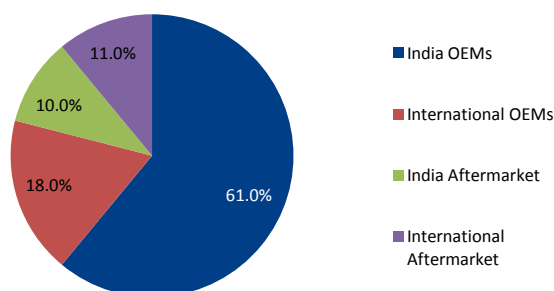


Source: Company, CSEC Research

Rane Engine Valve Limited (REVL) – 8% of group turnover

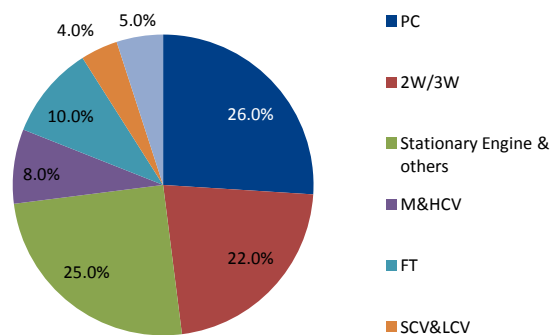
Part of the Rane Group, Rane Engine Valve Limited (REVL) was established in 1959. The Company is a manufacturer of engine valves, guides and tappets for passenger cars, commercial vehicles, farm tractors, stationary engines, railway/marine engines and two/three wheelers. The Company is a market leader in its category and a sharp focus on R&D and quality has helped it service clients spread across Europe, North America and the Far Eastern markets.

Exhibit 13: REVL's revenue mix by market



Source: Company, CSEC Research

Exhibit 14: REVL's revenue mix by vehicle segment

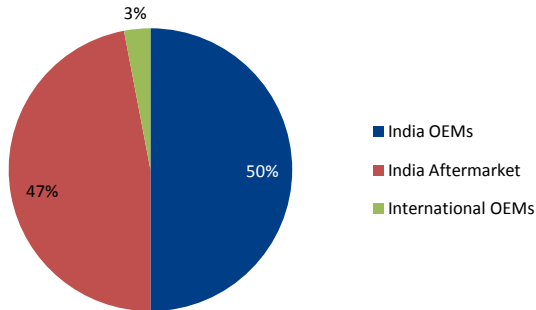


Source: Company, CSEC Research

Rane Brake Lining Limited (RBL) – 11% of group turnover

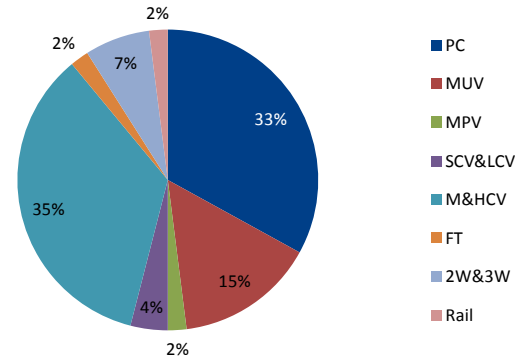
Part of the Rane Group, Rane Brake Lining Limited was established in 1964. The Company manufactures and markets auto components viz., safety critical friction material products such as brake linings, disc pads, clutch facings, clutch buttons, brake shoes and railway brake blocks for passenger cars, utility vehicles, commercial vehicles, two wheelers and railways. With a technical and equity collaboration with Nisshinbo Group, Japan, and the Company is a market leader in India and also has a strong presence in the international markets.

