

Rane Holdings Limited

Sector: Auto ancillary /Small-Cap | Earnings Update – 4QFY18

BUY

14 May 2018

Background: Rane Holding Limited is holding 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	35,534
Nifty	10,800
Price	INR 2,451
Target Price	INR 2,900
Recommendation	BUY
52 Week High/Low	INR 2,799/988
Bloomberg / Reuters	RHL IN/RANE.BO
Equity (shares in mn)	14.27
Mkt. Cap in bn	INR 34.9 /\$.52
Avg. Daily Vol. ('000)	13.77
Avg. Daily Vol. (mn)	INR 33.75/\$.50

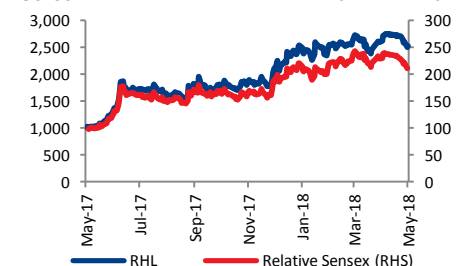
Shareholding	Mar 17	Dec 17	Mar 18
Promoters (%)	46.39	46.4	46.4
FII (%)	0.09	0.2	0.2
DII (%)	14.1	16.9	17.0
Others (%)	39.4	36.6	36.4
Pledge (% of promoter holding)	0.00	0.00	0.00

Valuation Summary (INR bn)

Y/E March	2018	2019E	2020E
Revenue	22.9	25.9	29.5
EBITDA	2.4	2.7	3.3
Adj PAT	1.5	1.8	2.2
Adj EPS	91.2	129.0	152.7
% growth	-2	41	18
P/E	26.9	19.0	16.1
P/ BV	4.4	3.9	3.4
EV/EBITDA	16.6	14.5	12.2
EV/Sales	1.7	1.5	1.3
Div Yield (%)	0.6	0.7	0.7
ROE (%)	18.5	20.3	21.2

*Cons. Earnings/ IND AS

Performance %	1M	3M	12M
RHL	-3.7	6.5	147.6
Sensex	4.2	0.4	16.4



Margin pressure dents performance

- In 4QFY18, RHL's consolidated revenue grew robustly by 19.4%YoY to INR 6,504mn, led by Steering business (+31% YoY) and Occupant Safety business (+37% YoY). For FY18, RHL's consolidated revenue grew by 12.6% YoY to INR 22.9bn. The Group aggregate revenue grew by 17.7% YoY to INR 47.9bn. EBITDA grew by 24.4% YoY to INR 5.7bn.
- In 4QFY18, EBITDA declined by 13.9% YoY to INR 553mn. EBITDA margin decreased by 330bps YoY to 8.5%, impacted by margin pressures across Rane Madras, Rane Engine Valves and Rane Brake Linings; however, the adverse impact of gross margin was partially offset by reduction in employee costs and other expenses. PAT declined by 32.9% YoY to INR 287.1mn, partly due to higher effective tax rate during the quarter. Share of profit from JV came in at INR 355mn (+21% YoY). Management indicated that the turnaround of operations is underway in few businesses.
- In FY18, the growth was supported by strong demand environment and new business launches. Group companies benefitted by increased off-take across vehicle segments. Revenues from Indian OE customers grew by 25% YoY; Revenues from international customers grew 19% YoY, primarily driven by commencement of new businesses for Occupant safety products.
- Revenue from Indian Aftermarket segment de-grew by 1% YoY as the sales were affected by GST related transition in the first half of year. Operational leverage and various cost control initiatives across group companies helped in improving the overall profitability.
- In FY18, Rane Precision Die Casting business witnessed a decline in sales due to delay in commencement of new program. The business achieved positive EBITDA in the first half, but in the second half faced unanticipated operational issues leading to significant cost overruns.
- The group has pegged a capex of INR 1,650mn in FY19, primarily towards capacity addition in electronic power steering and localization for electric power steering, occupant safety business.

Valuation: We expect the demand environment to remain strong across Group companies. At CMP, the stock is trading at P/E of 19.0X/16.1x on FY19E/FY20E EPS, respectively. We arrive at a revised price target of INR 2,900 based on P/E of 19x FY20EPS and maintain a **BUY** rating on the stock. **Risks:** Economic downturn or slowdown in the key markets can lead to decreased volumes and capacity utilization.

Results Summary 4QFY18

Y/E March (INR mn)	4QFY18	4QFY17	YoY Growth	3QFY18	QoQ Growth
Revenue	6,504	5,446	19.4%	5,937	9.6%
EBITDA	553	642	-13.9%	696	-20.5%
Depreciation	340	259.3	31.0%	286.6	18.5%
Interest	111.5	92.9	20.0%	106.0	5.1%
Other Income	114.2	259.9	-56.0%	8.0	1320.3%
PBT	555	670.1	-17.2%	671	-17.4%
Tax	249.4	229.9	8.5%	226.2	10.3%
PAT	287.1	428.1	-32.9%	375.6	-23.6%
EBITDA Margin (%)	8.5	11.8		11.7	
Effective Tax Rate (%)	45.0	34.3		33.7	
PAT Margin (%)	4.4	7.9		6.3	

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Analyst holding in the stock	No
Served as an officer, director or employee	No

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