Exhibit 15: RBL's revenue mix by market



Source: Company, CSEC Research

Exhibit 16: RBL's revenue mix by vehicle segment

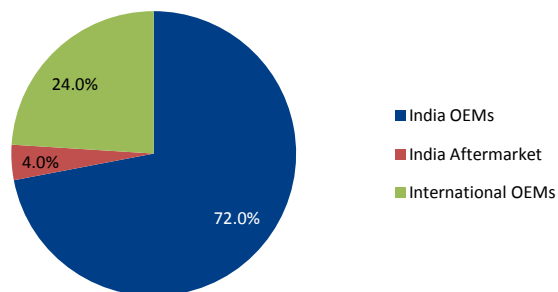


Source: Company, CSEC Research

Rane TRW Steering Systems (RTSS) - 19% of group turnover

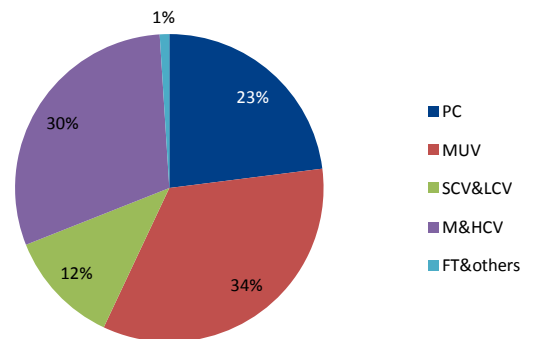
Rane TRW Steering (Rane TRW) is a 50:50 JV between Rane Holdings and TRW, USA. Rane TRW is the largest supplier of hydraulic steering to the CV industry (followed by ZF Steering). Its Occupant Safety Division (OCD) supplies seat belt and airbag systems to domestic OEMs. It has entered tractor and SCV segments, supplying miniature steering systems substituting manual steering (around 2/3rd of the market).

Exhibit 17: RTSS' revenue mix by market



Source: Company, CSEC Research

Exhibit 18: RTSS' revenue mix by vehicle segment

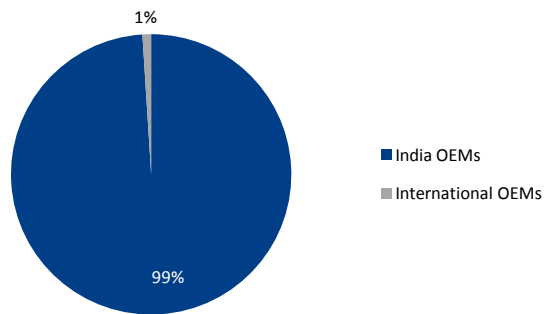


Source: Company, CSEC Research

Rane NSK Steering system Private Limited (RNSS) - 23% of group turnover

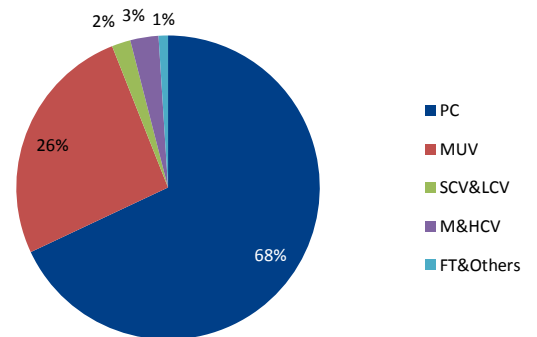
Rane NSK Steering (Rane NSK) is a 49:51 JV between Rane Holdings and NSK Steering Japan. Rane NSK has benefited immensely by structural shift from manual steering to electronic power steering (EPS) over the past 3-5 years. Rane NSK currently supplies EPS only to Maruti Suzuki and Honda. It has won further new orders from Maruti Suzuki India for supplies to newly-launched Baleno, Brezza and new Swift.

Exhibit 19: RNSS' revenue mix by market



Source: Company, CSEC Research

Exhibit 20: RNSS' revenue mix by vehicle segment



Source: Company, CSEC Research

JMA Rane Marketing Limited- 2% of group turnover

JMA Rane is a joint venture company between Rane Holdings Limited and Jullundur Motor Agency (Delhi) Limited. JMA Rane is a Trading Company Dealing with Automobile Components and has dealer network at various locations in India. Net Sales was INR 667.9mn in FY17 as compared to INR 609.1mn in FY16 and Net Profit was at INR 17.1mn.

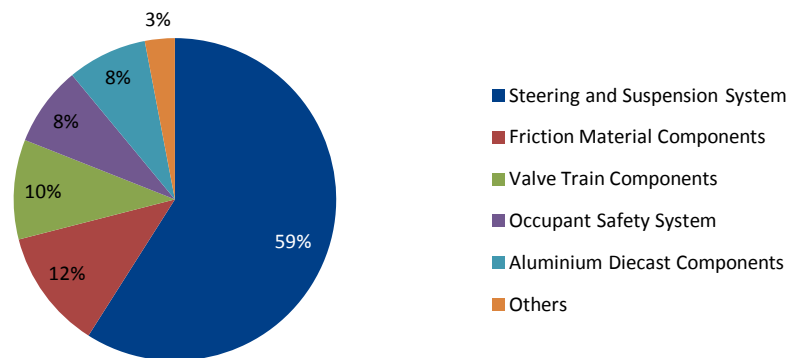
Investment rationale:

Diversified product portfolio; strong presence in steering system

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The company generates 59% of its revenue from steering system products. Unlike other steering companies, RHL has no concentrated portfolio to any particular segment and product. The company has diversified its product portfolio into other critical and safety component segments, like Engine Valves, Friction Material and Occupant Safety Systems.

Exhibit 21: Diversified exposure across steering, critical and safety components



Source: Company, CSEC Research

Steering leaders – Poised for strong growth uptick

RHL's Steering and Suspension Systems revenue has grown at a CAGR of 7% over past five years and has contributed 59% to total group turnover. We expect RHL's revenue from Steering Division to grow at CAGR of 18% over FY18-20E on the back of strong demand from domestic and international OEMs. The company is enhancing presence in the Hydraulic products to capture growing shift in technology. RHL is also enhancing its casting and machining capability with a new facility to meet orders awarded from some major customers. Recently, RNSS (JV) ramped up capacity at Bawal plant to cater to the increased demand for EPS business. During FY17, the business was affected due tepid growth in Commercial sector on account of demonetization.

The company is witnessing strong demand from all Indian OE customers across vehicle segments for its steering and linkages division. Demand for Steering and Linkages division is also strong from International customers as well as Aftermarket segment. Capacity utilization remains high for Steering and Linkages division.

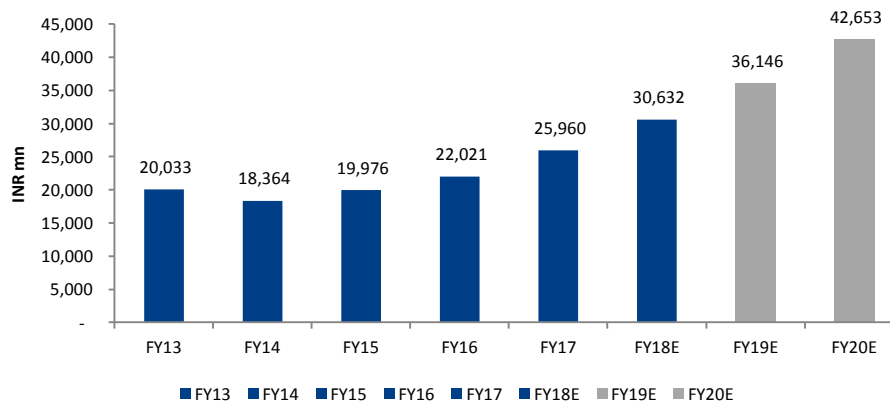
We expect the growth in these product lines will recover as revenue share from the existing customer has increased in past years and RML (subsidiary) has gained business share from its existing customers in recent quarters. The company has invested INR 750mn to augment capacity to meet the increased demand for Electric Power Steering. We believe that new investment, increased capacity & productivity to boost the growth in Steering business. The Company continues to focus

on strengthening the new product development and quality management processes for new EPS business secured. RHL is also planning to enhance its application engineering capability for EPS columns towards customer's local engineering support requirements. RHL's raw material cost reduced substantially due to localizations of key raw materials which can drive the margin in this segment from current level.

RNSSL is likely to grow at CAGR of 25% over next two years

RNSSL's revenue has grown at a CAGR of 15% over past five years and is expected to grow at a CAGR of 25% over next two years. RNSSL, which is already a dominant player in the EPS space, is planning to increase its margin performance by cost reduction through improved localization and Value Analysis and Value Engineering (VAVE) activities in the Manual Column Business.

Exhibit 22: RHL's Steering revenue has grown at a CAGR of 7% over FY13-18E



Source: Company, CSEC Research

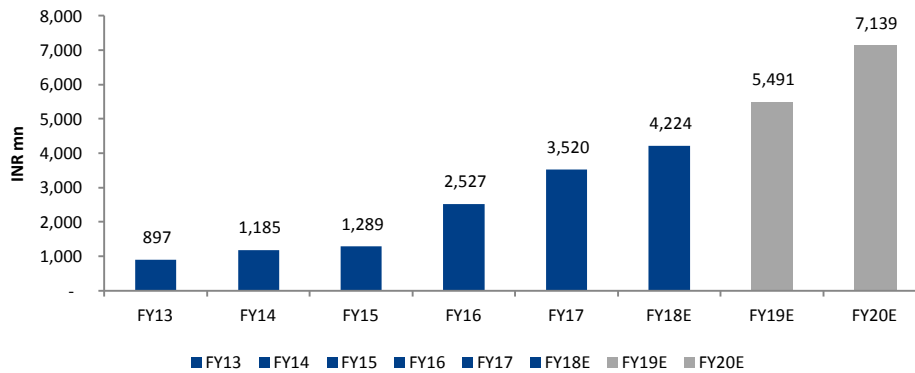
Mandatory airbag to be growth catalyst

The Indian Government is all set to make airbags a mandatory fitment in all vehicles from April, 2019. RTSSL entered into the Airbag space by bringing in TRW's global expertise in the domestic market. With expectations of airbags becoming mandatory over the next one -two years for any type PVs in India, airbags could be a strong growth opportunity for RTSSL. We believe that RTSSL, due to its existing relation with OEMs and technology support from TRW, would be able to capture a major chunk of that opportunity going ahead.

RHL drives 8% of total group turnover from Occupant Safety Systems and revenue from the business has grown robustly by ~41% CAGR over past five years. RTSS also manufactures Seat belts, Airbags and Plastic reservoirs. The company successfully commenced supply of seatbelts to HKMC, South Korea and also acquired airbags order.

Increasing public awareness about vehicle safety is driving necessity for standard fitment in vehicles, coupled with frontal and curtain airbags. Crash tests are being implemented for manufacturers by governments, providing safety benefits to customers. Various safety standards are imposed on vehicles, based on an assessment, for occupant protection, pedestrian protection, and child protection systems. These factors are expected to propel the growth of the automotive airbag market.

Exhibit 23: RHL's Occupant Safety revenue has grown robustly by 41% CAGR over past five years

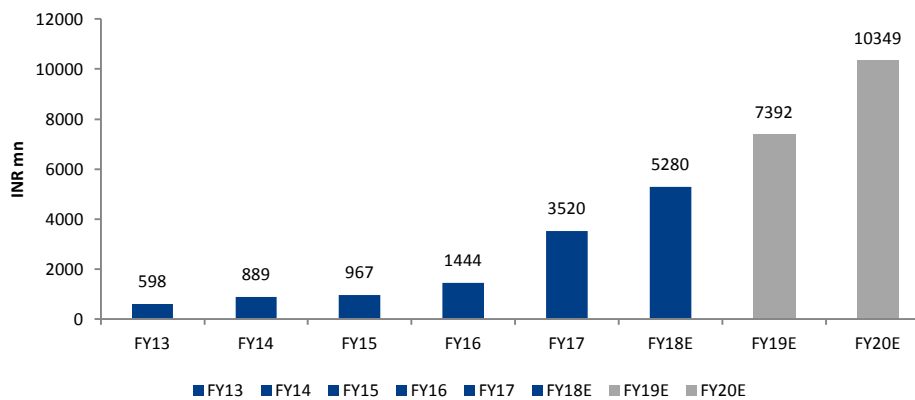


Source: Company, CSEC Research

Die casting business to spur growth, led by recovery in its subsidiary in the U.S.

RHL's Die Casting Division witnessed robust growth albeit lower revenue share. The revenue from the Die casting division has grown ~56% CAGR over past five years. RHL witnessed lower off-take from international customers for its die-casting division in FY17. However, the company expects a turnaround in its die-casting division in next 12 months through better capacity utilization and double digit EBITDA margin. Going forward the company plans to achieve robust growth through targeting new business in passenger car segment. RHL is also strengthening the die-casting portfolio in Europe. The Group is also enhancing its casting and machining capability with new facility to meet orders awarded from some major customers.

Exhibit 24: RHL's Die casting revenue has grown robustly over past five years

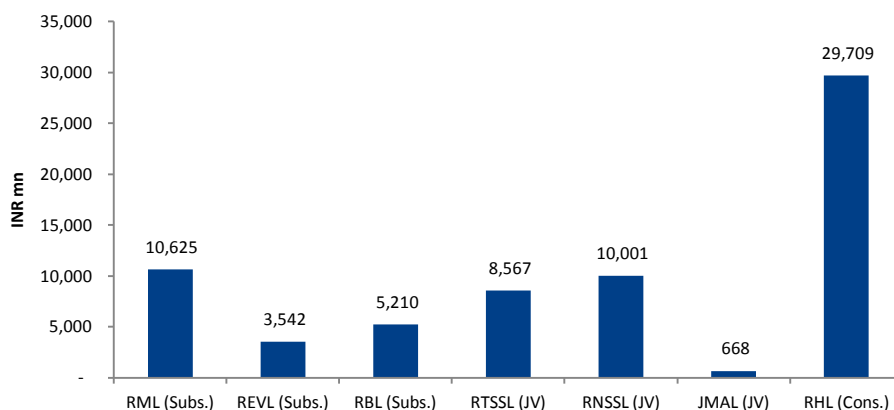


Source: Company, CSEC Research

Non steering business to grow at 6% CAGR backed by export and Aftermarket

RHL's Non Steering business is expected to grow at CAGR of 6% over next two years led by Export and Aftermarket business. RHL has enhanced presence in the Aftermarket and export markets. Aftermarket segment offers significant unexplored opportunities, particularly North India and in Tier II/III cities. In order to mine these opportunities better, the Group is deepening and widening its distribution network with a special focus on weaker geographies. The company is further augmenting efforts with the launch of niche after-market products. The company is embarking on Lean Production System in order to reduce wastages, resulting in enhanced equipment and manpower productivity besides helping bring down costs. In RBL (RHL's subsidiary), we expect growth recovery from FY19E as sales was muted in FY18 due to lower demand in Aftermarket business.

Exhibit 25: Revenue: subsidiary, JVs and consolidated

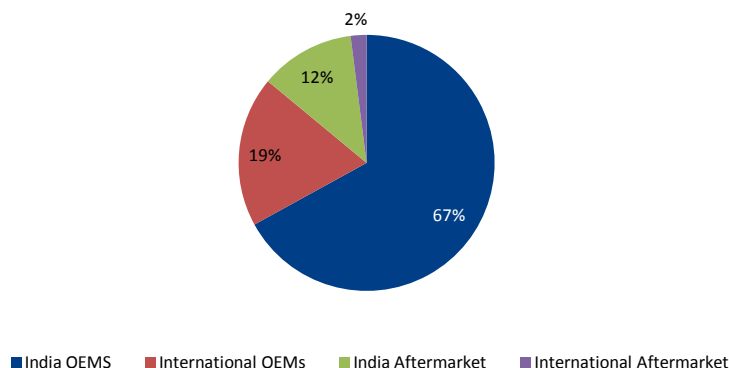


Source: Company, CSEC Research

International business will be new thrust area for growth

RHL aims to drive international share of business from 21% of total revenue in FY17 to 25% of total revenue by FY20E. RHL's international revenue grew robustly by 60% YoY to INR 9,240mn in FY17, including both International OEMs and International Aftermarket. The management is exploring multiple avenues such as: strengthening overseas offices in USA with addition of more people, stepping up direct exports to OEMs, taking assistance of JV partners to boost overseas sales and fast establishing presence in the Global Replacement Markets. The company won sizable business in the overseas market over the last financial years.

Exhibit 26: Revenue share of international business has grown robustly



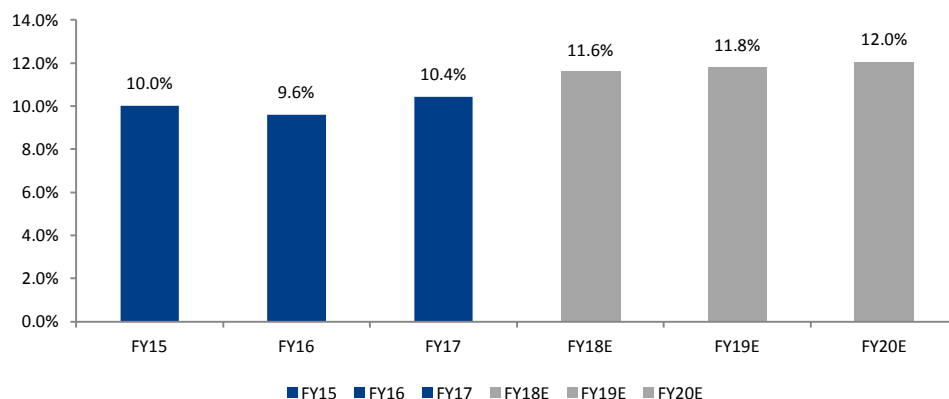
Source: Company, CSEC Research

FINANCIAL OUTLOOK:

Operating leverage, raw material localization and energy savings to augment margins

We expect RHL would reap benefits of operating leverage given the robust top-line growth over the next two years. RHL's EBITDA has grown at a CAGR of 16% over last five years and is expected to grow at a CAGR of 20% over next two years on the back of localization and cost control measures taken by the company. We expect EBITDA Margin to improve by from 10.4% in FY17 to 12% in FY20E led by increased revenue share from higher margin segment such as Air bags and Steering segment. The company's margins were impacted in the past due to lower demand for its HPS and friction materials. However, the margins have improved in the last 9MFY18 in these companies and management also indicated that localization and cost control measures at its various plants located globally. Also, RHL is working towards reducing its energy cost by implementing best practices across manufacturing plants and utilizing power from low cost sources.

Exhibit 27: EBITDA margin is expected to improve by 50 bps between FY18-19E



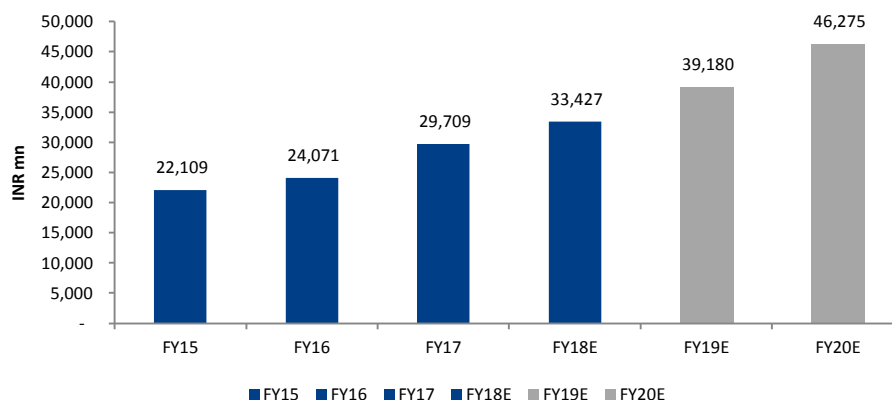
Source: Company, CSEC Research

Revenue and PAT is likely to grow at a CAGR of 18%/22% over next two years

RHL's revenues are expected to grow at CAGR of 18% from INR 29,709mn in FY17 to INR 46,275mn in FY20E. Increased focus in Aftermarket sales and export coupled with upsurge demand in the auto sector will drive the growth going forward. A good monsoon, higher spending on infra segment by the government in the FY18-19 budget and expected improvement in macro-economic situation post GST are the key demand growth drivers for the auto industry.

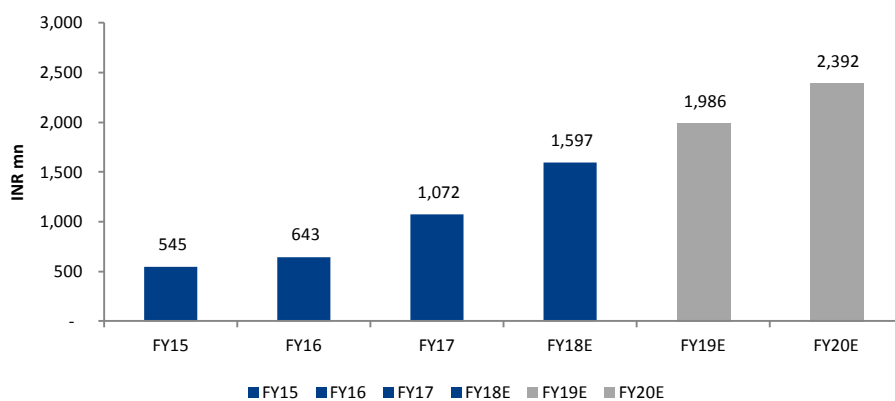
Led by 18% CAGR revenue growth and sustainable EBITDA margin, we expect, RHL's adjusted PAT to grow at 22.4% CAGR over next two years, from INR 1,072bn in FY17 to INR 2,392mn in FY20E. Company's interest cost is expected to decline further.

Exhibit 28: Revenue is expected to grow at a CAGR of 18% over FY18-20E



Source: Company, CSEC Research

Exhibit 29: Adjusted PAT is expected to grow at a CAGR of 22% over FY18-20E



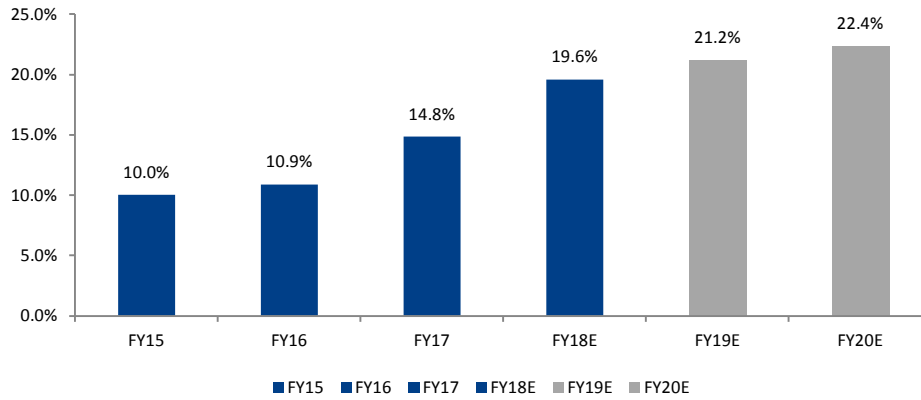
Source: Company, CSEC Research

Margin improvement to lead to superior RoE

RHL's EBITDA margins are estimated to improve by 50bp over FY18-20E. This would be on the back of a strong top-line growth, increased localization coupled with savings in energy costs. Further, RHL has no major capex plans in the immediate term. We also estimate the leverage metrics of RHL to improve over the next two years, considering the improving profitability and stable debt levels. Consequently, we expect the Debt/Equity ratio to improve. Given the improvement in profitability coupled with improving D/E ratio, we expect the ROE to improve from by 276bps over next two years.

RHL has turned free cash flow positive in FY17 and is expected to continue to generate free cash flow going ahead. With expected healthy earnings growth, no significant capex and efficient working capital management, we expect free cash flows for the company to remain strong over FY19/FY20E.

Exhibit 30: Healthy RoE generation over next couple of years



Source: Company, CSEC Research

RISKS:

- Economic downturn or slowdown in the key markets can lead to decreased volumes and capacity utilization.
- The Company can be affected by volatility of commodity prices affecting the input cost structure which can have a direct bearing on margins.
- Other factors, which can affect the company, include any sharp contraction in automobile sales, increased competitive pressure, etc.

Financial Overview:

Income Statement (Abstract)

INR(million)				
Particulars	FY17	FY18E	FY19E	FY20E
Net Revenue	29,709	33,427	39,180	46,275
Growth (%)	23	13	17	18
Operating Expenditure	26,609	29,557	34,554	40,702
EBIDTA	3,100	3,870	4,626	5,573
Growth (%)	34.2	24.8	19.5	20.5
Depreciation	1,378	1,538	1,824	2,143
Other Income	584	501	679	748
Interest	501	568	663	785
Tax Paid	734	668	831	1,001
Adjusted PAT	1,072	1,597	1,986	2,392
Growth (%)	67	49.0	24	20

Balance Sheet (Abstract)

INR(million)				
Particulars	FY17	FY18E	FY19E	FY20E
Share Capital	143	143	143	143
Reserves & Surplus	7,077	8,005	9,215	10,553
Networth	7,220	8,148	9,357	10,695
Current Liabilities	9,016	10,887	12,322	14,812
Non-Current Liab	7,577	9,176	10,699	13,034
Total Liabilities + Equity	23,814	28,211	32,378	38,542
Net Fixed Assets	10,065	11,273	12,109	13,307
Other Non-Current Assets	4,072	4,357	5,068	5,745
Other Current Assets	9,678	12,581	15,202	19,489
Total Assets	23,814	28,211	32,378	38,542

Cash Flow statement (Abstract)

INR(million)				
Particulars	FY17	FY18E	FY19E	FY20E
Cash flow from operations	2,408	2,167	3,060	3,479
Cash flow from investing	(524)	(970)	(969)	(967)
Cash flow from financing	(1,193)	(1,065)	(1,250)	(1,482)
Free cash flow	416	1,167	2,060	2,479
Net change in cash	691	132	841	1,029

Per Share Ratios

Particulars	FY17	FY18E	FY19E	FY20E
Adjusted EPS (INR)	75.1	111.9	139.1	167.5
Cash EPS	168.7	151.8	214.3	243.6
BV/Share (INR)	505.7	570.7	655.4	749.1
FCF/Share(INR)	29.1	81.7	144.3	173.6
DPS (INR)	3.5	5.6	7.0	8.4

Key Ratios

Particulars	FY17	FY18E	FY19E	FY20E
Dividend Payout (%)	4.7	5.0	5.0	5.0
EBIDTA Margin (%)	10.4	11.6	11.8	12.0
PBT Margin (%)	6.1	6.8	7.2	7.3
Adjs. PAT Margin (%)	3.6	4.8	5.1	5.2
RoCE (%)	24.9	25.2	26.5	26.6
RoE (%)	14.8	19.6	21.2	22.4
Current Ratio	1.1	1.2	1.2	1.3
Inventory Days	63	65	64	64
Debtor days	56	58	57	57
Creditor days	60	62	61	62
CCC	59	61	60	59
Interest Cover Ratio	4.6	5.0	5.2	5.3

DuPont Analysis

Particulars	FY17	FY18E	FY19E	FY20E
Net Profit Margin (%)	3.6	4.8	5.1	5.2
Asset Turnover	1.2	1.2	1.2	1.2
Leverage factor	3.3	3.5	3.5	3.6
RoE (%)	14.8	19.6	21.2	22.4

Valuation Ratios

Particulars	FY17	FY18E	FY19E	FY20E
P/E	35.3	23.7	19.0	15.8
P/BV	5.2	4.6	4.0	3.5
EV/Sales	1.4	1.3	1.1	0.9
EV/EBITDA	13.7	11.0	9.2	7.6
Div Yield (%)	0.1	0.2	0.3	0.3

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